
HOUSE BILL 2735

State of Washington

53rd Legislature

1994 Regular Session

By Representatives Silver, Ballard, Lisk, Talcott, Van Luven, Casada, Sheahan, L. Thomas, Backlund, Foreman and Carlson

Read first time 01/21/94. Referred to Committee on Revenue.

1 AN ACT Relating to the removal of tax policy barriers to economic
2 development; adding new sections to chapter 82.08 RCW; adding a new
3 section to chapter 82.12 RCW; adding a new section to chapter 82.01
4 RCW; adding new sections to chapter 43.131 RCW; creating a new section;
5 and providing an effective date.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** The legislature finds and declares that:

8 (1) The health, safety, and welfare of the people of the state of
9 Washington are heavily dependent upon the continued encouragement,
10 development, and expansion of opportunities for family wage employment
11 in our state's private sector;

12 (2) The state's private sector must be encouraged to commit to
13 continuous improvement of process, products, and services and to
14 deliver high-quality, high-value products through technological
15 innovations and high-performance work organizations;

16 (3) The state's opportunities for increased economic dealings with
17 other states and nations of the world are dependent on supporting and
18 attracting a diverse, stable, and competitive economic base of private
19 sector employers;

1 (4) The state's current policy of applying its sales and use taxes
2 to the acquisition of machinery, equipment, chemicals, materials, and
3 labor used in manufacturing, research, and development, and other
4 activities has placed our state's private sector at a competitive
5 disadvantage with other states and serves as a significant disincentive
6 to the continuous improvement of products, technology, and
7 modernization necessary for the preservation, stabilization, and
8 expansion of employment and to ensure a stable economy; and

9 (5) It is vital to the continued development of economic
10 opportunity in this state, including the development of new businesses
11 and the expansion/modernization of existing businesses, that the state
12 of Washington remove tax policy barriers to entities making a
13 commitment to facilities and operations in this state.

14 NEW SECTION. **Sec. 2.** A new section is added to chapter 82.08 RCW
15 to read as follows:

16 Unless the context clearly requires otherwise, the definitions in
17 this section apply throughout sections 2 through 5 of this act.

18 (1) "Agricultural operation" means an activity of a commercial
19 nature in which labor or skill is applied, by hand or machinery,
20 necessary to grow or harvest a food crop, raise or produce livestock,
21 grow or harvest fish, shellfish, or other fresh or saltwater marine
22 life, grow or harvest Christmas trees, grow or harvest horticultural or
23 floricultural products, including nursery or seed stock, grow or
24 harvest timber or other silvicultural products, including nursery or
25 seed stock, or an activity that is a combination of these activities.

26 (2) "Assembling operation" means an activity of a commercial or
27 industrial nature in which labor or skill is applied, by hand or
28 machinery, to fit or join together into a group or a whole, a substance
29 or article of tangible personal property.

30 (3) "Chemical" means a catalyst, solvent, water, acid, oil, or
31 other additive that physically or chemically interacts or comes in
32 contact with the product and that is an integral part of the
33 manufacturing, assembling, processing, fabricating, research and
34 development, mining, or agricultural operation.

35 (4) "Fabricating operation" means an activity of a commercial or
36 industrial nature in which labor or skill is applied, by hand or
37 machinery, to make, build, create, produce, or assemble components or

1 tangible personal property the result of which is an item of tangible
2 personal property that operates in a new or different manner.

3 (5) "Labor" means a service related to the installing, repairing,
4 cleaning, altering, imprinting, or improving of tangible personal
5 property whether or not the service was performed by the taxpayer or
6 another party.

7 (6) "Machinery" and "equipment" mean an item of real or tangible
8 personal property, including repair and replacement parts for the real
9 or tangible personal property, that is used in a manufacturing,
10 assembling, processing, fabricating, research and development, mining,
11 or agricultural operation to:

12 (a) Act upon or interact with an item of tangible personal property
13 or materials;

14 (b) Provide preparatory treatment of an item of tangible personal
15 property or materials;

16 (c) Convey, transport, handle, or temporarily store an item of
17 tangible personal property or materials at the facility or plant;

18 (d) Control, guide, measure, tune, verify, align, regulate, test,
19 or physically support an item of tangible personal property or
20 materials;

21 (e) Protect the health and safety of employees or others present
22 during the operation;

23 (f) Control the physical environment during the operation; and

24 (g) Produce power for, lubricate, clean, or keep clean an item of
25 real or personal property;

26 This definition also includes other items of real or tangible
27 personal property that are otherwise necessary for, or are legally
28 required for, the functioning or performance of a manufacturing,
29 assembling, processing, fabricating, research and development, mining,
30 or agricultural operation.

31 (7) "Manufacturing operation" means an activity of a commercial or
32 industrial nature in which labor or skill is applied, by hand or
33 machinery, to materials so that as a result of the activity a new,
34 different, or useful substance or article of tangible personal property
35 is produced for sale or commercial or industrial use and including the
36 packaging of the property. This definition also includes the
37 production or fabrication of special made or custom-made articles.

38 (8) "Materials" means an item of tangible personal property used or
39 consumed in a manufacturing, assembling, processing, fabricating,

1 research and development, mining, or agricultural operation including,
2 but not limited to, tools, lubricating and compounding oils, grease,
3 anodes, filtering materials, dies, molds, jigs, and refrigerants.

4 (9) "Mining operation" means an activity of a commercial or
5 industrial nature in which labor or skill is applied, by hand or
6 machinery, to extract from the earth or other strata any substance.

7 (10) "Processing operation" means an activity of a commercial or
8 industrial nature in which labor or skill is applied, by hand or
9 machinery, to bring into contact the materials and labor necessary to
10 modify, change, or convert the characteristics of an article of
11 tangible personal property.

12 (11) "Research and development operation" means the basic and
13 applied research done before commercial sales have begun that has as
14 its objective the design, development, refinement, testing, marketing,
15 and commercialization of a product, service, or process or the
16 expansion of uses for existing products, services, or processes.

17 NEW SECTION. **Sec. 3.** A new section is added to chapter 82.08 RCW
18 to read as follows:

19 The taxes levied under this chapter shall not apply to the sales or
20 use of machinery, equipment, chemicals, materials, and labor used in a
21 manufacturing, assembling, processing, fabricating, research and
22 development, mining, or agricultural operation.

23 NEW SECTION. **Sec. 4.** A new section is added to chapter 82.12 RCW
24 to read as follows:

25 (1) The taxes levied under this chapter shall not apply to the
26 sales or use of machinery, equipment, chemicals, materials, and labor
27 used in a manufacturing, assembling, processing, fabricating, research
28 and development, mining, or agricultural operation.

29 (2) Section 2 of this act applies to this section.

30 NEW SECTION. **Sec. 5.** A new section is added to chapter 82.01 RCW
31 to read as follows:

32 The department of revenue and the department of community, trade,
33 and economic development shall by January 1, 2000, issue a joint report
34 to the legislature about the effects of chapter . . . , Laws of 1994
35 (this act) on manufacturing, assembling, processing, fabricating,
36 research and development, mining, or agricultural operations in this

1 state. In addition to the amount of the exemptions granted under this
2 chapter, the report must provide a net economic impact study that
3 includes but is not limited to:

4 (1) The number of new or amount of expanded/modernized
5 manufacturing, assembling, processing, fabricating, research and
6 development, mining, or agricultural operations;

7 (2) The productivity increases and flexible workplaces generated by
8 upgraded machinery, equipment, and other items exempted under this
9 chapter;

10 (3) The jobs created, preserved, or stabilized as a result of this
11 exemption program;

12 (4) The increased amount of payroll resulting from this exemption
13 program;

14 (5) The economic benefit of increased property, business and
15 occupation, and sales and use tax collections from the utilization of
16 this exemption program; and

17 (6) The multiplier effect, both from the supplier side and consumer
18 side, created by this exemption program.

19 NEW SECTION. **Sec. 6.** A new section is added to chapter 43.131 RCW
20 to read as follows:

21 The tax exemption program created under chapter . . . , Laws of 1994
22 (this act) shall be terminated on June 30, 2000, as provided in section
23 7 of this act.

24 NEW SECTION. **Sec. 7.** A new section is added to chapter 43.131 RCW
25 to read as follows:

26 The following acts or parts of acts are each repealed, effective
27 June 30, 2001:

28 (1) Section 2 of this act;

29 (2) Section 3 of this act;

30 (3) Section 4 of this act; and

31 (4) Section 5 of this act.

32 NEW SECTION. **Sec. 8.** This act shall take effect July 1, 1994.

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