

2 **2SHB 1024 - H AMD 150 ADOPTED 3/8/95**

3 By Representative Devlin, Morris, Pennington and others

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5 Beginning on page 14, line 19, strike all of section 11 and insert
6 the following:

7 "Sec. 11. RCW 82.63.010 and 1994 sp.s. c 5 s 3 are each amended to
8 read as follows:

9 Unless the context clearly requires otherwise, the definitions in
10 this section apply throughout this chapter.

11 (~~(1) ("Advanced computing" means technologies used in the designing
12 and developing of computing hardware and software, including
13 innovations in designing the full spectrum of hardware from hand-held
14 calculators to super computers, and peripheral equipment.~~

15 ~~(2) "Advanced materials" means materials with engineered properties
16 created through the development of specialized processing and synthesis
17 technology, including ceramics, high value-added metals, electronic
18 materials, composites, polymers, and biomaterials.~~

19 ~~(3)) "Applicant" means a person applying for a tax deferral under
20 this chapter.~~

21 ~~((4) "Biotechnology" means the application of technologies, such
22 as recombinant DNA techniques, biochemistry, molecular and cellular
23 biology, genetics and genetic engineering, cell fusion techniques, and
24 new bioprocesses, using living organisms, or parts of organisms, to
25 produce or modify products, to improve plants or animals, to develop
26 microorganisms for specific uses, to identify targets for small
27 molecule pharmaceutical development, or to transform biological systems
28 into useful processes and products or to develop microorganisms for
29 specific uses.~~

30 ~~(5)) (2) "Department" means the department of revenue.~~

31 ~~((6) "Electronic device technology" means technologies involving
32 microelectronics; semiconductors; electronic equipment and
33 instrumentation; radio frequency, microwave, and millimeter
34 electronics; optical and optic-electrical devices; and data and digital
35 communications and imaging devices.~~

36 ~~(7)) (3) "Eligible investment project" means ((that portion of))~~

1 an investment project which either initiates a new operation, or
2 expands or diversifies a current operation by expanding, renovating, or
3 equipping an existing facility (~~with costs in excess of twenty five~~
4 ~~percent of the true and fair value of the facility prior to~~
5 ~~improvement~~). The lessor or owner of the qualified building is not
6 eligible for a deferral unless the underlying ownership of the
7 buildings, machinery, and equipment vests exclusively in the same
8 person, or unless the lessor by written contract agrees to pass the
9 economic benefit of the deferral to the lessee in the form of reduced
10 rent payments.

11 ~~((8)) "Environmental technology" means assessment and prevention of~~
12 ~~threats or damage to human health or the environment, environmental~~
13 ~~cleanup, and the development of alternative energy sources.~~

14 ~~(9))~~ (4) "Investment project" means an investment in qualified
15 buildings or qualified machinery and equipment, including labor and
16 services rendered in the planning, installation, and construction or
17 improvement of the project.

18 ~~((10))~~ (5) "Person" has the meaning given in RCW 82.04.030.

19 ~~((11))~~ (6) "Pilot scale manufacturing" means design,
20 construction, and testing of preproduction prototypes and models (~~in~~
21 ~~the fields of biotechnology, advanced computing, electronic device~~
22 ~~technology, advanced materials, and environmental technology~~) other
23 than for commercial sale. As used in this subsection, "commercial
24 sale" excludes sales of prototypes or sales for market testing if the
25 total gross receipts from such sales of the product, service, or
26 process do not exceed one million dollars.

27 ~~((12))~~ (7) "Qualified buildings" means construction of new
28 structures, and expansion or renovation of existing structures for the
29 purpose of increasing floor space or production capacity used for pilot
30 scale manufacturing or (~~qualified~~) research and development,
31 including plant offices and other facilities that are an essential or
32 an integral part of a structure used for pilot scale manufacturing or
33 (~~qualified~~) research and development. If a building is used partly
34 for pilot scale manufacturing or (~~qualified~~) research and
35 development, and partly for other purposes, the applicable tax deferral
36 shall be determined by apportionment of the costs of construction under
37 rules adopted by the department.

38 ~~((13))~~ (8) "Qualified machinery and equipment" means fixtures,
39 equipment, and support facilities that are an integral and necessary

1 part of a pilot scale manufacturing or (~~qualified~~) research and
2 development operation. "Qualified machinery and equipment" includes:
3 Computers; software; data processing equipment; laboratory equipment,
4 instrumentation, and other devices used in a process of experimentation
5 to develop a new or improved pilot model, plant process, product,
6 formula, invention, or similar property; manufacturing components such
7 as belts, pulleys, shafts, and moving parts; molds, tools, and dies;
8 vats, tanks, and fermenters; operating structures; and all other
9 equipment used to control, monitor, or operate the machinery. For
10 purposes of this chapter, qualified machinery and equipment must be
11 either new to the taxing jurisdiction of the state or new to the
12 certificate holder, except that used machinery and equipment may be
13 treated as qualified machinery and equipment if the certificate holder
14 either brings the machinery and equipment into Washington or makes a
15 retail purchase of the machinery and equipment in Washington or
16 elsewhere.

17 ~~((14)) "Qualified research and development" means research and~~
18 ~~development performed within this state in the fields of advanced~~
19 ~~computing, advanced materials, biotechnology, electronic device~~
20 ~~technology, and environmental technology.~~

21 ~~(15))~~ (9) "Recipient" means a person receiving a tax deferral
22 under this chapter.

23 ~~((16))~~ (10) "Research and development" means activities performed
24 to discover technological information, and technical and nonroutine
25 activities concerned with translating technological information into
26 new or improved products, processes, techniques, formulas, inventions,
27 or software. The term includes exploration of a new use for an
28 existing drug, device, or biological product if the new use requires
29 separate licensing by the federal food and drug administration under
30 chapter 21, C.F.R., as amended. The term does not include adaptation
31 or duplication of existing products where the products are not
32 substantially improved by application of the technology, nor does the
33 term include surveys and studies, social science and humanities
34 research, market research or testing, quality control, sale promotion
35 and service, computer software developed for internal use, and research
36 in areas such as improved style, taste, and seasonal design."

37 On page 17, line 15, strike "qualified"

1 On page 19, after line 5, insert the following:

2 "Sec. 15. RCW 82.04.4452 and 1994 sp.s. c 5 s 2 are each amended
3 to read as follows:

4 (1) In computing the tax imposed under this chapter, a credit is
5 allowed for each person whose research and development spending during
6 the year in which the credit is claimed exceeds 0.92 percent of the
7 person's taxable amount during the same calendar year.

8 (2) The credit is equal to the greater of the amount of qualified
9 research and development expenditures of a person or eighty percent of
10 amounts received by a person other than a public educational or
11 research institution in compensation for the conduct of qualified
12 research and development, multiplied by the rate of 0.515 percent in
13 the case of a nonprofit corporation or nonprofit association engaging
14 within this state in research and development, and 2.5 percent for
15 every other person.

16 (3) Any person entitled to the credit provided in subsection (2) of
17 this section as a result of qualified research and development
18 conducted under contract may assign all or any portion of the credit to
19 the person contracting for the performance of the qualified research
20 and development.

21 (4) The credit, including any credit assigned to a person under
22 subsection (3) of this section, shall be taken against taxes due for
23 the same calendar year in which the qualified research and development
24 expenditures are incurred. The credit, including any credit assigned
25 to a person under subsection (3) of this section, for each calendar
26 year shall not exceed the lesser of two million dollars or the amount
27 of tax otherwise due under this chapter for the calendar year.

28 (5) Any person taking the credit, including any credit assigned to
29 a person under subsection (3) of this section, whose research and
30 development spending during the calendar year in which the credit is
31 claimed fails to exceed 0.92 percent of the person's taxable amount
32 during the same calendar year shall be liable for payment of the
33 additional taxes represented by the amount of credit taken together
34 with interest, but not penalties. Interest shall be due at the rate
35 provided for delinquent excise taxes retroactively to the date the
36 credit was taken until the taxes are paid. Any credit assigned to a
37 person under subsection (3) of this section that is disallowed as a
38 result of this section may be taken by the person who performed the

1 qualified research and development subject to the limitations set forth
2 in subsection (4) of this section.

3 (6) Any person claiming the credit, and any person assigning a
4 credit as provided in subsection (3) of this section, shall file an
5 affidavit form prescribed by the department which shall include the
6 amount of the credit claimed, an estimate of the anticipated qualified
7 research and development expenditures during the calendar year for
8 which the credit is claimed, an estimate of the taxable amount during
9 the calendar year for which the credit is claimed, and such additional
10 information as the department may prescribe.

11 (7) A person claiming the credit shall agree to supply the
12 department with information necessary to measure the results of the tax
13 credit program for qualified research and development expenditures.

14 (8) The department shall use the information required under
15 subsection (7) of this section to perform three assessments on the tax
16 credit program authorized under this section. The assessments will
17 take place in 1997, 2000, and 2003. The department shall prepare
18 reports on each assessment and deliver their reports by September 1,
19 1997, September 1, 2000, and September 1, 2003. The assessments shall
20 measure the effect of the program on job creation, the number of jobs
21 created for Washington residents, company growth, the introduction of
22 new products, the diversification of the state's economy, growth in
23 research and development investment, the movement of firms or the
24 consolidation of firms' operations into the state, and such other
25 factors as the department selects.

26 (9) For the purpose of this section:

27 (a) "Advanced computing" means technologies used in the designing
28 and developing of computing hardware and software, including
29 innovations in designing the full spectrum of hardware from hand-held
30 calculators to super computers, and peripheral equipment.

31 (b) "Advanced materials" means materials with engineered properties
32 created through the development of specialized processing and synthesis
33 technology, including ceramics, high value-added metals, electronic
34 materials, composites, polymers, and biomaterials.

35 (c) "Biotechnology" means the application of technologies, such as
36 recombinant DNA techniques, biochemistry, molecular and cellular
37 biology, genetics and genetic engineering, cell fusion techniques, and
38 new bioprocesses, using living organisms, or parts of organisms, to
39 produce or modify products, to improve plants or animals, to develop

1 microorganisms for specific uses, to identify targets for small
2 molecule pharmaceutical development, or to transform biological systems
3 into useful processes and products or to develop microorganisms for
4 specific uses.

5 (d) "Electronic device technology" means technologies involving
6 microelectronics; semiconductors; electronic equipment and
7 instrumentation; radio frequency, microwave, and millimeter
8 electronics; optical and optic-electrical devices; and data and digital
9 communications and imaging devices.

10 (e) "Environmental technology" means assessment and prevention of
11 threats or damage to human health or the environment, environmental
12 cleanup, and the development of alternative energy sources.

13 (f) "Qualified research and development expenditures" means
14 operating expenses, including wages, compensation of a proprietor or a
15 partner in a partnership as determined under rules adopted by the
16 department, benefits, supplies, and computer expenses, directly
17 incurred in qualified research and development by a person claiming the
18 credit provided in this section. The term does not include amounts
19 paid to a person other than a public educational or research
20 institution to conduct qualified research and development. Nor does
21 the term include capital costs and overhead, such as expenses for land,
22 structures, or depreciable property.

23 ~~((b))~~ (g) "Qualified research and development" ~~((shall have the~~
24 same meaning as in RCW 82.63.010)) means research and development
25 performed within this state in the fields of advanced computing,
26 advanced materials, biotechnology, electronic device technology, and
27 environmental technology.

28 ~~((e))~~ (h) "Research and development spending" means qualified
29 research and development expenditures plus eighty percent of amounts
30 paid to a person other than a public educational or research
31 institution to conduct qualified research and development.

32 ~~((d))~~ (i) "Taxable amount" means the taxable amount subject to
33 the tax imposed in this chapter required to be reported on the person's
34 combined excise tax returns during the year in which the credit is
35 claimed, less any taxable amount for which a credit is allowed under
36 RCW 82.04.440.

37 (10) This section shall expire December 31, 2004."

38 Renumber remaining sections, correct internal references, and

1 correct the title.

2 EFFECT: Expands sales and use exemption to include research and
3 development investments.

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