

2 **HB 2484** - S COMM AMD
3 By Committee on Ways & Means

4 ADOPTED 3/7/96

5 Strike everything after the enacting clause and insert the
6 following:

7 "NEW SECTION. **Sec. 1.** The legislature finds that the health,
8 safety, and welfare of the people of the state of Washington are
9 heavily dependent upon the continued encouragement, development, and
10 expansion of opportunities for family wage employment in the state's
11 manufacturing industries.

12 The legislature also finds that sales and use tax exemptions for
13 manufacturing machinery and equipment enacted by the 1995 legislature
14 have improved Washington's ability to compete with other states for
15 manufacturing investment, but that additional incentives for
16 manufacturers need to be adopted to solidify and enhance the state's
17 competitive position.

18 The legislature intends to accomplish this by extending the current
19 manufacturing machinery and equipment exemptions to include machinery
20 and equipment used for research and development with potential
21 manufacturing applications.

22 **Sec. 2.** RCW 82.08.02565 and 1995 1st sp.s. c 3 s 2 are each
23 amended to read as follows:

24 (1) The tax levied by RCW 82.08.020 shall not apply to sales to a
25 manufacturer or processor for hire of machinery and equipment used
26 directly in a manufacturing operation or research and development
27 operation, or to sales of or charges made for labor and services
28 rendered in respect to installing the machinery and equipment, but only
29 when the purchaser provides the seller with an exemption certificate in
30 a form and manner prescribed by the department by rule, and the
31 purchaser provides the department with a duplicate of the certificate
32 or a summary of exempt sales as the department may require. The seller
33 shall retain a copy of the certificate for the seller's files.

34 (2) For purposes of this section and RCW 82.12.02565:

1 (a) "Machinery and equipment" means industrial fixtures, devices,
2 and support facilities. "Machinery and equipment" includes pollution
3 control equipment installed and used in a manufacturing operation or
4 research and development operation to prevent air pollution, water
5 pollution, or contamination that might otherwise result from the
6 manufacturing operation or research and development operation.

7 (b) "Machinery and equipment" does not include:

8 (i) Hand tools;

9 (ii) Property with a useful life of less than one year;

10 (iii) Repair parts required to restore machinery and equipment to
11 normal working order;

12 (iv) Replacement parts that do not increase productivity, improve
13 efficiency, or extend the useful life of the machinery and equipment;

14 ((~~or~~))

15 (v) Buildings, other than machinery and equipment that is
16 permanently affixed to or becomes a physical part of a building; and

17 (vi) Building fixtures that are not integral to the manufacturing
18 operation or research and development operation that are permanently
19 affixed to and become a physical part of a building, such as utility
20 systems for heating, ventilation, air conditioning, communications,
21 plumbing, or electrical.

22 (c) Machinery and equipment is "used directly" in a manufacturing
23 operation or research and development operation if the machinery and
24 equipment:

25 (i) Acts upon or interacts with an item of tangible personal
26 property;

27 (ii) Conveys, transports, handles, or temporarily stores an item of
28 tangible personal property at the manufacturing site;

29 (iii) Controls, guides, measures, verifies, aligns, regulates, or
30 tests tangible personal property;

31 (iv) Provides physical support for or access to tangible personal
32 property;

33 (v) Produces power for, or lubricates machinery and equipment;

34 (vi) Produces another item of tangible personal property for use in
35 the manufacturing operation or research and development operation;

36 ((~~or~~))

37 (vii) Places tangible personal property in the container, package,
38 or wrapping in which the tangible personal property is normally sold or
39 transported; or

1 (viii) Is integral to research and development as defined in RCW
2 82.63.010.

3 (d) "Manufacturing operation" means the manufacturing of articles,
4 substances, or commodities for sale as tangible personal property. The
5 manufacturing operation begins at the point where the raw materials
6 enter the manufacturing site and ends at the point where the finished
7 product leaves the manufacturing site. The term also includes that
8 portion of a cogeneration project that is used to generate power for
9 consumption within the manufacturing site of which the cogeneration
10 project is an integral part. The term does not include (~~research and~~
11 ~~development,~~) the production of electricity by a light and power
12 business as defined in RCW 82.16.010(~~(7)~~) or the preparation of food
13 products on the premises of a person selling food products at retail.

14 (e) "Cogeneration" means the simultaneous generation of electrical
15 energy and low-grade heat from the same fuel.

16 (f) "Research and development operation" means engaging in research
17 and development as defined in RCW 82.63.010 by a manufacturer or
18 processor for hire.

19 **Sec. 3.** RCW 82.12.02565 and 1995 1st sp.s. c 3 s 3 are each
20 amended to read as follows:

21 The provisions of this chapter shall not apply in respect to the
22 use by a manufacturer or processor for hire of machinery and equipment
23 used directly in a manufacturing operation or research and development
24 operation, but only when the user provides the department with:

25 (1) An exemption certificate in a form and manner prescribed by the
26 department within sixty days of the first use of the machinery and
27 equipment in this state; or

28 (2) An annual summary listing the machinery and equipment by
29 January 31 of the year following the calendar year in which the
30 machinery and equipment is first used in this state.

31 NEW SECTION. **Sec. 4.** A new section is added to chapter 82.08 RCW
32 to read as follows:

33 The tax levied by RCW 82.08.020 shall not apply to sales of
34 materials used in designing and developing aircraft parts, auxiliary
35 equipment, and aircraft modification whether from enterprise funds or
36 on a contract or fee basis for a taxpayer with gross sales of less than

1 twenty million dollars per year. This exemption may not exceed one
2 hundred thousand dollars for a taxpayer in a year.

3 NEW SECTION. **Sec. 5.** A new section is added to chapter 82.12 RCW
4 to read as follows:

5 The provisions of this chapter shall not apply with respect to the
6 use of materials used in designing and developing aircraft parts,
7 auxiliary equipment, and aircraft modification whether from enterprise
8 funds or on a contract or fee basis for a taxpayer with gross sales of
9 less than twenty million dollars per year. This exemption may not
10 exceed one hundred thousand dollars for a taxpayer in a year.

11 NEW SECTION. **Sec. 6.** (1) Sections 4 and 5 of this act take effect
12 July 1, 1996.

13 (2) Sections 1 through 3 of this act take effect July 1, 1997."

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17 On page 1, line 2 of the title, after "equipment;" strike the
18 remainder of the title and insert "amending RCW 82.08.02565 and
19 82.12.02565; adding a new section to chapter 82.08 RCW; adding a new
20 section to chapter 82.12 RCW; creating a new section; and providing
21 effective dates."

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