Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Technology, Energy & Communications Committee

HB 2130

Brief Description: Concerning tax incentives for renewable energy manufacturing facilities.

Sponsors: Representatives Probst, Jacks, Morris, Morrell, Kenney, Conway and Ormsby.

Brief Summary of Bill

- Creates a business & occupation (B&O) credit for capital invested in renewable energy manufacturing expenditures.
- Allows a B&O credit for renewable energy manufacturing expenditures to be sold or transferred to a third party.

Hearing Date: 2/18/09

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Background:

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. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the type of activities conducted. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

Preferential manufacturing B&O tax rates have been provided by the Legislature in recent years for aerospace, semiconductor microchips and materials, biodiesel fuel, aluminum smelting, solar energy systems, and timber/wood products.

Semiconductor Cluster Incentives.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

In 2003 the Legislature enacted a package of tax incentives for manufacturers of semiconductor materials, including silicon crystals, silicon ingots, raw polished wafers, compound semiconductors, integrated circuits, and microchips. These incentives were contingent upon an investment of at least $1 billion in a semiconductor microchip fabrication facility in the state. This package included: (1) a preferential B&O tax rate of 0.275 percent; (2) an exemption for gases and chemicals used in semiconductor manufacturing from retail sales and use tax; (3) an exemption for the construction of new semiconductor manufacturing buildings from retail sales and use tax; (4) a B&O tax credit of $3,000 for each employment position in semiconductor manufacturing production; and (5) an exemption for machinery and equipment used in manufacturing semiconductor materials from property taxation. This contingency criterion was never met.

In 2006 another package of tax incentives was provided for manufacturers of certain semiconductor materials. These incentives were contingent upon an investment of at least $350 million in new or expanded semiconductor manufacturing facilities in the state. This package included: (1) a preferential B&O tax rate of 0.275 percent; and (2) an exemption from retail sales and use taxes on the acquisition of gases and chemicals used in the production of semiconductor materials. This contingency was met, and the reduced tax rate became effective on December 1, 2006.

<u>Solar Energy Systems</u>.
In 2005 B&O tax rate reductions were provided for certain types of solar energy manufacturing. The B&O tax rate was lowered to 0.2904 percent for businesses that: (1) manufacture or sell at wholesale solar energy systems using photovoltaic modules; or (2) manufacture or sell at wholesale solar grade silicon to be used in the components of a solar energy system. Taxes paid in manufacturing these systems are granted a B&O tax credit. These solar energy manufacturing tax provisions expire on June 30, 2014.

Summary of Bill:

A business and occupation (B&O) tax credit is created for renewable energy manufacturing. A credit of 50 percent of capital invested in renewable energy manufacturing expenditures is allowed, up to a maximum credit of $20 million.

The total amount of credits allowed in any year for a project is $4 million. A maximum of $40 million in credits may be issued per year.

A person may sell or transfer the value of their credits at a rate equal to 70 percent of the total amount of credit being sold or transferred. The purchaser of the credit may apply the full value of the credits being purchased to satisfy the purchaser's B&O tax due for the tax reporting period.

A person using the incentives is required to provide an annual report detailing employment, wages, and employer provided health and retirement benefits at the manufacturing site. If a person using the incentive fails to submit an annual report, the Department of Revenue must declare the amount of taxes exempted or credited to be immediately due and payable. In addition, the fiscal committees of the Legislature are required to evaluate the effectiveness of the incentive program five and 11 years after the incentives become effective. These reporting and evaluation requirements are contingent upon an investment of at least $1 billion in a semiconductor microchip fabrication facility in the state.

Appropriation: None.

Fiscal Note: Requested on February 13, 2009.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed, except for Section 3 of this act, which is contingent upon an investment of at least $1 billion in a semiconductor microchip fabrication facility in the state.