

HOUSE BILL REPORT

SB 5725

As Passed House - Amended:

April 27, 2003

Title: An act relating to providing tax incentives to support the semiconductor cluster in Washington state.

Brief Description: Providing tax incentives to support the state's semiconductor cluster.

Sponsors: By Senators Zarelli, T. Sheldon, Carlson, Reardon, Benton, Hewitt, Winsley, Hale, Sheahan, Honeyford, Finkbeiner, Johnson and West.

Brief History:

Committee Activity:

Finance: 4/16/03 [DPA].

Floor Activity:

Passed House - Amended: 4/27/03, 94-4.

Brief Summary of Bill (As Amended by House)

- Creates the following tax preferences for manufacturing semiconductor materials if a contract is signed for an investment of at least \$1 billion in a semiconductor microchip manufacturing facility in Washington:
 - Lowers business & occupation (B&O) tax rate for manufacturing semiconductor materials from 0.484% to 0.275%.
 - Exempts gases and chemicals used in semiconductor manufacturing from retail sales and use tax.
 - Exempts construction of new semiconductor manufacturing buildings from retail sales and use tax.
 - Creates a B&O tax job credit of \$3,000 for each employment position in semiconductor manufacturing production.
 - Exempts machinery and equipment used in manufacturing semiconductor materials from property taxation.

- Allows manufacturers of semiconductor microchips a 100% credit against the B&O tax for the first nine years after the bill takes effect.
- Ends the tax preferences 12 years after they start.
- Provides for accountability reporting and a review of the rates, credits and exemptions.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 8 members: Representatives Gombosky, Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

Minority Report: Do not pass. Signed by 1 member: Representative McIntire, Vice Chair.

Staff: Rick Peterson (786-7150).

Background:

Sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. Sales and use taxes are imposed by the state, counties, and cities. Sales and use tax rates vary between 7 and 8.9 percent, depending on location. There are a number of sales and use tax exemptions including machinery and equipment directly used in manufacturing.

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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited to the state General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. Manufacturing activity is generally taxed at a rate of 0.484 percent although food processing is taxed at 0.138 percent.

Property taxes are imposed by state and local governments. All real and personal property in this state is subject to the property tax based on its value, unless a specific exemption is provided by law. There are exemptions for certain properties, including property owned by federal, state and local governments, churches, farm machinery, and business inventory.

The tax bill is determined by multiplying the assessed value by the tax rate for each taxing district in which the property is located. The county assessor determines assessed value for each property. The county assessor also calculates the tax rate necessary to

raise the correct amount of property taxes for each taxing district. The assessor calculates the rate so the individual district rate limit, the district revenue limit, and the aggregate rate limits are all satisfied.

The annual increase in district property taxes is restricted by the property tax revenue limit. This limit requires the district's tax rate to be reduced as necessary to limit the total amount of property taxes to the highest property tax amount in the three most recent years, plus 1 percent, plus an amount equal to last year's tax rate multiplied by the value of new construction in the district. The value of new construction does not include any property that is exempt from taxation. This limit acts to reduce district rates below the maximum rate allowed for the district.

Summary of Amended Bill:

Tax preferences are created for businesses that manufacture semiconductor materials. Semiconductor materials are silicon crystals, silicon ingots, raw polished wafers, compound semiconductors, integrated circuits, and microchips. The tax preferences include a reduction in the manufacturing B&O tax rate from 0.484% to 0.275%, sales and use tax exemptions on the building of new manufacturing facilities, B&O credits for jobs created at these new facilities, sales and use tax exemptions for gases and chemicals directly used in production, and property tax exemptions for machinery and equipment used in manufacturing.

The tax preferences do not start until the Department of Revenue determines that a contract has been signed for at least a \$1 billion investment in a semiconductor microchip manufacturing facility. Semiconductor microchip manufacturing means taking raw polished semiconductor wafers and embedding integrated circuits on them. Manufacturers of semiconductor microchips are eligible for an additional tax preference - a 100% credit against the B&O tax for the first nine years after the bill takes effect. If commercial production does not take place within three years after the contract was signed, all tax preferences must be repaid to the state. The tax preferences end 12 years after they start.

Firms using these tax preferences must provide an annual report detailing employment, wages, employer provided health and retirement benefits at the manufacturing site. Two evaluations on the effectiveness of the tax preferences will be done by the House and Senate fiscal committees (5 years and 11 years after the preferences start).

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect July 1, 2005.

Testimony For: Southwest Washington has developed a semiconductor cluster that is critical to the economy. We are now at the point where we either move forward or lose this cluster to Portland or Texas or somewhere out of the country. The bill applies statewide. The industry has over 3,000 jobs paying over \$50,000 per year in wages and benefits. We need to protect these jobs. The manufacturing exemption was responsible for bringing in manufacturing investment to Washington. Other states have caught up. Other states and countries are willing to do a lot to attract these businesses. Are we going to continue to be a leader in the semiconductor industry? We are not giving up anything because this investment will generate more revenue over time. It is worth \$250 million in new revenue to the state.

Testimony Against: None.

Testified: Senator Zarelli, prime sponsor; and Senator Benton, sponsor.