

SENATE BILL REPORT

SB 6267

As of February 11, 2014

Title: An act relating to high-technology research and development tax incentives.

Brief Description: Concerning high-technology research and development tax incentives.

Sponsors: Senators Hill and Benton; by request of Office of Financial Management.

Brief History:

Committee Activity: Trade & Economic Development: 1/30/14, 2/04/14 [DP-WM, DNP].
Ways & Means: 2/10/14.

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Braun, Chair; Angel, Vice Chair; Holmquist Newbry and Liias.

Minority Report: Do not pass.
Signed by Senators Chase, Ranking Member; Pedersen.

Staff: Jeff Olsen (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Juliana Roe (786-7438)

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.

In 1994 the Legislature created tax incentives to encourage additional research and development (R&D) in the high technology sector. The high technology B&O tax credit and sales tax deferral are allowed for qualified R&D spending through January 1, 2015. The B&O tax credit is allowed for R&D expenditures in excess of 0.92 percent of the taxpayer's taxable income. The sales tax deferral allows for a deferral and waiver of sales and use taxes on the construction of R&D facilities and pilot scale manufacturing plants and purchases of related machinery and equipment. To qualify, a firm must be engaged in the fields of

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advanced computing, advanced materials, biotechnology, electronic device technology, or environmental technology.

Summary of Bill: The high technology B&O tax credit and sales and use tax deferral are extended until January 1, 2016.

A high technology R&D investment workgroup is created to develop recommendations that integrate high technology R&D activities with investments in higher education. Members of the workgroup include the Director of the Department of Commerce; the Director of the Department of Revenue; the presidents of the University of Washington and Washington State University; and a representative from each industry including: advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology. The workgroup must address ways to improve coordination of R&D spending with higher education institutions. In developing the recommendation, the workgroup must reprioritize current resources devoted to high technology R&D tax preferences to provide additional funding for higher education. The report is due to the Governor and the fiscal committees of the Legislature by December 1, 2014.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony (Trade & Economic Development): PRO: The high tech industry is a very important sector of Washington's economy. By extending the tax preference for one year, the tax preference can be aligned with the biennial budget to look at the policy and tax preferences together. Higher education investments and additional STEM degrees are needed to create the employees needed to work for high tech companies. The high tech research and development workgroup can bring together the higher education community and the high tech sector in order to develop sound policy.

CON: The Joint Legislative Audit and Review Committee (JLARC) has reviewed the credit and reported that it is not effective. Less than 1 percent of job growth in the sector is due to the tax incentive, and \$45,000 is spent for every job created. The Citizen's Commission on Tax Reform recommended that the incentive should sunset. The Department of Revenue (DOR) has also reviewed the tax credit and documented less job growth from companies using the tax credit. If allowed to sunset, revenues could be invested in other areas. There should be the same level of scrutiny on tax incentives as there are on spending of public funds.

OTHER: Extending the tax preference for only one year does not provide the certainty for the industry to make investments. The planning horizon for this sector is ten years or longer.

Persons Testifying (Trade & Economic Development): PRO: John Lane, Office of Financial Management.

CON: Nick Federici, Our Economic Future Coalition.

OTHER: Chris Rivera, WA Biotechnology and Biomedical Assn.; Michael Schutzler, Lew McMurrin, WA Technology Industry Assn.

Staff Summary of Public Testimony (Ways & Means): PRO: We understand the importance of the incentives to the high technology industry. We recommend a one-year extension to provide us the opportunity to study the incentives and to align with the biennial budget. There is a critical need for STEM degrees and a study would be the best way forward.

OTHER: SB 6430 is a better approach.

CON: While we are all committed to improving Washington's economy, there is no proof that these incentives help us with that objective. When studying the high technology sector, JLARC found that there was ambiguous data and asked for additional analysis. It was found that less than 1 percent of growth in that sector was attributable to the incentives. The Tax Preference Commission, in its report, recommended ending the incentives. When DOR studied this sector, it found that those companies that used the incentives increased jobs at a lower rate than those that did not use the incentives. Maybe we should narrow the incentives to those companies that are true entrepreneurial companies. Microsoft gets a large amount of money from the incentive and most likely does not need the extra help.

Persons Testifying (Ways & Means): PRO: John Lane, Office of Financial Management.

CON: Nick Federici, Our Economic Future Coalition.

OTHER: Michael Schutzler, WA Tech Industry Assn., President.