FINAL BILL REPORT
ESHB 2482

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Synopsis as Enacted

Brief Description: Reinstating semiconductor tax incentives.

Sponsors: House Committee on Finance (originally sponsored by Representatives Harris, Santos and Stonier).

House Committee on Finance
Senate Committee on Business, Financial Services, Gaming & Trade
Senate Committee on Ways & Means

Background:

Business and Occupation Tax.
Washington's major business tax is the business and occupation (B&O) tax. 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. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

Sales and Use Tax.
Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 4.0 percent, depending on the location.

Tax Preference Performance Statement.
State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that

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establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Semiconductor Tax Incentives.
Semiconductor manufacturing is the process of creating integrated circuits or microchips. These materials are used in the construction of electronic devices.

There are two tax preferences in effect for the semiconductor industry:
- a preferential B&O tax rate of 0.275 percent on the manufacturing or processing for hire of semiconductor materials including silicon crystals, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers; and
- a sales and use tax exemption for manufacturers and processors for hire on purchases of gases and chemicals used to produce semiconductor materials. Manufacturers of silicon solar wafers, silicon solar cells, thin film solar devices, solar grade silicon, or compound semiconductor solar wafers also qualify for this exemption.

The tax preferences require beneficiaries to maintain the number of persons employed, at least 90 percent of the employment average for the previous three years, or to reimburse 50 percent of the benefits. The preferences expire on December 1, 2028.

The two existing preferences were created simultaneously with six additional tax preferences for the semiconductor industry. The six preferences were contingent upon a manufacturer making at least a $1 billion investment in new buildings, machinery, and equipment, to site and operate a semiconductor microchip fabrication facility, however, the investment did not occur. As a result, the six preferences expired January 1, 2024. The six preferences were:
- a B&O tax credit of $3,000 for each manufacturing production position that takes place in a new building that manufactures semiconductive materials;
- a B&O tax exemption for semiconductor microchip manufacturing;
- a preferential B&O tax rate of 0.275 percent for businesses manufacturing semiconductor materials, including microchips;
- a sales and use tax exemption for labor, services, and sales of tangible personal property related to the construction of new buildings used for manufacturing semiconductor materials;
- a sales and use tax exemption for purchases of gases and chemicals used in the semiconductor manufacturing process; and
- a property tax exemption for machinery and equipment exempt from sales and use taxes used in manufacturing semiconductor materials.

Summary:

The six expired tax preferences are reinstated contingent upon the construction of a new semiconductor manufacturing fabrication built by January 1, 2034, with an investment of at least $500 million in buildings and equipment. All the preferences, except two, include an employment requirement that any tax preference recipient must reimburse the Department of Revenue for 50 percent of the amount of the tax preference claimed if the number of persons employed by the preference beneficiary is less than 90 percent of the beneficiary's three-year employment average for the three years immediately preceding the year in which the preference is claimed. The sales and use tax exemption for labor, services, and sales of tangible personal property related to the construction of new buildings used for manufacturing semiconductor materials requires that manufacturers or processors for hire must maintain at least 75 percent of full employment. The property tax exemption for machinery and equipment exempted from sales and use taxes used in manufacturing semiconductor materials does not have an employment requirement.

The existing and reinstated tax preferences expire January 1, 2034. The reinstated preferences are exempt from TPPS requirements.

Votes on Final Passage:

House	96	0	
Senate	47	1	(Senate amended)
House	94	1	(House concurred)

Effective: March 26, 2024