

SENATE BILL REPORT

SB 6267

As of February 2, 2014

Title: An act relating to high-technology research and development tax incentives.

Brief Description: Concerning high-technology research and development tax incentives.

Sponsors: Senators Hill and Benton; by request of Office of Financial Management.

Brief History:

Committee Activity: Trade & Economic Development: 1/30/14.

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Staff: Jeff Olsen (786-7428)

Background: The high technology business and occupation (B&O) tax credit and sales tax deferral are allowed for qualified research and development spending through January 1, 2015. The B&O credit for each taxpayer may not exceed \$2 million or the amount of tax liability for the calendar year, whichever is less. The sales tax deferral/exemption program provides a deferral and waiver of state and local sales and use taxes on construction of facilities and purchases of eligible machinery. To qualify, a firm must be engaged in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, or environmental technology.

Summary of Bill: The high technology B&O tax credit and the high technology sales and use tax deferral/exemption programs are extended until January 1, 2016.

The high-technology research and development investment workgroup is created to develop recommendations that integrate high-technology research and development activities with investments in higher education. Members of the workgroup include the Director of the Department of Commerce; the Director of the Department of Revenue; the presidents of the University of Washington and Washington State University; and a representative from each industry including: advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology. The workgroup must address ways to improve coordination of research and development spending with higher education institutions. In developing the recommendation, the workgroup must reprioritize current resources devoted to high-technology research and development tax preferences to provide

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additional funding for higher education. The report is due to the Governor and the fiscal committees of the Legislature by December 1, 2014.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: Yes.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: The high tech industry is a very important sector of Washington's economy. By extending the tax preference for one year, the tax preference can be aligned with the biennial budget to look at the policy and tax preferences together. Higher education investments and additional STEM degrees are needed to create the employees needed to work for high tech companies. The high tech research and development workgroup can bring together the higher education community and the high tech sector in order to develop sound policy.

CON: The Joint Legislative Audit and Review Committee has reviewed the credit and reported that it is not effective. Less than 1 percent of job growth in the sector is due to the tax incentive, and \$45,000 is spent for every job created. The Citizen's Commission on Tax Reform recommended that the incentive should sunset. The Department of Revenue has also reviewed the tax credit and documented less job growth from companies using the tax credit. If allowed to sunset, revenues could be invested in other areas. There should be the same level of scrutiny on tax incentives as there are on spending of public funds.

OTHER: Extending the tax preference for only one year does not provide the certainty for the industry to make investments. The planning horizon for this sector is ten years or longer.

Persons Testifying: PRO: John Lane, Office of Financial Management.

CON: Nick Federici, Our Economic Future Coalition.

OTHER: Chris Rivera, WA Biotechnology and Biomedical Assn.; Michael Schutzler, Lew McMurrin, WA Technology Industry Assn.