

FINAL BILL REPORT

SHB 3190

C 84 L 06

Synopsis as Enacted

Brief Description: Providing tax incentives to support the semiconductor cluster in Washington state.

Sponsors: By House Committee on Technology, Energy & Communications (originally sponsored by Representatives Wallace, Fromhold, Curtis, Orcutt, Moeller and Dunn).

House Committee on Technology, Energy & Communications

House Committee on Finance

Senate Committee on Ways & Means

Background: Retail sales and use tax and business and occupation (B&O) tax. The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The use tax applies if retail sales tax has not been collected. Both the state and local governments impose sales and use taxes; the state rate is 6.5 percent and the average local rate is 2 percent statewide. Sales taxes are collected by the seller from the buyer at the time of sale. Use tax is remitted directly to the Department of Revenue (DOR). State revenues are deposited to the State General Fund.

The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. A business may have more than one B&O tax rate, depending on the types of activities conducted. For example, the rate for most persons that conduct manufacturing or processing for hire activities is 0.484 percent.

Unless specifically exempt, all transactions or uses of property or services in the tax base are subject to retail sales and use taxes, and all business activity in the B&O tax base are subject to the B&O tax.

Semiconductor cluster incentives. In the 2003 session the Legislature enacted a package of incentives for manufacturers of semiconductor materials, including silicon crystals, silicon ingots, raw polished wafers, compound semiconductors, integrated circuits, and microchips. The incentives are contingent upon a major investment in a microchip fabrication facility in the state. The package includes:

- a preferential B&O tax rate of 0.275 percent;
- an exemption for gases and chemicals used in semiconductor manufacturing from retail sales and use tax;
- an exemption for the construction of new semiconductor manufacturing buildings from retail sales and use tax;
- a B&O tax credit of \$3,000 for each employment position in semiconductor manufacturing production; and

- an exemption for machinery and equipment used in manufacturing semiconductor materials from property taxation.

Firms using the incentives are required to provide an annual report detailing employment, wages, and employer-provided health and retirement benefits at the manufacturing site. The report may be disclosed to the public upon request. In addition, the fiscal committees of the Legislature are required to evaluate the effectiveness of the incentive program five and then 11 years after the incentives become effective.

Availability of the semiconductor incentives is contingent upon a determination by the DOR that a contract has been signed for an investment of at least \$1 billion in a semiconductor microchip manufacturing facility. After becoming effective, the incentives expire 12 years later. As of January 2006, no determination had been made.

Recent semiconductor market activity in Washington. In December 2004, the parent company of Shin-Etsu Handotai (SEH) announced plans for a new manufacturing facility for 300 millimeter (mm) wafers in Vancouver, Washington. According to the company's web site, SEH was the largest producer of silicon wafers at the end of 2004 and seeks to increase its manufacturing capacity for the 300mm wafers from 300,000 per month worldwide to 500,000 per month worldwide by the end of 2006.

Shin-Etsu Handotai maintains a semiconductor materials manufacturing facility in Vancouver, first opened in 1980, that produces single-crystal silicon ingots and polished and epitaxial wafers and provides technical support for its customers.

Summary:

A new package of tax incentives is provided to certain semiconductor material manufacturers, contingent upon a large investment in new or expanded semiconductor manufacturing facilities in the state.

Persons that manufacture or process for hire semiconductor materials are subject to tax under the B&O tax at a rate of 0.275 percent. Semiconductor materials include silicon crystals, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers. Persons that manufacture semiconductor materials are also exempt from retail sales and use taxes on the acquisition of gases and chemicals used in the production of semiconductor materials.

Persons that utilize the incentives must submit an annual report by April 30 of each year to the DOR. The legislative fiscal committees are required to evaluate the effectiveness of the incentives. The report, legislative evaluation, and administrative requirements are similar to those under the 2003 legislation pertaining to semiconductor materials manufacturing incentives, but include a few modifications. An extension in submitting the report is allowed if good cause is shown. The report must also be submitted electronically, unless the taxpayer demonstrates to the DOR that, for good cause, it is unable to do so.

The incentive package is contingent upon the investment in the state by an advanced semiconductor materials fabrication concern of at least \$350 million. The funds must be

invested in new buildings, the expansion or renovation of existing buildings, tenant improvements to buildings, or machinery and equipment in the buildings. The purpose of the investment must be to manufacture advanced semiconductor materials. Advanced semiconductor materials are silicon crystals, and, if at least 300mm in diameter, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers. The incentives become effective the month after the DOR determines that the \$350 million investment has been made by the time that commercial production began.

Votes on Final Passage:

House	89	9
Senate	46	1

Effective: June 7, 2006 Sections 2-8 Have a Contingent Effective Date