

# SENATE BILL REPORT

## SB 5725

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As Passed Senate, April 9, 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:** Senators Zarelli, T. Sheldon, Carlson, Reardon, Benton, Hewitt, Winsley, Hale, Sheahan, Honeyford, Finkbeiner, Johnson and West.

**Brief History:**

**Committee Activity:** Economic Development: 2/21/03 [DP-WM].

Ways & Means: 3/4/03, 4/7/03 [DP, DNP].

Passed Senate: 4/9/03, 35-11.

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### SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

**Majority Report:** Do pass and be referred to Committee on Ways & Means.

Signed by Senators T. Sheldon, Chair; Zarelli, Vice Chair; Benton, Hale, Rossi, Schmidt and Shin.

**Staff:** Alison Mendiola-Hamilton (786-7576)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Doumit, Hale, Honeyford, Johnson, Parlette, Roach and Sheahan.

**Minority Report:** Do not pass.

Signed by Senators Fraser and Regala.

**Staff:** Catherine Suter (786-7442)

**Background:** A report performed for the Department of Community, Trade, and Economic Development has identified the semiconductor industry and its related firms as a significant cluster in Washington State. Semiconductor manufacturers are one component of these clusters.

Semiconductor manufacturers in Washington State currently pay the manufacturing business and occupation (B&O) tax of 0.484 percent. They are eligible for the manufacturing machinery and equipment sales and use tax exemption that exempts all machinery and equipment, and installation labor, for manufacturing from the sales and use taxes.

In addition, if a semiconductor manufacturer locates in a rural county with fewer than 100 people per square mile, it is eligible for three more tax incentives:

- a sales and use tax exemption on buildings and equipment used in manufacturing (if the business applied for this before July 1, 1994, it is only a deferral and must be repaid);
- a 20 percent B&O tax credit for job training, up to \$5,000 per year; and
- a B&O tax credit for new manufacturing, research and development, or computer service jobs: \$2,000 for jobs paying less than \$40,000 per year and \$4,000 for jobs paying at least \$40,000.

**Summary of Bill:** Tax incentives targeting semiconductor manufacturers in Washington are created, as well as reporting requirements reflecting the usage and effectiveness of these incentives.

1. The B&O tax for businesses of manufacturing semiconductor materials is set at a rate equal to the value of the product multiplied by 0.138 percent through 2017.
2. The sale of gases and chemicals used by a manufacturer in the manufacturing of semiconductor materials is exempt from sales and use tax.

The following tax incentives are provided if the manufacturer maintains at least 75 percent of full employment at the new building over an eight-year period:

3. Labor, services, and sales of tangible personal property related to the construction of new buildings used for manufacturing semiconductor materials are exempt from state sales tax.
4. Businesses may claim a \$3,000 B&O tax job credit for each manufacturing production position that takes places in a new building exempt from sales and use tax under this bill's semiconductor exemption. This credit is good for up to eight years.
5. Commencing in 2006, machinery and equipment used in manufacturing semiconductor materials, at a building exempt from sales and use tax under this bill's semiconductor exemption, is exempt from property tax.

No application for any of the tax incentives is necessary, except for an application for the property tax exemption to the appropriate county assessor.

Manufacturers claiming exemptions or credits must file annual reports detailing employment and wages with the Department of Revenue. Legislative fiscal committees must report to the Legislature on the effectiveness of these incentives by November 1, 2016.

The tax incentives expire on July 1, 2017.

**Appropriation:** None.

**Fiscal Note:** Requested on February 17, 2003

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For (Economic Development):** This bill is carefully targeted and greatly needed. The incentives will increase revenue and create new jobs. This bill is a win-win situation for the semiconductor industry, the families employed by the industry, and the citizens of the state. This will help retain current businesses and create incentives for companies to locate in Washington. The impact on the economy is a good one; the average wage is \$60,000 in this industry.

**Testimony Against (Economic Development):** None.

**Testified (Economic Development):** PRO: Bart Phillips, Columbia River EDC; Wendy Holden, CTED; Royce Pollard, Mayor, Vancouver, WA; Lloyd Halverton, City Administrator, Camas, WA; Rick Wickman, ICC; David Michener, Joseph Kalinroski, Water Tech; Victor Liang, Linear Technology; Mark DeVito, nLight Photonics; Ron Newbry, WA Economic Development Assn.

**Testimony For (Ways & Means):** The semiconductor cluster here is threatened. Fabrication companies have a short life span of only eight-ten years if they are not making capital reinvestments. There are aggressive incentives elsewhere throughout the world, including for re-location, at a time that the Washington companies need to reinvest.

The industry is important to address as a cluster because businesses search world-wide for supportive environments, therefore retention is important. Currently, the state's semiconductor cluster is concentrated in Vancouver, but it has statewide locations, including intellectual property companies in Fremont and Lynnwood. This industry is on the verge of building the next new thing, and we need to keep the entire cluster here for at least another ten years.

**Testimony Against (Ways & Means):** None.

**Testified (Ways & Means):** PRO: Wendy Holden, Department of Community, Trade, and Economic Development; Bart Phillips, C.R.E.D.C.; John Marck, High Tech Council and Sharp Microelectronics of America; Joe Kalinowski, Wafertech; Scott Kenney, nLight Photonics.

**House Amendment(s):** Upon the effective date of the bill, the tax incentives last for 12 years, except the B&O tax exemption, which lasts for nine years. The B&O tax rate for manufacturers of semiconductor materials is .275 percent. "Semiconductor chip" is added to the definition of semiconductor materials. DOR must first determine that a contract exists for at least a \$1 billion investment in the facility before the tax incentives may be used. If a semiconductor manufacturer claims any of the tax exemptions, the employer must file a report with DOR and include: (1) employer-related health and retirement benefits for the job; (2) the number of full, part-time, and temporary positions; and (3) the first report filed is to include employment, wage, and benefit information for the 12-month period immediately before the first use of the tax exemptions under this bill. If the report is not filed, this is subject to public disclosure. Two reports to the fiscal committees of the Legislature must be made, one at the fifth and one at the eleventh year after the effective date of the bill. The tax incentives are for 12 years and the B&O tax exemption lasts for nine years.

