

Chapter 82.94 RCW
TAX DEFERRALS FOR MANUFACTURING AND RESEARCH AND DEVELOPMENT

Sections

- 82.94.005 Findings—Intent.
- 82.94.010 Definitions.
- 82.94.020 Applications.
- 82.94.030 Tax deferral certificates.
- 82.94.040 Requirements for recipients—Meaningful construction.
- 82.94.050 Annual tax preference performance report—Repayment of deferred taxes.
- 82.94.060 List of qualifying counties.
- 82.94.070 Conditions for lessors.
- 82.94.080 Applicability of general administrative provisions.
- 82.94.090 Applications, reports, and information subject to disclosure.
- 82.94.900 Effective date—2022 c 257.

RCW 82.94.005 Findings—Intent. (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 chapter 257, Laws of 2022 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 chapter 257, Laws of 2022 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. [2022 c 257 § 101.]

RCW 82.94.010 Definitions. 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 RCW 82.94.020 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 RCW 82.94.020.

(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. [2022 c 257 § 102.]

RCW 82.94.020 Applications. (Expires July 1, 2032.) (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. [2022 c 257 § 103.]

RCW 82.94.030 Tax deferral certificates. (Expires July 1, 2032.)

(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. [2022 c 257 § 104.]

RCW 82.94.040 Requirements for recipients—Meaningful construction. (1) The recipient of a deferral certificate under RCW

82.94.030 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 RCW 82.94.030 is invalid and taxes deferred under this chapter are due immediately. [2022 c 257 § 105.]

RCW 82.94.050 Annual tax preference performance report—

Repayment of deferred taxes. (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 RCW 82.94.070, 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:

Year in which use 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 RCW 82.94.070, 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. [2022 c 257 § 106.]

RCW 82.94.060 List of qualifying counties. 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. [2022 c 257 § 107.]

RCW 82.94.070 Conditions for lessors. 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 RCW 82.94.050; 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. [2022 c 257 § 108.]

RCW 82.94.080 Applicability of general administrative provisions. Chapter 82.32 RCW applies to the administration of this chapter. [2022 c 257 § 109.]

RCW 82.94.090 Applications, reports, and information subject to disclosure. 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.
[2022 c 257 § 110.]

RCW 82.94.900 Effective date—2022 c 257. This act takes effect
July 1, 2022. [2022 c 257 § 206.]