

CERTIFICATION OF ENROLLMENT

HOUSE BILL 2484

Chapter 247, Laws of 1996
(partial veto)

54th Legislature
1996 Regular Session

MANUFACTURING MACHINERY AND EQUIPMENT--SALES
AND USE TAX EXEMPTIONS

EFFECTIVE DATE: 6/6/96

Passed by the House March 7, 1996
Yeas 94 Nays 4

CLYDE BALLARD
**Speaker of the
House of Representatives**

Passed by the Senate March 7, 1996
Yeas 48 Nays 0

JOEL PRITCHARD
President of the Senate

Approved March 29, 1996, with the
exception of section 6, which is
vetoed.

MIKE LOWRY
Governor of the State of Washington

CERTIFICATE

I, Timothy A. Martin, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **HOUSE BILL 2484** as passed by the House of Representatives and the Senate on the dates hereon set forth.

TIMOTHY A. MARTIN
Chief Clerk

FILED

March 29, 1996 - 9:18 a.m.

**Secretary of State
State of Washington**

HOUSE BILL 2484

AS AMENDED BY THE SENATE

Passed Legislature - 1996 Regular Session

State of Washington 54th Legislature 1996 Regular Session

By Representatives Van Luven, Sheldon, Radcliff, Hatfield, Sherstad,
D. Schmidt, Cooke, Conway, Goldsmith, Silver, Kessler and Johnson

Read first time 01/11/96. Referred to Committee on Trade & Economic
Development.

1 AN ACT Relating to sales and use tax exemptions for manufacturing
2 machinery and equipment; amending RCW 82.08.02565 and 82.12.02565;
3 adding a new section to chapter 82.08 RCW; adding a new section to
4 chapter 82.12 RCW; creating a new section; and providing effective
5 dates.

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

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

1 and equipment used for research and development with potential
2 manufacturing applications.

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

5 (1) The tax levied by RCW 82.08.020 shall not apply to sales to a
6 manufacturer or processor for hire of machinery and equipment used
7 directly in a manufacturing operation or research and development
8 operation, or to sales of or charges made for labor and services
9 rendered in respect to installing the machinery and equipment, but only
10 when the purchaser provides the seller with an exemption certificate in
11 a form and manner prescribed by the department by rule, and the
12 purchaser provides the department with a duplicate of the certificate
13 or a summary of exempt sales as the department may require. The seller
14 shall retain a copy of the certificate for the seller's files.

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

16 (a) "Machinery and equipment" means industrial fixtures, devices,
17 and support facilities. "Machinery and equipment" includes pollution
18 control equipment installed and used in a manufacturing operation or
19 research and development operation to prevent air pollution, water
20 pollution, or contamination that might otherwise result from the
21 manufacturing operation or research and development operation.

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

23 (i) Hand tools;

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

25 (iii) Repair parts required to restore machinery and equipment to
26 normal working order;

27 (iv) Replacement parts that do not increase productivity, improve
28 efficiency, or extend the useful life of the machinery and equipment;
29 (~~(v)~~)

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

32 (vi) Building fixtures that are not integral to the manufacturing
33 operation or research and development operation that are permanently
34 affixed to and become a physical part of a building, such as utility
35 systems for heating, ventilation, air conditioning, communications,
36 plumbing, or electrical.

1 (c) Machinery and equipment is "used directly" in a manufacturing
2 operation or research and development operation if the machinery and
3 equipment:

4 (i) Acts upon or interacts with an item of tangible personal
5 property;

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

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

10 (iv) Provides physical support for or access to tangible personal
11 property;

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

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

15 ((or))

16 (vii) Places tangible personal property in the container, package,
17 or wrapping in which the tangible personal property is normally sold or
18 transported; or

19 (viii) Is integral to research and development as defined in RCW
20 82.63.010.

21 (d) "Manufacturing operation" means the manufacturing of articles,
22 substances, or commodities for sale as tangible personal property. The
23 manufacturing operation begins at the point where the raw materials
24 enter the manufacturing site and ends at the point where the finished
25 product leaves the manufacturing site. The term also includes that
26 portion of a cogeneration project that is used to generate power for
27 consumption within the manufacturing site of which the cogeneration
28 project is an integral part. The term does not include ((~~research and~~
29 ~~development,~~)) the production of electricity by a light and power
30 business as defined in RCW 82.16.010((~~7~~)) or the preparation of food
31 products on the premises of a person selling food products at retail.

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

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

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

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

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

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

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

13 The tax levied by RCW 82.08.020 shall not apply to sales of
14 materials used in designing and developing aircraft parts, auxiliary
15 equipment, and aircraft modification whether from enterprise funds or
16 on a contract or fee basis for a taxpayer with gross sales of less than
17 twenty million dollars per year. This exemption may not exceed one
18 hundred thousand dollars for a taxpayer in a year.

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

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

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

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

30 ***Sec. 6 was vetoed. See message at end of chapter.**

Passed the House March 7, 1996.

Passed the Senate March 7, 1996.

Approved by the Governor March 29, 1996, with the exception of
certain items that were vetoed.

Filed in Office of Secretary of State March 29, 1996.

1 Note: Governor's explanation of partial veto is as follows:

1 "I am returning herewith, without my approval as to section 6,
2 House Bill No. 2484 entitled:

3 "AN ACT Relating to sales and use tax exemptions for manufacturing
4 machinery and equipment;"

5 House Bill No. 2484 provides an exemption from the sales and use
6 taxes for manufacturing machinery and equipment used for research and
7 development. It also provides a sales and use tax exemption for sales
8 of materials used in designing and developing aircraft parts and
9 prototypes for small firms.

10 I agree with the finding of the legislature that this measure would
11 improve the ability of Washington State to compete with other states in
12 our region for manufacturing investment. This type of legislation
13 helps bring more family wage jobs to the state as well as enhance and
14 solidify the state's competitive position. I further agree with the
15 legislature's finding that the health, safety, and welfare of the
16 people of the state of Washington are heavily dependent upon the
17 continued development and expansion of the state's manufacturing
18 industries. In that light, I am vetoing section 6 of House Bill No.
19 2484. This section establishes an effective date of July 1, 1997, for
20 sections of the bill pertaining to the sales and use tax exemption for
21 manufacturing machinery and equipment used in research and development.

22 The necessity and importance of this type of legislation dictates
23 that it be put into effect as soon as possible so that the economic
24 benefits of increased employment and family wage jobs for the people of
25 the state of Washington can begin immediately rather than more than a
26 year into the future. In addition, allowing the bill to become law
27 within the usual 90 days after adjournment of the legislature will
28 provide an additional \$12.4 million in sales and use tax relief to
29 manufacturers in the state.

30 For this reason, I have vetoed section 6 of House Bill No. 2484.

31 With the exception of section 6, House Bill No. 2484 is approved."