CERTIFICATION OF ENROLLMENT

**ENGROSSED SENATE BILL 5901**

Chapter 257, Laws of 2022

(partial veto)

67th Legislature

2022 Regular Session

MANUFACTURING AND RESEARCH AND DEVELOPMENT SALES AND USE TAX INCENTIVE PROGRAM

EFFECTIVE DATE: July 1, 2022

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| Passed by the Senate March 10, 2022Yeas 36 Nays 12DENNY HECK**President of the Senate**Passed by the House March 9, 2022Yeas 69 Nays 28LAURIE JINKINS**Speaker of the House of Representatives** | CERTIFICATEI, Sarah Bannister, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **ENGROSSED SENATE BILL 5901** as passed by the Senate and the House of Representatives on the dates hereon set forth.SARAH BANNISTERSecretary |
| Approved March 31, 2022 4:03 PM with the exception of sections 201, 202, 203, and 204, which are vetoed. | April 1, 2022 |
| JAY INSLEE**Governor of the State of Washington** | **Secretary of State** **State of Washington** |

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**ENGROSSED SENATE BILL 5901**

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AS AMENDED BY THE HOUSE

Passed Legislature - 2022 Regular Session

**State of Washington 67th Legislature 2022 Regular Session**

**By** Senators Randall, Billig, Holy, Mullet, Nguyen, and Saldaña

AN ACT Relating to economic development tax incentives for targeted counties; amending RCW 82.08.820 and 82.12.820; adding a new chapter to Title 82 RCW; creating new sections; providing an effective date; and providing expiration dates.

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

**PART I**

**CREATING A SALES AND USE TAX DEFERRAL PROGRAM TO INCENTIVIZE MANUFACTURING AND RESEARCH AND DEVELOPMENT ACTIVITIES IN CERTAIN DESIGNATED COUNTIES**

NEW SECTION. **Sec.**  (1) The legislature finds that there are counties in the state that face additional economic development challenges beyond the challenges faced by counties located in the central Puget Sound region. The legislature further finds that these regions do not experience the same degree of job growth and investment. The legislature further finds that, in some areas, increased economic development incentives are needed to help support economic growth and that a one-size-fits-all approach to economic development does not work for the diversity of the statewide economy. For these reasons, the legislature intends to establish a tax deferral program to be effective solely in certain targeted counties. The legislature declares that this limited program serves the vital public purpose of creating employment opportunities and generally spurring economic development in these counties of the state.

(2) The legislature also finds that this act is consistent with the Substitute House Bill No. 1170, the Washington BEST manufacturing act, enacted in 2021. The 2021 Washington BEST manufacturing act recognized that the state must retain and build on its leadership in the manufacturing and research and development sectors and also recognized that a thriving manufacturing and research sector are complimentary and should be promoted in every region of the state. Therefore, the legislature further finds the sales and use tax deferral program for manufacturing and research and development in this act is a critical tool and strategy to help achieve the goals expressed in the Washington BEST manufacturing act of doubling the state's manufacturing employment base, the number of small businesses, and the number of women and minority-owned manufacturing businesses in the next 10 years.

NEW SECTION. **Sec.**  Unless the context clearly requires otherwise, the definitions in this section apply throughout this chapter.

(1) "Applicant" means a person applying for a tax deferral under this chapter.

(2) "Department" means the department of revenue.

(3) "Eligible area" means a qualifying county.

(4)(a) "Eligible investment project" means an investment project that is located, as of the date the application required by section 103 of this act is received by the department, in an eligible area as defined in subsection (3) of this section.

(b) "Eligible investment project" does not include any portion of an investment project undertaken by a light and power business as defined in RCW 82.16.010(4), other than that portion of a cogeneration project that is used to generate power for consumption within the manufacturing site of which the cogeneration project is an integral part, or investment projects that have already received deferrals under this chapter.

(5)(a) "Initiation of construction" means the date that a building permit is issued under the building code adopted under RCW 19.27.031 for:

(i) Construction of the qualified building, if the underlying ownership of the building vests exclusively with the person receiving the economic benefit of the deferral;

(ii) Construction of the qualified building, if the economic benefits of the deferral are passed to a lessee as provided in RCW 82.60.025; or

(iii) Tenant improvements for a qualified building, if the economic benefits of the deferral are passed to a lessee as provided in RCW 82.60.025.

(b) "Initiation of construction" does not include soil testing, site clearing and grading, site preparation, or any other related activities that are initiated before the issuance of a building permit for the construction of the foundation of the building.

(c) If the eligible investment project is a phased project, "initiation of construction" applies separately to each phase.

(6) "Investment project" means an investment in qualified buildings or qualified machinery and equipment, including labor and services rendered in the planning, installation, and construction of the project.

(7) "Manufacturing" means the same as defined in RCW 82.04.120. "Manufacturing" also includes:

(a) The activities performed by research and development laboratories and commercial testing laboratories; and

(b) The conditioning of vegetable seeds.

(8) "Meaningful construction" means an active construction site, where excavation of a building site, laying of a building foundation, or other tangible signs of construction are taking place and that clearly show a progression in the construction process at the location designated by the taxpayer in the application for deferral. Planning, permitting, or land clearing before excavation of the building site, without more, does not constitute "meaningful construction."

(9) "Person" has the meaning given in RCW 82.04.030.

(10) "Qualified buildings" means construction of new structures, and expansion or renovation of existing structures for the purpose of increasing floor space or production capacity used for manufacturing or research and development activities, including plant offices and warehouses or other facilities for the storage of raw material or finished goods if such facilities are an essential or an integral part of a factory, mill, plant, or laboratory used for manufacturing or research and development. If a building is used partly for manufacturing or research and development and partly for other purposes, the applicable tax deferral must be determined by apportionment of the costs of construction under rules adopted by the department.

(11) "Qualified machinery and equipment" means all new industrial and research fixtures, equipment, and support facilities that are an integral and necessary part of a manufacturing or research and development operation. "Qualified machinery and equipment" includes: Computers; software; data processing equipment; laboratory equipment; manufacturing components such as belts, pulleys, shafts, and moving parts; molds, tools, and dies; operating structures; and all equipment used to control or operate the machinery.

(12) "Qualifying county" means a county that has a population less than 650,000 at the time an application is submitted under section 103 of this act.

(13) "Recipient" means a person receiving a tax deferral under this chapter.

(14) "Research and development" means the development, refinement, testing, marketing, and commercialization of a product, service, or process before commercial sales have begun, but only when such activities are intended to ultimately result in the production of a new, different, or useful substance or article of tangible personal property for sale. As used in this subsection, "commercial sales" excludes sales of prototypes or sales for market testing if the total gross receipts from such sales of the product, service, or process do not exceed $1,000,000.

NEW SECTION. **Sec.**  (1) Application for deferral of taxes under this chapter must be made before initiation of the construction of the investment project or acquisition of equipment or machinery. The application must be made to the department in a form and manner prescribed by the department. The application must contain information regarding the location of the investment project, the applicant's average employment in the state for the prior year, estimated or actual new employment related to the project, estimated or actual wages of employees related to the project, estimated or actual costs, time schedules for completion and operation, and other information required by the department. The department must rule on the application within 60 days.

(2) The department may not accept applications for the deferral under this chapter after June 30, 2032.

(3) This section expires July 1, 2032.

NEW SECTION. **Sec.**  (1) The department must issue a sales and use tax deferral certificate for state and local sales and use taxes due under chapters 82.08, 82.12, and 82.14 RCW on each eligible investment project.

(2) The department must keep a running total of all deferrals granted under this chapter during each fiscal biennium. The amount of state and local sales and use taxes eligible for deferral under this chapter is limited to $400,000 per person.

(3) This section expires July 1, 2032.

NEW SECTION. **Sec.**  (1) The recipient of a deferral certificate under section 104 of this act must begin meaningful construction on an eligible investment project within two years of receiving a deferral certificate, unless construction was delayed due to circumstances beyond the recipient's control. Lack of funding is not considered a circumstance beyond the recipient's control.

(2) If the recipient does not begin meaningful construction on an eligible investment project within two years of receiving a deferral certificate, the deferral certificate issued under section 104 of this act is invalid and taxes deferred under this chapter are due immediately.

NEW SECTION. **Sec.**  (1)(a) Each recipient of a deferral of taxes granted under this chapter must file a complete annual tax performance report with the department under RCW 82.32.534 during the period covered by the schedule under subsection (2) of this section. If the economic benefits of the deferral are passed to a lessee as provided in section 108 of this act, the lessee must file a complete annual tax performance report, and the applicant is not required to file a complete annual tax performance report.

(b) The joint legislative audit and review committee, as part of its tax preference review process under chapter 43.136 RCW, must use the information reported on the annual tax performance report required by this section to study the tax deferral program authorized under this chapter. The committee must report to the legislature by December 1, 2030. The report must measure the effect of the program on job creation, the number of jobs created for residents of eligible areas, company growth, and such other factors as the committee selects.

(2)(a) Except as otherwise provided in this chapter, taxes deferred under this chapter need not be repaid.

(b) If the investment project is not operationally complete within five calendar years from the issuance of the tax deferral certificate, or if, on the basis of the tax performance report under RCW 82.32.534 or other information, the department finds that an investment project is used for purposes other than a qualified manufacturing or research and development operation at any time during the calendar year in which the investment project is certified by the department as having been operationally completed, or at any time during any of the seven succeeding calendar years, a portion of deferred taxes is immediately due according to the following schedule:

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| --- | --- |
| Year in whichuse occurs | % of deferred taxes due |
| 1 | 100% |
| 2 | 87.5% |
| 3 | 75% |
| 4 | 62.5% |
| 5 | 50% |
| 6 | 37.5% |
| 7 | 25% |
| 8 | 12.5% |

(c) If the economic benefits of the deferral are passed to a lessee as provided in section 108 of this act, the lessee is responsible for payment to the extent the lessee has received the economic benefit.

(3) A recipient who must repay deferred taxes under this section because the department has found that an investment project is not eligible for tax deferral under this chapter is no longer required to file annual tax performance reports under RCW 82.32.534 beginning on the date an investment project is used for nonqualifying purposes.

(4) The department must assess interest at the rate provided for delinquent taxes, but not penalties, retroactively to the date of deferral for a recipient who must repay deferred taxes under this section because the department has found that an investment project is not eligible for tax deferral. The debt for deferred taxes will not be extinguished by insolvency or other failure of the recipient. Transfer of ownership does not terminate the deferral. The deferral is transferred, subject to the successor meeting the eligibility requirements of this chapter, for the remaining periods of the deferral.

(5) Notwithstanding any other provision of this section or RCW 82.32.534, deferred taxes on the following need not be repaid:

(a) Machinery and equipment, and sales of or charges made for labor and services, which at the time of purchase would have qualified for exemption under RCW 82.08.02565; and

(b) Machinery and equipment which at the time of first use would have qualified for exemption under RCW 82.12.02565.

NEW SECTION. **Sec.**  The department must establish a list of qualifying counties, effective July 1, 2022. The list of qualifying counties is effective for a 24-month period and must be updated by July 1st of the year that is two calendar years after the list was established or last updated, as the case may be.

NEW SECTION. **Sec.**  The lessor or owner of a qualified building is not eligible for a deferral unless:

(1) The underlying ownership of the buildings, machinery, and equipment vests exclusively in the same person; or

(2)(a) The lessor by written contract agrees to pass the economic benefit of the deferral to the lessee;

(b) The lessee that receives the economic benefit of the deferral agrees in writing with the department to complete the annual tax performance report required under section 106 of this act; and

(c) The economic benefit of the deferral passed to the lessee is no less than the amount of tax deferred by the lessor and is evidenced by written documentation of any type of payment, credit, or other financial arrangement between the lessor or owner of the qualified building and the lessee.

NEW SECTION. **Sec.**  Chapter 82.32 RCW applies to the administration of this chapter.

NEW SECTION. **Sec.**  Applications, reports, and any other information received by the department under this chapter, except applications not approved by the department, are not confidential and are subject to disclosure.

**PART II**

**MODIFYING THE SALES AND USE TAX EXEMPTION FOR WAREHOUSES, DISTRIBUTION CENTERS, AND GRAIN ELEVATORS**

**Sec.**  RCW 82.08.820 and 2014 c 140 s 23 are each amended to read as follows:

(1) Wholesalers or third-party warehousers who own or operate warehouses or grain elevators and retailers who own or operate distribution centers, and who have paid the tax levied by RCW 82.08.020 on:

(a) Material-handling and racking equipment, and labor and services rendered in respect to installing, repairing, cleaning, altering, or improving the equipment; or

(b) Construction of a warehouse or grain elevator, including materials, and including service and labor costs,

are eligible for an exemption in the form of a remittance. The amount of the remittance is computed under subsection (3) of this section and is based on the state share of sales tax.

(2) For purposes of this section and RCW 82.12.820:

(a) "Agricultural products" has the meaning given in RCW 82.04.213;

(b)(i) "Construction" means the actual construction of a warehouse or grain elevator that did not exist before the construction began. ((~~"Construction"~~)) Except as provided in (b)(ii) of this subsection, "construction" includes expansion if the expansion adds at least two hundred thousand square feet of additional space to an existing warehouse or additional storage capacity of at least one million bushels to an existing grain elevator. "Construction" does not include renovation, remodeling, or repair;

(ii) For an existing warehouse located in a qualifying county, "construction" includes expansion if the expansion adds at least 100,000 square feet of additional space to an existing warehouse;

(c) "Department" means the department of revenue;

(d) "Distribution center" means a warehouse that is used exclusively by a retailer solely for the storage and distribution of finished goods to retail outlets of the retailer. "Distribution center" does not include a warehouse at which retail sales occur;

(e) "Finished goods" means tangible personal property intended for sale by a retailer or wholesaler. "Finished goods" does not include:

(i) Agricultural products stored by wholesalers, third-party warehouses, or retailers if the storage takes place on the land of the person who produced the agricultural product;

(ii) Logs, minerals, petroleum, gas, or other extracted products stored as raw materials or in bulk; or

(iii) Marijuana, useable marijuana, or marijuana-infused products;

(f) "Grain elevator" means a structure used for storage and handling of grain in bulk;

(g) "Material-handling equipment and racking equipment" means equipment in a warehouse or grain elevator that is primarily used to handle, store, organize, convey, package, or repackage finished goods. The term includes tangible personal property with a useful life of one year or more that becomes an ingredient or component of the equipment, including repair and replacement parts. The term does not include equipment in offices, lunchrooms, restrooms, and other like space, within a warehouse or grain elevator, or equipment used for nonwarehousing purposes. "Material-handling equipment" includes but is not limited to: Conveyers, carousels, lifts, positioners, pick-up-and-place units, cranes, hoists, mechanical arms, and robots; mechanized systems, including containers that are an integral part of the system, whose purpose is to lift or move tangible personal property; and automated handling, storage, and retrieval systems, including computers that control them, whose purpose is to lift or move tangible personal property; and forklifts and other off-the-road vehicles that are used to lift or move tangible personal property and that cannot be operated legally on roads and streets. "Racking equipment" includes, but is not limited to, conveying systems, chutes, shelves, racks, bins, drawers, pallets, and other containers and storage devices that form a necessary part of the storage system;

(h) "Person" has the meaning given in RCW 82.04.030;

(i) "Retailer" means a person who makes "sales at retail" as defined in chapter 82.04 RCW of tangible personal property;

(j) "Square footage" means the product of the two horizontal dimensions of each floor of a specific warehouse. The entire footprint of the warehouse must be measured in calculating the square footage, including space that juts out from the building profile such as loading docks. "Square footage" does not mean the aggregate of the square footage of more than one warehouse at a location or the aggregate of the square footage of warehouses at more than one location;

(k) "Third-party warehouser" means a person taxable under RCW 82.04.280(1)(d);

(l) "Qualifying county" means a county that has a population less than 650,000 at the time an application is submitted under this section and RCW 82.12.820;

(m) "Warehouse" means an enclosed building or structure in which finished goods are stored. A warehouse building or structure may have more than one storage room and more than one floor. Office space, lunchrooms, restrooms, and other space within the warehouse and necessary for the operation of the warehouse are considered part of the warehouse as are loading docks and other such space attached to the building and used for handling of finished goods. Landscaping and parking lots are not considered part of the warehouse. A storage yard is not a warehouse, nor is a building in which manufacturing takes place; and

((~~(m)~~)) (n) "Wholesaler" means a person who makes "sales at wholesale" as defined in chapter 82.04 RCW of tangible personal property, but "wholesaler" does not include a person who makes sales exempt under RCW 82.04.330.

(3)(a) A person claiming an exemption from state tax in the form of a remittance under this section must pay the tax imposed by RCW 82.08.020. The buyer may then apply to the department for remittance of all or part of the tax paid under RCW 82.08.020. For grain elevators with bushel capacity of one million but less than two million, the remittance is equal to fifty percent of the amount of tax paid. ((~~For~~)) Except as provided under (d) of this subsection, for warehouses with square footage of two hundred thousand or more and for grain elevators with bushel capacity of two million or more, the remittance is equal to one hundred percent of the amount of tax paid for qualifying construction, materials, service, and labor, and fifty percent of the amount of tax paid for qualifying material-handling equipment and racking equipment, and labor and services rendered in respect to installing, repairing, cleaning, altering, or improving the equipment. The maximum amount of tax that may be remitted under this section and RCW 82.12.820 for the construction or expansion of a warehouse or grain elevator is $400,000.

(b) The department must determine eligibility under this section based on information provided by the buyer and through audit and other administrative records. The buyer must on a quarterly basis submit an information sheet, in a form and manner as required by the department by rule, specifying the amount of exempted tax claimed and the qualifying purchases or acquisitions for which the exemption is claimed. The buyer must retain, in adequate detail to enable the department to determine whether the equipment or construction meets the criteria under this section: Invoices; proof of tax paid; documents describing the material-handling equipment and racking equipment; location and size of warehouses and grain elevators; and construction invoices and documents.

(c) The department must on a quarterly basis remit exempted amounts to qualifying persons who submitted applications during the previous quarter.

(d) For warehouses located in a qualifying county, the square footage requirement is 100,000 square feet or more.

(4) Warehouses, grain elevators, and material-handling equipment and racking equipment for which an exemption, credit, or deferral has been or is being received under chapter 82.60, 82.62, or 82.63 RCW or RCW 82.08.02565 or 82.12.02565 are not eligible for any remittance under this section. Warehouses and grain elevators upon which construction was initiated before May 20, 1997, are not eligible for a remittance under this section.

(5) The lessor or owner of a warehouse or grain elevator is not eligible for a remittance under this section unless the underlying ownership of the warehouse or grain elevator and the material-handling equipment and racking equipment vests exclusively in the same person, or unless the lessor by written contract agrees to pass the economic benefit of the remittance to the lessee in the form of reduced rent payments.

(6) This section expires July 1, 2032.

**Sec.**  RCW 82.12.820 and 2006 c 354 s 13 are each amended to read as follows:

(1) Wholesalers or third-party warehousers who own or operate warehouses or grain elevators, and retailers who own or operate distribution centers, and who have paid the tax levied under RCW 82.12.020 on:

(a) Material-handling equipment and racking equipment and labor and services rendered in respect to installing, repairing, cleaning, altering, or improving the equipment; or

(b) Materials incorporated in the construction of a warehouse or grain elevator, are eligible for an exemption on tax paid in the form of a remittance or credit against tax owed. The amount of the remittance or credit is computed under subsection (2) of this section and is based on the state share of use tax.

(2)(a) A person claiming an exemption from state tax in the form of a remittance under this section must pay the tax imposed by RCW 82.12.020 to the department. The person may then apply to the department for remittance of all or part of the tax paid under RCW 82.12.020. For grain elevators with bushel capacity of one million but less than two million, the remittance is equal to fifty percent of the amount of tax paid. ((~~For~~)) Except as provided under (d) of this subsection, for warehouses with square footage of two hundred thousand or more and for grain elevators with bushel capacity of two million or more, the remittance is equal to one hundred percent of the amount of tax paid for qualifying construction materials, and fifty percent of the amount of tax paid for qualifying material-handling equipment and racking equipment. The maximum amount of tax that may be remitted under this section and RCW 82.08.820 for the construction or expansion of a warehouse or grain elevator is $400,000.

(b) The department shall determine eligibility under this section based on information provided by the buyer and through audit and other administrative records. The buyer shall on a quarterly basis submit an information sheet, in a form and manner as required by the department by rule, specifying the amount of exempted tax claimed and the qualifying purchases or acquisitions for which the exemption is claimed. The buyer shall retain, in adequate detail to enable the department to determine whether the equipment or construction meets the criteria under this section: Invoices; proof of tax paid; documents describing the material-handling equipment and racking equipment; location and size of warehouses, if applicable; and construction invoices and documents.

(c) The department shall on a quarterly basis remit or credit exempted amounts to qualifying persons who submitted applications during the previous quarter.

(d) For warehouses located in a qualifying county, the square footage requirement is 100,000 square feet or more.

(3) Warehouse, grain elevators, and material-handling equipment and racking equipment for which an exemption, credit, or deferral has been or is being received under chapter 82.60, 82.62, or 82.63 RCW or RCW 82.08.02565 or 82.12.02565 are not eligible for any remittance under this section. Materials incorporated in warehouses and grain elevators upon which construction was initiated prior to May 20, 1997, are not eligible for a remittance under this section.

(4) The lessor or owner of the warehouse or grain elevator is not eligible for a remittance or credit under this section unless the underlying ownership of the warehouse or grain elevator and material-handling equipment and racking equipment vests exclusively in the same person, or unless the lessor by written contract agrees to pass the economic benefit of the exemption to the lessee in the form of reduced rent payments.

(5) The definitions in RCW 82.08.820 apply to this section.

(6) This section expires July 1, 2032.

NEW SECTION. **Sec.**  A person claiming an exemption from state tax in the form of a remittance under RCW 82.08.820 or 82.12.820 for a warehouse or distribution center must file the annual tax preference performance report under RCW 82.32.534 beginning in the first calendar year following the year the warehouse, distribution center, or grain elevator is operationally complete and for the next two subsequent years.

NEW SECTION. **Sec.**  (1) This section is the tax preference performance statement for the warehousing, distribution, and grain elevator sales and use tax exemptions in sections 201 and 202, chapter . . ., Laws of 2022 (sections 201 and 202 of this act). The performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(2) The legislature categorizes this tax preference as one intended to accomplish the general purposes indicated in RCW 82.32.808(2) (a) and (c) to induce certain designated behavior by businesses and to create jobs.

(3) It is the legislature's specific public policy objective to induce the construction of new or expanded warehouses and distribution centers in certain targeted counties by reducing the square footage requirement in order to diversify the tax base and increase employment within the targeted counties.

(4) To measure the effectiveness of these exemptions in achieving the specific public policy objectives described in subsection (3) of this section, the joint legislative audit and review committee must evaluate the changes in the number of employment positions in the warehousing and distribution industry sector in the targeted counties and changes to the tax base as a result of increased warehousing and distribution activity.

(5) In order to obtain the data necessary to perform the review in subsection (4) of this section, the joint legislative audit and review committee may refer to the remittance data prepared by the department of revenue and the annual tax preference performance report submitted by the beneficiary of the tax preference under RCW 82.32.534.

NEW SECTION. **Sec.**  Sections 101 through 110 of this act constitute a new chapter in Title 82 RCW.

NEW SECTION. **Sec.**  This act takes effect July 1, 2022.

**--- END ---**

Passed by the Senate March 10, 2022.

Passed by the House March 9, 2022.

Approved by the Governor March 31, 2022, with the exception of certain items that were vetoed.

Filed in Office of Secretary of State April 1, 2022.

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

"I am returning herewith, without my approval as to Sections 201, 202, 203, and 204, Engrossed Senate Bill No. 5901 entitled:

"AN ACT Relating to economic development tax incentives for targeted counties."

Engrossed Senate Bill 5901 expands the existing warehouse and grain elevator sales and use tax exemption to include construction or expansion of warehouses of at least 100,000 square feet or more for counties with a population less than 650,000.

I recognize that warehousing is an important part of the state's rural economy, but the tax incentives in this bill are overly broad, as they apply to 36 of the 39 counties in the state. Additionally, due to the increasing consumer preference for online shopping over the past few years, which only increased with the pandemic, the warehousing industry has remained strong and does not require an expanded tax incentive program to remain competitive at this time.

For these reasons I have vetoed Sections 201, 202, 203, and 204 of Engrossed Senate Bill No. 5901.

With the exception of Sections 201, 202, 203, and 204, Engrossed Senate Bill No. 5901 is approved."