

# SENATE BILL REPORT

## SB 6411

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As of January 29, 2018

**Title:** An act relating to providing tax preferences for advanced spacecraft manufacturing.

**Brief Description:** Concerning advanced spacecraft manufacturing.

**Sponsors:** Senators Keiser, Fain, Brown, Fortunato and Palumbo.

**Brief History:**

**Committee Activity:** Economic Development & International Trade: 1/30/18.

**Brief Summary of Bill**

- Creates a business and occupation (B&O) tax credit for qualified research and development (R&D) expenditures in advanced spacecraft manufacturing.
- Creates a sales and use tax deferral program for eligible advanced spacecraft R&D and pilot-scale manufacturing facilities.

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### SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & INTERNATIONAL TRADE

**Staff:** Alex Fairfortune (786-7416)

**Background:** In 1994, legislation was enacted to create a program of B&O tax credits for qualified R&D expenditures, and a sales tax deferral program for high-technology R&D and pilot-scale manufacturing facilities. The R&D tax preferences expired January 1, 2015.

B&O Tax Credit for High-Technology R&D. Until January 1, 2015, a B&O tax credit was available to a person whose qualified R&D spending during the year in which the credit was claimed exceeded 0.92 percent of the person's taxable amount. The B&O tax credit available was 1.5 percent of the greater of: (1) R&D expenditures that exceed 0.92 percent of the person's taxable income; or (2) 80 percent of the compensation received for conducting qualified R&D under contract.

Sales and Use Tax Deferral for Certain Construction-Related Expenses. Until January 1, 2015, application for deferral of sales taxes could be made before initiation, construction, or

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acquisition of equipment or machinery for an investment project. Investment project was defined as an investment in qualified buildings or machinery and equipment, including labor and services rendered in the planning, installation, and construction or improvement of the project. The Department of Revenue (DOR) was required to issue a sales and use tax deferral certificate for taxes due on each eligible investment project.

**Summary of Bill:** R&D and B&O tax credit and sales and use tax deferral programs are created for advanced spacecraft manufacturing, effective July 1, 2018, and expiring July 1, 2028. Persons claiming a tax credit or deferral must have an active tax registration with DOR and be actively engaged in advanced spacecraft manufacturing as of July 1, 2018.

B&O Tax Credit for R&D. A business whose qualified R&D spending during the same calendar year in which the credit is claimed exceeds 0.92 percent of the business's taxable amount is eligible to receive a B&O tax credit for qualified R&D expenditures. Qualified R&D means R&D performed within Washington in the fields of advanced spacecraft manufacturing. Qualified R&D expenditures that may be claimed include those directly incurred as operating expenses, partner or owner compensation, benefits, supplies, and computer expenses. Excluded as claimable expenses are amounts paid to a person other than a public educational or R&D institution to conduct R&D, and capital costs and overhead, which include expenses for land and structures.

The B&O tax credit is calculated by multiplying 1.5 percent times the greater of: (1) qualified R&D expenditures that exceed 0.92 percent of the business's taxable amount; or (2) 80 percent of the compensation received for conducting qualified R&D under contract. The total tax credit that may be claimed by a person is capped at the lesser of \$750,000 or the amount of total B&O tax due for the calendar year. Before a person may claim a B&O tax credit, they must report the type and number of R&D jobs they intend to create as a result of receiving the credit.

Sales and Use Tax Deferral for Certain Construction-Related Expenses. The High-Technology Sales and Use Tax Deferral provides a state and local sales and use tax deferral on the construction or expansion of an eligible R&D facility or pilot scale manufacturing facility, and certain machinery and equipment purchases related to qualifying R&D.

Qualifying R&D means R&D performed within Washington in the fields of advanced spacecraft manufacturing. Pilot scale manufacturing means the design, construction, and testing of preproduction prototypes and models in advanced spacecraft manufacturing that are not for commercial sale.

DOR must issue a sales and use tax deferral certificate upon receipt of an application for an eligible investment project if the application indicates that meaningful construction will occur within five years of the application date.

Approved deferral applications may be amended, however a request to amend an approved application must be denied if meaningful construction has not commenced within five years of the application date. If meaningful construction of a project does not begin within five years of the application date, or a project is not operationally complete within ten years of the application date, the full amount of deferred tax is due immediately.

The total amount of state sales and use tax deferred is limited to \$750,000 per eligible project, per person. DOR may issue one person multiple deferral certificates for multiple eligible projects, but the total amount deferred cannot exceed \$750,000 per calendar year. DOR may not issue a deferral certificate for investment projects that have already received certain other deferrals for Investment Projects in Rural Counties or High-Technology Businesses. However, qualified R&D projects that are being adapted for use in pilot-scale manufacturing are eligible, even if they have previously received a deferral.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

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