

WSR 10-16-007
EXPEDITED RULES
DEPARTMENT OF REVENUE

[Filed July 21, 2010, 4:01 p.m.]

Title of Rule and Other Identifying Information: WAC 458-20-246 (Rule 246) Sales to or through a direct seller's representative, explains the business and occupation (B&O) tax exemption provided by RCW 82.04.423, commonly referred to as the "direct seller's exemption."

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Gayle Carlson, Department of Revenue, P.O. Box 47453, Olympia, WA 98504-7453, e-mail GayleC@dor.wa.gov, AND RECEIVED BY October 4, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: The department is proposing a revision to Rule 246 to recognize E2SSB 6143 (chapter 23, Laws of 2010). This legislation:

- Reaffirmed and clarified the legislature's intent in establishing the direct seller's exemption; and
- Repealed the exemption effective May 1, 2010.

Language has also been added to subsections (2) and (3) to clarify that in the rule "direct seller" refers to the selling company, and "direct seller's representative" refers to the person who purchases consumer products from the direct seller and resells the products, or sells for or solicits sales on behalf of the direct seller.

Copies of draft rules are available for viewing and printing on our web site at <http://dor.wa.gov/content/FindALawOrRule/RuleMaking/agenda.aspx>.

Reasons Supporting Proposal: To recognize provisions of E2SSB 6143, chapter 23, Laws of 2010.

Statutory Authority for Adoption: RCW 82.32.300 and 82.01.060(2).

Statute Being Implemented: RCW 82.04.423.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: Department of revenue, governmental.

Name of Agency Personnel Responsible for Drafting: Gayle Carlson, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6126; Implementation: Alan R. Lynn, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6125; and Enforcement: Gilbert Brewer, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6147.

July 21, 2010

Alan R. Lynn

Rules Coordinator

AMENDATORY SECTION (Amending WSR 99-24-007, filed 11/19/99, effective 12/31/99)

WAC 458-20-246 Sales to or through a direct seller's representative. (1) **Introduction.** The legislature passed chapter 23, Laws of 2010, (2ESSB 6143), which reaffirms and clarifies the legislature's intent in establishing the direct seller's exemption. The legislation also repeals the exemption provided by RCW 82.04.423 effective May 1, 2010.

Through April 30, 2010, RCW 82.04.423 provides an exemption from the business and occupation (B&O) tax on wholesale and retail sales by a person who does not own or lease real property in the state, is not incorporated in the state, does not regularly maintain inventory in this state, and makes sales in this state exclusively to or through a "direct seller's representative." This ~~((rule))~~ section explains the statutory elements that must be satisfied in order to be eligible to take this exemption.

(2) **Federal law background.** The statutory language describing the direct seller's representative is substantially the same language as contained in the federal Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, PL 97-248. See 26 U.S.C. 3508. The federal law designates types of statutory nonemployees for Social Security tax purposes. In the federal law, the "direct seller's representative," as used in this section and under RCW 82.04.423, is designated as the direct seller. The purpose of the direct seller provision in the federal tax law is to provide that a direct seller~~((s representative))~~ is not an employee of the direct ~~((seller))~~ selling company, thereby relieving the direct ~~((seller))~~ selling company of a tax duty. Under the federal law, the direct ~~((seller))~~ selling company is a business that sells ~~((its))~~ consumer products using a ~~((representative))~~ direct seller who either purchases from the direct ~~((seller))~~ selling company and resells the consumer products or sells for or solicits sales of consumer products on behalf of the direct ~~((seller))~~ selling company. Retail sales are limited to those occurring in the home or in a temporary retail establishment, such as a vendor booth at a fair.

~~((The 1983 Washington state legislature used the same criteria to delineate, for state tax purposes, the necessary relationship between a direct seller and a direct seller's representative.))~~

(3) ~~((The))~~ **Washington's direct seller's exemption.** The 1983 Washington state legislature used the same criteria to delineate, for state tax purposes, the necessary relationship between a direct seller and a direct seller's representative. In this section "direct seller" refers to the selling company, and the "direct seller's representative" refers to the person who purchases consumer products from the direct seller and resells the products, or sells for or solicits sales on behalf of the direct seller.

The exemption provided by RCW 82.04.423 is limited to the B&O tax on wholesaling or retailing imposed in chapter 82.04 RCW (Business and occupation tax). A direct seller is subject to other Washington state tax obligations, including, but not limited to, the sales tax under chapter 82.08 RCW, the use tax under chapter 82.12 RCW, and the litter tax imposed by chapter 82.19 RCW.

(4) **Who may take the exemption.** The B&O tax exemption may be taken by a person (the direct seller) selling ~~((a))~~ consumer products using the services of a representative

who sells at retail or solicits the sales for retail of ~~((the))~~ only consumer products as outlined in statute. There are ten elements in the statute that must be present in order for a person to qualify for the exemption for Washington sales. The person must satisfy each element to be eligible for the exemption. The taxpayer must retain sufficient records and documentation to substantiate that each of the ten required elements has been satisfied. RCW 82.32.070.

(a) The four statutory elements describing the direct seller. RCW 82.04.423 provides that a direct seller:

(i) Cannot own or lease real property within this state. For example, if the direct seller's representative is selling vitamins door to door for the direct seller, but the direct seller owns or leases a coffee roasting factory in the state, the direct seller is not eligible for this exemption; and

(ii) Cannot regularly maintain a stock of tangible personal property in this state for sale in the ordinary course of business. This provision does not, however, prohibit the direct seller from holding title to the consumer product in the state. For instance, the direct seller owns the consumer products sold by the direct seller's representative when the representative is making retail sales for the direct seller. However, the personal property must not be a stock of goods in the state that is for sale in the ordinary course of business. The phrase "sale in the ordinary course of business" means sales that are arm's length and that are routine and reasonably expected to occur from time to time; and

(iii) Is not a corporation incorporated under the laws of this state; and

(iv) Makes sales in this state exclusively to or through a direct seller's representative. This provision of the statute describes how sales by the direct seller may be made. To be eligible for the exemption, all sales by the direct seller in this state must be made to or through a direct seller's representative. The direct seller may not claim any B&O tax exemption under RCW 82.04.423 if it has made sales in this state using means other than a direct seller's representative. This requirement does not, however, limit the methods the direct seller's representative may use to sell these products. For example, the representative can use the mail or the internet, if all other conditions of the exemption are met. The direct seller's use of mail order or internet, separate from the representative's use, may or may not be found to be "sales in this state" depending on the facts of the situation. If the direct seller's use of methods other than to or through a direct seller's representative constitutes "sales in this state," the exemption is lost. Additionally, a direct seller does not become ineligible for the exemption due to action by the direct seller's representative that is in violation of the statute, such as selling a product to a permanent retail establishment, if the department of revenue (department) finds by a review of the facts that the ineligible sales are irregular, prohibited by the direct seller, and rare.

If a seller uses a direct seller's representative to sell "consumer products" in Washington, and also has a branch office, local outlet, or other local place of business, or is represented by any other type of selling employee, selling agent, or selling representative, no portion of the sales are exempt from B&O tax under RCW 82.04.423. For example, a person who uses representatives to sell consumer products door to door

and who also sells consumer products through retail outlets is not eligible for the exemption. The phrase "sales exclusively to ... a direct seller's representative" describes wholesale sales made by the direct seller to a representative. The phrase "sales exclusively ... through a direct seller's representative" describes retail sales made by the direct seller to the consumer. The B&O tax exemption provided by RCW 82.04.423 is limited to these types of wholesale and retail sales.

(b) The six statutory elements describing the direct seller's representative. RCW 82.04.423 provides the following elements that relate to the direct seller's representative:

(i) How the sale is made. A direct seller's representative is "a person who buys only consumer products on a buy-sell basis or a deposit-commission basis for resale, by the buyer or any other person, in the home or otherwise than in a permanent retail establishment, or who sells at retail, or solicits the sale at retail of, only consumer products in the home or otherwise than in a permanent retail establishment." The direct seller sells the consumer product using the services of a representative in one of two ways, which are described by two clauses in the statute. The first clause ("a person who buys ... for resale" from the direct seller) describes a wholesale sale by the direct seller. The second clause (a person who "sells or solicits the sale" for the direct seller) describes a retail sale by the direct seller.

(A) A transaction is on a "buy-sell basis" if the direct seller's representative performing the selling or soliciting services is entitled to retain part or all of the difference between the price at which the direct seller's representative purchases the consumer product and the price at which the direct seller's representative sells the product. The part retained is remuneration from the direct seller for the selling or soliciting services performed by the representative. A transaction is on a "deposit-commission basis" if the direct seller's representative performing the selling or soliciting services is entitled to retain part or all of a purchase deposit paid in connection with the transaction. The part retained is remuneration from the direct seller for the selling or soliciting services performed by the representative.

(B) The location where the retail sale of the consumer product may take place is specifically delineated by the terms of the statute. The direct seller may take the exemption only if the retail sale of the consumer product takes place either in the home or otherwise than in a permanent retail establishment. The resale of the products sold by the direct seller at wholesale is restricted by the statute through the following language: "For resale, by the buyer or any other person, in the home or otherwise than in a permanent retail establishment." This restrictive phrase requires the product be sold at retail either in the home or in a nonpermanent retail establishment. Regardless of to whom the representative sells, the retail sale of the consumer product must take place either in the buyer's home or in a location that is not a permanent retail establishment. Examples of permanent retail establishments are grocery stores, hardware stores, newsstands, restaurants, department stores, and drug stores. Also considered as permanent retail establishments are amusement parks and sports arenas, as well as vendor areas and vendor carts in these facilities if the vendors are operating under an agreement to do business on a regular basis. Persons selling at temporary ven-

ues, such as a county fair or a trade show, are not considered to be selling at a permanent retail establishment.

(ii) What product the direct seller must be selling. The direct seller must be selling only a consumer product, the sale of which meets the definition of "sale at retail," used for personal, family, household, or other nonbusiness purposes. "Consumer product" includes, but is not limited to, cosmetics, cleaners and soaps, nutritional supplements and vitamins, food products, clothing, and household goods, purchased for use or consumption. The term does not include commercial equipment, industrial use products, and the like, including component parts. However, if a consumer product also has a business use, it remains a "consumer product," notwithstanding that the same type of product might be distributed by other unrelated persons to be used for commercial, industrial, or manufacturing purposes. For example, desktop computers are used extensively in the home as well as in businesses, yet they are a consumer product when sold for nonbusiness purposes.

(iii) How the person is paid. The statute requires that "substantially all of the remuneration paid to such person, whether or not paid in cash, for the performance of services described in this subsection is directly related to sales or other output, including the performance of services, rather than the number of hours worked." The remuneration must be for the performance of sales and solicitation services and it must be based on measurable output. Remuneration based on hours does not qualify. A fixed salary or fixed compensation, without regard to the amount of services rendered, does not qualify.

Remuneration need not be in cash, and it may be the consumer product itself or other property, such as a car.

(iv) How the contract is memorialized. The services by the person must be performed pursuant to a written contract between the representative and the direct seller. The requirement that the contract be in writing is a specific statutory condition of RCW 82.04.423.

(v) What the contract must contain. The sale and solicitation services must be the subject of the contract. The contract must provide that the representative will not be treated as an employee of the direct seller for federal tax purposes.

(vi) The status of the representative. A person satisfying the requirements of the statute should also be a statutory non-employee under federal law, since the requirements of RCW 82.04.423 and 26 U.S.C. 3508 are the same. The direct seller must maintain proof the representative is a statutory nonemployee.

(5) Tax liability of the direct seller's representative. The statute provides no tax exemption with regard to the "direct seller's representative." The direct seller's representative is subject to the service and other activities B&O tax on commission compensation earned for services described in RCW 82.04.423. Likewise, a direct seller's representative who buys consumer products for resale and does in fact resell the products is subject to either the wholesaling or retailing B&O tax upon the gross proceeds of these sales. Retail sales tax must be collected and remitted to the department on retail sales unless specifically exempt by law. For example, certain food products are statutorily exempt from retail sales tax (see WAC 458-20-244).

(a) Subject to the agreement of the representatives, the direct seller may elect to remit the B&O taxes of the representatives and collect and remit retail sales tax as agents of the representatives through an agreement with the department. The direct seller's representative should obtain a tax registration endorsement with the department unless otherwise exempt under RCW 82.32.045. (See also WAC 458-20-101 on tax registration.)

(b) Every person who engages in this state in the business of acting as a direct seller's representative for unregistered principals, and who receives compensation by reason of sales of consumer products of such principals for use in this state, is required to collect the use tax from purchasers, and remit the same to the department (~~(of revenue)~~), in the manner and to the extent set forth in WAC 458-20-221(~~(-)~~), Collection of use tax by retailers and selling agents.~~(9)~~

(6) The retail sales and/or use tax reporting responsibilities of the direct seller. A direct seller is required to collect and remit the tax imposed by chapter 82.08 RCW (Retail sales tax) or 82.12 RCW (Use tax) if the seller regularly solicits or makes retail sales of "consumer products" in this state through a "direct seller's representative" even though the sales are exempt from B&O tax pursuant to RCW 82.04.423.

WSR 10-16-008

EXPEDITED RULES

DEPARTMENT OF REVENUE

[Filed July 21, 2010, 4:01 p.m.]

Title of Rule and Other Identifying Information: WAC 458-20-24003 Tax incentives for high technology businesses explains the tax incentive programs available for persons engaged in qualified research and development or pilot scale manufacturing in five high technology areas. These incentive programs include:

- The sales and use tax deferral program provided by chapter 82.63 RCW; and
- The business and occupation tax credit program provided by RCW 82.04.4452.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Bridget N. McBryde, Department of Revenue, P.O. Box 47453, Olympia, WA 98504-7453, e-mail BridgetM@dor.wa.gov, AND RECEIVED BY October 4, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: The department proposes to amend the rule to recognize provisions of E2SHB 1597 (chapter 106, Laws of 2010). This legislation estab-

lishes that only those applications for the high technology deferral that have been approved are not confidential and subject to public disclosure.

Copies of draft rules are available for viewing and printing on our web site at <http://dor.wa.gov/content/FindALawOrRule/RuleMaking/agenda.aspx>.

Reasons Supporting Proposal: To recognize provisions of E2SHB 1597 (chapter 106, Laws 2010).

Statutory Authority for Adoption: RCW 82.32.300 and 82.01.060(2).

Statute Being Implemented: RCW 82.63.010, 82.63.-020, and 82.63.045.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: Department of revenue, governmental.

Name of Agency Personnel Responsible for Drafting: Bridget N. McBryde, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6117; Implementation: Alan R. Lynn, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6125; and Enforcement: Gilbert Brewer, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6147.

July 21, 2010

Alan R. Lynn
Rules Coordinator

AMENDATORY SECTION (Amending WSR 10-07-136, filed 3/23/10, effective 4/23/10)

WAC 458-20-24003 Tax incentives for high technology businesses. (1) **Introduction.** This section explains the tax incentives, contained in chapter 82.63 RCW and RCW 82.04.4452, which apply to businesses engaged in research and development or pilot scale manufacturing in Washington in five high technology areas: Advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology. Eligibility for high technology or research and development tax incentives offered by the federal government or any other jurisdiction does not establish eligibility for Washington's programs.

This section contains examples that identify a number of facts and then state a conclusion. The examples should be used only as a general guide. The tax results in all situations must be determined after a review of all facts and circumstances. Assume all the examples below occur on or after June 10, 2004, unless otherwise indicated.

(2) **Organization of the section.** The information provided in this section is divided into three parts.

(a) Part I provides information on the sales and use tax deferral program under chapter 82.63 RCW.

(b) Part II provides information on the sales and use tax exemption available for persons engaged in certain construction activities for the federal government under RCW 82.04.190(6).

(c) Part III provides information on the business and occupation tax credit on research and developing spending under RCW 82.04.4452.

PART I
SALES AND USE TAX DEFERRAL PROGRAM

(3) **Who is eligible for the sales and use tax deferral program?** A person engaged in qualified research and development or pilot scale manufacturing in Washington in the five high technologies areas is eligible for this deferral program for its eligible investment project.

(a) **What does the term "person" mean for purposes of this deferral program?** "Person" has the meaning given in RCW 82.04.030. Effective June 10, 2004, "person" also includes state universities as defined in RCW 28B.10.016. "Person" can be either a lessee or a lessor, who can apply separately for individual investment projects at the same site, if they comply with the other requirements of chapter 82.63 RCW.

(i) Effective June 10, 2004, the lessor or owner of the qualified building is not eligible for a deferral unless:

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

(B) All of the following conditions are met:

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

(II) The lessee that receives the economic benefit of the deferral agrees in writing with the department to complete the annual survey required under RCW 82.63.020(2);

(III) The lessee must receive an economic benefit from the lessor no less than the amount of tax deferred by the lessor; and

(IV) Upon request, the lessor must provide the department with written documentation to support the eligibility of the deferral, including any type of payment, credit, or other financial arrangement between the lessor or owner of the qualified building and the lessee.

For example, economic benefit of the deferral is passed through to the lessee when evidenced by written documentation that the amounts paid to the lessor for construction of tenant improvements are reduced by the amount of the sales tax deferred, or that the lessee receives more tenant improvements through a credit for tenant improvements or other mechanism in the lease equal to the amount of the sales tax deferred.

(ii) Prior to June 10, 2004, the lessor or owner of the qualified building is not eligible for a deferral unless the underlying ownership of the buildings, machinery, and equipment vests exclusively in the same person, or unless the lessor by written contract agrees to pass the economic benefit of the deferral to the lessee in the form of reduced rent payments.

(iii) The lessor of the qualified building who receives a letter of intent from a qualifying lessee may be eligible for deferral, assuming that all other requirements of chapter 82.63 RCW are met. At the time of application, the lessor must provide to the department a letter of intent by the lessee to lease the qualified building and any other information to prove that the lessee will engage in qualified research and development or pilot scale manufacturing once the building construction is complete. After the investment project is certified as operationally complete, the lessee must actually occupy the building as a lessee and engage in qualified research and development or pilot scale manufacturing. Oth-

erwise, deferred taxes will be immediately due to the lessor, and interest will be assessed retroactively from the date of deferral.

(b) **What is "qualified research and development" for purposes of this section?** "Qualified research and development" means research and development performed within this state in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology.

(c) **What is "research and development" for purposes of this section?** "Research and development" means activities performed to discover technological information, and technical and nonroutine activities concerned with translating technological information into new or improved products, processes, techniques, formulas, inventions, or software.

The term includes exploration of a new use for an existing drug, device, or biological product if the new use requires separate licensing by the Federal Food and Drug Administration under chapter 21 CFR, as amended.

The term does not include adaptation or duplication of existing products where the products are not substantially improved by application of the technology, nor does the term include surveys and studies, social science and humanities research, market research or testing, quality control, sale promotion and service, computer software developed for internal use, and research in areas such as improved style, taste, and seasonal design.

(i) A person need not both discover technological information and translate technological information into new or improved products, processes, techniques, formulas, inventions, or software in order to engage in research and development. A person may perform either activity alone and be engaged in research and development.

(ii) To discover technological information means to gain knowledge of technological information through purposeful investigation. The knowledge sought must be of something not previously known or, if known, only known by persons who have not made the knowledge available to the public.

(iii) Technological information is information related to the application of science, especially with respect to industrial and commercial objectives. Industrial and commercial objectives include both sale and internal use (other than internal use software). The translation of technological information into new or improved products, processes, techniques, formulas, inventions, or software does not require the use of newly discovered technological information to qualify as research and development.

(iv) The translation of technological information requires both technical and nonroutine activities.

(A) An activity is technical if it involves the application of scientific, engineering, or computer science methods or principles.

(B) An activity is nonroutine if it:

(I) Is undertaken to achieve a new or improved function, performance, reliability, or quality; and

(II) Is performed by engineers, scientists, or other similarly qualified professionals or technicians; and

(III) Involves a process of experimentation designed to evaluate alternatives where the capability or the method of achieving the new or improved function, performance, reli-

ability, or quality, or the appropriate design of the desired improvement, is uncertain at the beginning of the taxpayer's research activities. A process of experimentation must seek to resolve specific uncertainties that are essential to attaining the desired improvement.

(v) A product is substantially improved when it functions fundamentally differently because of the application of technological information. This fundamental difference must be objectively measured. Examples of objective measures include increased value, faster operation, greater reliability, and more efficient performance. It is not necessary for the improvement to be successful for the research to qualify.

(vi) Computer software development may qualify as research and development involving both technical and nonroutine activities concerned with translating technological information into new or improved software, when it includes the following processes: Software concept, software design, software design implementation, conceptual freeze, alpha testing, beta testing, international product localization process, and other processes designed to eliminate uncertainties prior to the release of the software to the market for sale. Research and development ceases when the software is released to the market for sale.

Postrelease software development may meet the definition of research and development under RCW 82.63.010(16), but only if it involves both technical and nonroutine activities concerned with translating technological information into improved software. All facts and circumstances are considered in determining whether postrelease software development meets the definition of research and development.

(vii) Computer software is developed for internal use if it is to be used only by the person by whom it is developed. If it is to be available for sale, lease, or license, it is not developed for internal use, even though it may have some internal applications. If it is to be available for use by persons, other than the person by whom it is developed, who access or download it remotely, such as through the internet, it is not usually deemed to be developed for internal use. However, remotely accessed software is deemed to be developed for internal use if its purpose is to assist users in obtaining goods, services, or information provided by or through the person by whom the software is developed. For example, software is developed for internal use if it enables or makes easier the ordering of goods from or through the person by whom the software is developed. On the other hand, a search engine used to search the world wide web is an example of software that is not developed for internal use because the search engine itself is the service sought.

(viii) Research and development is complete when the product, process, technique, formula, invention, or software can be reliably reproduced for sale or commercial use. However, the improvement of an existing product, process, technique, formula, invention, or software may qualify as research and development.

(d) **What is "pilot scale manufacturing" for purposes of this section?** "Pilot scale manufacturing" means design, construction, and testing of preproduction prototypes and models in the fields of biotechnology, advanced computing, electronic device technology, advanced materials, and environmental technology other than for commercial sale. "Com-

mercial sale" 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 one million dollars.

(e) **What are the five high technology areas?** The five high technology areas are as follows:

(i) **Advanced computing.** "Advanced computing" means technologies used in the designing and developing of computing hardware and software, including innovations in designing the full spectrum of hardware from hand-held calculators to super computers, and peripheral equipment.

(ii) **Advanced materials.** "Advanced materials" means materials with engineered properties created through the development of specialized processing and synthesis technology, including ceramics, high value-added metals, electronic materials, composites, polymers, and biomaterials.

(iii) **Biotechnology.** "Biotechnology" means the application of technologies, such as recombinant DNA techniques, biochemistry, molecular and cellular biology, genetics, including genomics, gene expression and genetic engineering, cell fusion techniques, and new bioprocesses, using living organisms, or parts of organisms, to produce or modify products, to improve plants or animals, to develop microorganisms for specific uses, to identify targets for small molecule pharmaceutical development, or to transform biological systems into useful processes and products or to develop microorganisms for specific uses.

(iv) **Electronic device technology.** "Electronic device technology" means technologies involving microelectronics; semiconductors; electronic equipment and instrumentation; radio frequency, microwave, and millimeter electronics; optical and optic-electrical devices; and data and digital communications and imaging devices.

(v) **Environmental technology.** "Environmental technology" means assessment and prevention of threats or damage to human health or the environment, environmental cleanup, and the development of alternative energy sources.

(A) The assessment and prevention of threats or damage to human health or the environment concerns assessing and preventing potential or actual releases of pollutants into the environment that are damaging to human health or the environment. It also concerns assessing and preventing other physical alterations of the environment that are damaging to human health or the environment.

For example, a research project related to salmon habitat restoration involving assessment and prevention of threats or damages to the environment may qualify as environmental technology, if such project is concerned with assessing and preventing potential or actual releases of water pollutants and reducing human-made degradation of the environment.

(I) Pollutants include waste materials or by-products from manufacturing or other activities.

(II) Environmental technology includes technology to reduce emissions of harmful pollutants. Reducing emissions of harmful pollutants can be demonstrated by showing the technology is developed to meet governmental emission standards. Environmental technology also includes technology to increase fuel economy, only if the taxpayer can demonstrate that a significant purpose of the project is to increase fuel economy and that such increased fuel economy does in fact significantly reduce harmful emissions. If the project is

intended to increase fuel economy only minimally or reduce emissions only minimally, the project does not qualify as environmental technology. A qualifying research project must focus on the individual components that increase fuel economy of the product, not the testing of the entire product when everything is combined, unless the taxpayer can separate out and identify the specific costs associated with such testing.

(III) Environmental technology does not include technology for preventive health measures for, or medical treatment of, human beings.

(IV) Environmental technology does not include technology aimed to reduce impact of natural disasters such as floods and earthquakes.

(V) Environmental technology does not include technology for improving safety of a product.

(B) Environmental cleanup is corrective or remedial action to protect human health or the environment from releases of pollutants into the environment.

(C) Alternative energy sources are those other than traditional energy sources such as fossil fuels, nuclear power, and hydroelectricity. However, when traditional energy sources are used in conjunction with the development of alternative energy sources, all the development will be considered the development of alternative energy sources.

(4) What is eligible for the sales and use tax deferral program? This deferral program applies to an eligible investment project for sales and use taxes imposed on the construction, expansion, or renovation of qualified buildings and acquisition of qualified machinery and equipment.

(a) What is an "eligible investment project" for purposes of this section? "Eligible investment project" means an investment project which either initiates a new operation, or expands or diversifies a current operation by expanding, renovating, or equipping an existing facility.

(b) What is an "investment project" for purposes of this section? "Investment project" means an investment in qualified buildings or qualified machinery and equipment, including labor and services rendered in the planning, installation, and construction or improvement of the project. When an application for sales and use tax deferral is timely submitted, costs incurred before the application date are allowable, if they otherwise qualify.

(c) What is "qualified buildings" for purposes of this section? "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 pilot scale manufacturing or qualified research and development.

(i) "Qualified buildings" is limited to structures used for pilot scale manufacturing or qualified research and development. "Qualified buildings" includes plant offices and other facilities that are an essential or an integral part of a structure used for pilot scale manufacturing or qualified research and development.

(A) "Office" means space used by professional, clerical, or administrative staff. For plant office space to be a qualified building, its use must be essential or integral to pilot scale manufacturing or qualified research and development. An office may be located in a separate building from the building

used for pilot scale manufacturing or qualified research and development, but the office must be located at the same site as the qualified building in order to qualify. Each individual office may only qualify or disqualify in its entirety.

(B) A site is one or more immediately adjacent parcels of real property. Adjacent parcels of real property separated only by a public road comprise a single site.

(ii) "Qualified buildings" does not include construction of landscaping or most other work outside the building itself, even though the landscaping or other work outside the building may be required by the city or county government in order for the city or county to issue a permit for the construction of a building.

However, "qualified buildings" includes construction of specialized sewerage pipes connected to a qualified building that are specifically designed and used exclusively for pilot scale manufacturing or qualified research and development.

Also, "qualified buildings" includes construction of parking lots connected to or adjacent to the building if the parking lots are for the use of workers performing pilot scale manufacturing or qualified research and development in the building. Parking lots may be apportioned based upon its qualifying use.

(d) **What is "multiple qualified buildings" for purposes of this section?** "Multiple qualified buildings" means "qualified buildings" leased to the same person when such structures:

- (i) Are located within a five-mile radius; and
- (ii) The initiation of construction of each building begins within a sixty-month period.

(e) **When is apportionment of qualified buildings appropriate?** The deferral is allowable only in respect to investment in the construction of a new building or the expansion or renovation of an existing building used in pilot scale manufacturing or qualified research and development. Where a building(s) is used partly for pilot scale manufacturing or qualified research and development and partly for purposes that do not qualify for deferral under this section, apportionment is necessary.

(f) **What is the apportionment method?** The applicable tax deferral will be determined as follows:

(i) Tax on the cost of construction of areas devoted solely to pilot scale manufacturing or qualified research and development may be deferred.

(ii) Tax on the cost of construction of areas not used at all for pilot scale manufacturing or qualified research and development may not be deferred.

(iii) Tax on the cost of construction of areas used in common for pilot scale manufacturing or qualified research and development and for other purposes, such as hallways, bathrooms, and conference rooms, may be deferred by apportioning the costs of construction on a square footage basis. The apportioned costs of construction eligible for deferral are established by using the ratio, expressed as a percentage, of the square feet of the construction, expansion, or renovation devoted to pilot scale manufacturing or qualified research and development, excluding areas used in common to the total square feet of the construction, expansion, or renovation, excluding areas used in common. That percentage is applied to the cost of construction of the common areas to

determine the costs of construction eligible for tax deferral. Expressed as a formula, apportionment of the cost of the common areas is determined by:

$$\frac{\text{Square feet devoted to research and development or pilot scale manufacturing, excluding square feet of common areas}}{\text{Total square feet, excluding square feet of common areas}} = \frac{\text{Percentage of total cost of construction of common areas}}{\text{eligible for deferral}}$$

(iv) The apportionment method described in (f)(i), (ii), and (iii) of this subsection must be used unless the applicant or recipient can demonstrate that another method better represents a reasonable apportionment of costs, considering all the facts and circumstances. An example is to use the number of employees in a qualified building that is engaged in pilot scale manufacturing or qualified research and development as the basis for apportionment, if this method is not easily manipulated to reflect a desired outcome, and it otherwise represents a reasonable apportionment of costs under all the facts and circumstances. This method may take into account qualified research and development or pilot scale manufacturing activities that are shifted within a building or from one building to another building. If assistance is needed to a tax-related question specific to your business under this subsection, you may request a tax ruling. To make a request contact the department's taxpayer information and education division at:

Department of Revenue
 Taxpayer Information and Education
 P.O. Box 47478
 Olympia, WA 98504-7478
 fax 360-586-2463

(v) Example. A building to be constructed will be partially devoted to research and development and partially devoted to marketing, a nonqualifying purpose. The total area of the building is 100,000 square feet. Sixty thousand square feet are used only for research and development, 20,000 square feet are used only for marketing, and the remaining 20,000 square feet are used in common by research and development employees and marketing employees. Tax on the cost of constructing the 60,000 square feet used only for research and development may be deferred. Tax on the cost of constructing the 20,000 square feet used only for marketing may not be deferred. Tax on 75% of the cost of constructing the common areas may be deferred. (Sixty thousand square feet devoted solely to research and development divided by 80,000 square feet devoted solely to research and development and marketing results in a ratio expressed as 75%.)

(g) **What is "qualified machinery and equipment" for purposes of this section?** "Qualified machinery and equipment" means fixtures, equipment, and support facilities that are an integral and necessary part of a pilot scale manufacturing or qualified research and development operation. "Qualified machinery and equipment" includes: Computers; software; data processing equipment; laboratory equipment, instrumentation, and other devices used in a process of exper-

imentation to develop a new or improved pilot model, plant process, product, formula, invention, or similar property; manufacturing components such as belts, pulleys, shafts, and moving parts; molds, tools, and dies; vats, tanks, and fermenters; operating structures; and all other equipment used to control, monitor, or operate the machinery. For purposes of this section, qualified machinery and equipment must be either new to the taxing jurisdiction of the state or new to the certificate holder, except that used machinery and equipment may be treated as qualified machinery and equipment if the certificate holder either brings the machinery and equipment into Washington or makes a retail purchase of the machinery and equipment in Washington or elsewhere.

(i) **What are "integral" and "necessary"?** Machinery and equipment is an integral and necessary part of pilot scale manufacturing or qualified research and development if the pilot scale manufacturing or qualified research and development cannot be accomplished without it. For example, a laboratory table is integral and necessary to qualified research and development. Likewise, telephones, computer hardware (e.g., cables, scanners, printers, etc.), and computer software (e.g., Word, Excel, Windows, Adobe, etc.) used in a typical workstation for an R&D personnel are integral and necessary to qualified research and development. Decorative artwork, on the other hand, is not integral and necessary to qualified research and development.

(ii) **Must qualified machinery and equipment be used exclusively for qualifying purposes in order to qualify?** Qualified machinery and equipment must be used exclusively for pilot scale manufacturing or qualified research and development to qualify for the deferral. Operating system software shared by accounting personnel, for example, is not used exclusively for qualified research and development. However, *de minimis* nonqualifying use will not cause the loss of the deferral. An example of *de minimis* use is the occasional use of a computer for personal e-mail.

(iii) **Is qualified machinery and equipment subject to apportionment?** Unlike buildings, if machinery and equipment is used for both qualifying and nonqualifying purposes, the costs cannot be apportioned. Sales or use tax cannot be deferred on the purchase or use of machinery and equipment used for both qualifying and nonqualifying purposes.

(iv) **To what extent is leased equipment eligible for the deferral?** In cases of leases of qualifying machinery and equipment, deferral of tax is allowed on payments made during the initial term of the lease, but not for extensions or renewals of the lease. Deferral of tax is not allowed for lease payments for any period after the seventh calendar year following the calendar year for which the project is certified as operationally complete.

(5) **What are the application and review processes?** Applicants must apply for deferral to the department of revenue before the initiation of construction of, or acquisition of equipment or machinery for the investment project. When an application for sales and use tax deferral is timely submitted, costs incurred before the application date are allowable, if they otherwise qualify. In the case of an investment project consisting of "multiple qualified buildings," applications must be made for, and before the initiation of construction of, each qualified building.

(a) **What is "initiation of construction" for purposes of this section?**

(i) **On or after June 10, 2004.**

(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 a lessor passes the economic benefits of the deferral to a lessee as provided in RCW 82.63.010(7); or

(III) Tenant improvements for a qualified building, if a lessor passes the economic benefits of the deferral to a lessee as provided in RCW 82.63.010(7).

(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 investment project is a phased project, initiation of construction must apply separately to each building. For purposes of this section, a "phased project" means construction of multiple buildings in different phases over the life of a project. A taxpayer may file a separate application for each qualified building, or the taxpayer may file one application for all qualified buildings. If a taxpayer files one application for all qualified buildings, initiation of construction must apply separately to each building.

(ii) **Prior to June 10, 2004.** Construction is initiated when workers start on-site building tasks. The initiation of construction does not include land clearing or site preparation prior to excavation of the building site. Also, the initiation of construction does not include design or planning activities.

(b) **What is "acquisition of machinery and equipment" for purposes of this section?** "Acquisition of machinery and equipment" means the machinery and equipment is under the dominion and control of the recipient or its agent.

(c) **Lessor and lessee examples.**

(i) Prior to the initiation of construction, Owner/Lessor A enters into an agreement with Lessee B, a company engaged in qualified research and development. Under the agreement, A will build a building to house B's research and development activities, will apply for a tax deferral on construction of the building, will lease the building to B, and will pass on the entire value of the deferral to B. B agrees in writing with the department to complete annual surveys. A applies for the deferral before the date the building permit is issued. A is entitled to a deferral on building construction costs.

(ii) After construction has begun, Lessee C asks that certain tenant improvements be added to the building. Lessor D and Lessee C each agree to pay a portion of the cost of the improvements. D agrees with C in a written agreement that D will pass on the entire value of D's portion of the tax deferral to C, and C agrees in writing with the department to complete annual surveys. C and D each apply for a deferral on the costs of the tenant improvements they are legally responsible for before the date the building permit is issued for such tenant

improvements. Both applications will be approved. While construction of the building was initiated before the applications were submitted, tenant improvements on a building under construction are deemed to be the expansion or renovation of an existing structure. Also, lessees are entitled to the deferral only if they are legally responsible and actually pay contractors for the improvements, rather than merely reimbursing lessors for the costs.

(ii) After construction has begun but before machinery or equipment has been acquired, Lessee E applies for a deferral on machinery and equipment. The application will be approved, and E is required to complete annual surveys. Even though it is too late to apply for a deferral of tax on building costs, it is not too late to apply for a deferral for the machinery and equipment.

(d) **How may a taxpayer obtain an application form?** Application forms may be obtained at department of revenue district offices, by downloading from the department's web site (dor.wa.gov), by telephoning the telephone information center (800-647-7706), or by contacting the department's special programs division at:

Department of Revenue
Special Programs Division
Post Office Box 47477
Olympia, WA 98504-7477
fax 360-586-2163

Applicants must mail or fax applications to the special programs division at the address or fax number given above. Only those applications ((received)) which are approved by the department in connection with the deferral program are not confidential and are subject to public disclosure.

For purposes of this section, "applicant" means a person applying for a tax deferral under chapter 82.63 RCW, and "department" means the department of revenue.

(e) **What should an application form include?** The application form should include information regarding the location of the investment project, the applicant's average employment in Washington 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, and time schedules for completion and operation. The application form may also include other information relevant to the project and the applicant's eligibility for deferral.

(f) **What is the date of application?** The date of application is the earlier of the postmark date or the date of receipt by the department.

(g) **When will the department notify approval or disapproval of the deferral application?** The department must rule on an application within sixty days. If an application is denied, the department must explain in writing the basis for the denial. An applicant may appeal a denial within thirty days under WAC 458-20-100 (Appeals).

(6) **Can a lessee leasing "multiple qualified buildings" elect to treat the "multiple qualified buildings" as a single investment project?** Yes. If a lessee will conduct qualified research and development or pilot scale manufacturing within the "multiple qualified buildings" and desires to treat the "multiple qualified buildings" as a single investment

project, the lessee may do so by making both a preliminary election and a final election therefore.

(a) **When must the lessee make the preliminary election to treat the "multiple qualified buildings" as a single investment project?** The lessee must make the preliminary election before a temporary certificate of occupancy, or its equivalent, is issued for any of the buildings within the "multiple qualified buildings."

(b) **When must the lessee make the final election to treat the "multiple qualified buildings" as a single investment project?** All buildings included in the final election must have been issued a temporary certificate of occupancy or its equivalent. The lessee must then make the final election for such buildings by the date that is the earlier of:

(i) Sixty months following the date that the lessee made the preliminary election; or

(ii) Thirty days after the issuance of the temporary certificate of occupancy, or its equivalent, for the last "qualified building" to be completed that will be included in the final election.

(c) **What occurs if the final election is not made by the deadline?** When a final election is not made by the deadline in (b)(i) or (ii) of this subsection, the qualified buildings will each be treated as individual investment projects under the original applications for those buildings.

(d) **How are preliminary and final elections made?** The preliminary and final elections must be made in the form and manner prescribed by the department. For information concerning the form and manner for making these elections contact the department's special programs division at:

Department of Revenue
Special Programs Division
Post Office Box 47477
Olympia, WA 98504-7477
fax 360-586-2163

(e) **Before the final election is made, can the lessee choose to exclude one or more of the buildings included in its preliminary election?** Yes. Before the final election is made, the lessee may remove one or more of the qualified buildings included in the preliminary election from the investment project. When a qualified building under the preliminary election is, for any reason, not included in the final election, the qualified building will be treated as an individual investment project under the original application for that building.

(f) **Application.** This subsection (6) applies to deferral applications received by the department after June 30, 2007.

(7) **What happens after the department approves the deferral application?** If an application is approved, the department must issue the applicant a sales and use tax deferral certificate.

The certificate provides for deferral of state and local sales and use taxes on the eligible investment project. The certificate will state the amount of tax deferral for which the recipient is eligible. It will also state the date by which the project will be operationally complete. The deferral is limited to investment in qualified buildings or qualified machinery and equipment. The deferral does not apply to the taxes of

persons with whom the recipient does business, persons the recipient hires, or employees of the recipient.

For purposes of this section, "recipient" means a person receiving a tax deferral under chapter 82.63 RCW.

(8) How should a tax deferral certificate be used? A successful applicant, hereafter referred to as a recipient, must present a copy of the certificate to sellers of goods or retail services provided in connection with the eligible investment project in order to avoid paying sales or use tax. Sellers who accept these certificates in good faith are relieved of the responsibility to collect sales or use tax on transactions covered by the certificates. Sellers must retain copies of certificates as documentation for why sales or use tax was not collected on a transaction.

The certificate cannot be used to defer tax on repairs to, or replacement parts for, qualified machinery and equipment.

(9) May an applicant apply for new deferral at the site of an existing deferral project?

(a) The department must not issue a certificate for an investment project that has already received a deferral under chapter 82.60, 82.61, or 82.63 RCW. For example, replacement machinery and equipment that replaces qualified machinery and equipment is not eligible for the deferral. Also, if renovation is made from an existing building that has already received a deferral under chapter 82.60, 82.61, or 82.63 RCW for the construction of the building, the renovation is not eligible for the deferral.

(b) If expansion is made from an existing building that has already received a deferral under chapter 82.60, 82.61, or 82.63 RCW for the construction of the building, the expanded portion of the building may be eligible for the deferral. Acquisition of machinery and equipment to be used for the expanded portion of the qualified building may also be eligible.

(c) An investment project for qualified research and development that has already received a deferral may also receive an additional deferral certificate for adapting the investment project for use in pilot scale manufacturing.

(d) A certificate may be amended or a certificate issued for a new investment project at an existing facility.

(10) May an applicant or recipient amend an application or certificate? Applicants and recipients may make written requests to the special programs division to amend an application or certificate.

(a) Grounds for requesting amendment include, but are not limited to:

- (i) The project will exceed the costs originally stated;
- (ii) The project will take more time to complete than originally stated;
- (iii) The original application is no longer accurate because of changes in the project; and
- (iv) Transfer of ownership of the project.

(b) The department must rule on the request within sixty days. If the request is denied, the department must explain in writing the basis for the denial. An applicant or recipient may appeal a denial within thirty days under WAC 458-20-100 (Appeals).

(11) What should a recipient of a tax deferral do when its investment project is operationally complete?

(a) When the building, machinery, or equipment is ready for use, or when a final election is made to treat "multiple qualified buildings" as single investment project, the recipient must notify the special programs division in writing that the eligible investment project is operationally complete. The department must, after appropriate investigation: Certify that the project is operationally complete; not certify the project; or certify only a portion of the project. The certification will include the year in which the project is operationally complete. If the department certifies as an operationally complete investment project consisting of "multiple qualifying buildings," the certification is deemed to have occurred in the calendar year in which the final election is made.

(b) If all or any portion of the project is not certified, the recipient must repay all or a proportional part of the deferred taxes. The department will notify the recipient of the amount due, including interest, and the due date.

(c) The department must explain in writing the basis for not certifying all or any portion of a project. The decision of the department to not certify all or a portion of a project may be appealed under WAC 458-20-100 (Appeals) within thirty days.

(d) An investment project consisting of "multiple qualifying buildings" may not be certified as operationally complete unless the lessee furnishes the department with a bond, letter of credit, or other security acceptable to the department in an amount equal to the repayment obligation as determined by the department. The department may decrease the secured amount each year as the repayment obligation decreases under the provisions of RCW 82.63.045. If the lessee does not furnish the department with a bond, letter of credit, or other acceptable security equal to the amount of deferred tax, the qualified buildings will each be treated as individual investment projects under the original applications for those buildings.

(12) Is a recipient of a tax deferral required to submit annual surveys? Each recipient of a tax deferral granted under chapter 82.63 RCW must complete an annual survey. If the economic benefits of the deferral are passed to a lessee as provided in RCW 82.63.010(7), the lessee must agree to complete the annual survey and the applicant is not required to complete the annual survey. See WAC 458-20-268 (Annual surveys for certain tax adjustments) for more information on the requirements to file annual surveys.

(13) Is a recipient of tax deferral required to repay deferred taxes?

(a) **When is repayment required?** Deferred taxes must be repaid if an investment project is used for purposes other than qualified research and development or pilot scale manufacturing during the calendar year for which the department certifies the investment project as operationally complete or at any time during any of the succeeding seven calendar years. Taxes are immediately due according to the following schedule:

Year in which nonqualifying use occurs	% of deferred taxes due
1	100%
2	87.5%
3	75%

Year in which nonqualifying use occurs	% of deferred taxes due
4	62.5%
5	50%
6	37.5%
7	25%
8	12.5%

Interest on the taxes, but not penalties, must be paid retroactively to the date of deferral. For purposes of this section, the date of deferral is the date tax-deferred items are purchased.

The lessee of an investment project consisting of "multiple qualified buildings" is solely liable for payment of any deferred tax determined to be due and payable beginning on the date the department certifies the product as operationally complete. This does not relieve any lessor of its obligation under RCW 82.63.010(7) and subsection (3)(a) of this section to pass the economic benefit of the deferral to the lessee.

(b) When is repayment not required?

(i) Deferred taxes need not be repaid if the investment project is used only for qualified research and development or pilot scale manufacturing during the calendar year for which the department certifies the investment project as operationally complete and during the succeeding seven calendar years.

(ii) Deferred taxes need not be repaid on particular items if the purchase or use of the item would have qualified for the machinery and equipment sales and use tax exemptions provided by RCW 82.08.02565 and 82.12.02565 (discussed in WAC 458-20-13601) at the time of purchase or first use.

(iii) Deferred taxes need not be repaid if qualified machinery and equipment on which the taxes were deferred is destroyed, becomes inoperable and cannot be reasonably repaired, wears out, or becomes obsolete and is no longer practical for use in the project. The use of machinery and equipment which becomes obsolete for purposes of the project and is used outside the project is subject to use tax at the time of such use.

(14) When will the tax deferral program expire? The authority of the department to issue deferral certificates expires January 1, 2015.

(15) Is debt extinguishable because of insolvency or sale? The debt for deferred taxes will not be extinguished by the insolvency or other failure of the recipient.

(16) Does transfer of ownership terminate tax deferral? Transfer of ownership does not terminate the deferral. The deferral may be transferred to the new owner if the new owner meets all eligibility requirements for the remaining periods of the deferral. The new owner must apply for an amendment to the deferral certificate. If the deferral is transferred, the new owner is liable for repayment of deferred taxes under the same terms as the original owner. If the new owner is a successor to the previous owner under the terms of WAC 458-20-216 (Successors, quitting business) and the deferral is not transferred, the new owner's liability for deferred taxes is limited to those that are due for payment at the time ownership is transferred.

**PART II
SALES AND USE TAX EXEMPTION FOR PERSONS ENGAGED IN
CERTAIN CONSTRUCTION ACTIVITIES FOR THE FEDERAL
GOVERNMENT**

(17) Persons engaged in construction activities for the federal government. Effective June 10, 2004, persons engaged in the business of constructing, repairing, decorating, or improving new or existing buildings or other structures under, upon, or above real property of or for the United States, or any instrumentality thereof, are not liable for sales and use tax on tangible personal property incorporated into, installed in, or attached to such building or other structure, if the investment project would qualify for sales and use tax deferral under chapter 82.63 RCW if undertaken by a private entity. RCW 82.04.190(6).

**PART III
BUSINESS AND OCCUPATION TAX CREDIT FOR RESEARCH
AND DEVELOPMENT SPENDING**

(18) Who is eligible for the business and occupation tax credit? RCW 82.04.4452 provides for a business and occupation tax credit for persons engaging in research and development in Washington in five areas of high technology: Advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology.

A person is eligible for the credit if its research and development spending in the calendar year for which credit is claimed exceeds 0.92 percent of the person's taxable amount for the same calendar year.

(a) What does the term "person" mean for purposes of this credit? "Person" has the meaning given in RCW 82.04.030.

(b) What is "research and development spending" for purposes of this section? "Research and development spending" means qualified research and development expenditures plus eighty percent of amounts paid to a person other than a public educational or research institution to conduct qualified research and development.

(c) What is "taxable amount" for purposes of this section? "Taxable amount" means the taxable amount subject to business and occupation tax required to be reported on the person's combined excise tax returns for the year for which the credit is claimed, less any taxable amount for which a multiple activities tax credit is allowed under RCW 82.04.440. See WAC 458-20-19301 (Multiple activities tax credits) for information on the multiple activities tax credit.

(d) What are "qualified research and development expenditures" for purposes of this section? "Qualified research and development expenditures" means operating expenses, including wages, compensation of a proprietor or a partner in a partnership, benefits, supplies, and computer expenses, directly incurred in qualified research and development by a person claiming the business and occupation tax credit provided by RCW 82.04.4452. The term does not include amounts paid to a person other than a public educational or research institution to conduct qualified research and development. Nor does the term include capital costs and overhead, such as expenses for land, structures, or depreciable property.

(i) In order for an operating expense to be a qualified research and development expenditure, it must be directly incurred in qualified research and development. If an employee performs qualified research and development activities and also performs other activities, only the wages and benefits proportionate to the time spent on qualified research and development activities are qualified research and development expenditures under this section. The wages of employees who supervise or are supervised by persons performing qualified research and development are qualified research and development expenditures to the extent the work of those supervising or being supervised involves qualified research and development.

(ii) The compensation of a proprietor or a partner is determined in one of two ways:

(A) If there is net income for federal income tax purposes, the amount reported subject to self-employment tax is the compensation.

(B) If there is no net income for federal income tax purposes, reasonable cash withdrawals or cash advances are the compensation.

(iii) Depreciable property is any property with a useful life of at least a year. Expenses for depreciable property will not constitute qualified research and development expenditures even if such property may be fully deductible for federal income tax purposes in the year of acquisition.

(iv) Computer expenses do not include the purchase, lease, rental, maintenance, repair or upgrade of computer hardware or software. They do include internet subscriber fees, run time on a mainframe computer, and outside processing.

(v) Training expenses for employees are qualified research and development expenditures if the training is directly related to the research and development being performed. Training expenses include registration fees, materials, and travel expenses. Although the research and development must occur in Washington, training may take place outside of Washington.

(vi) Qualified research and development expenditures include the cost of clinical trials for drugs and certification by Underwriters Laboratories.

(vii) Qualified research and development expenditures do not include legal expenses, patent fees, or any other expense not incurred directly for qualified research and development.

(viii) Stock options granted as compensation to employees performing qualified research and development are qualified research and development expenditures to the extent they are reported on the W-2 forms of the employees and are taken as a deduction for federal income tax purposes by the employer.

(ix) Preemployment expenses related to employees who perform qualified research and development are qualified research and development expenditures. These expenses include recruiting and relocation expenses and employee placement fees.

(e) **What does it mean to "conduct" qualified research and development for purposes of this section?** A person is conducting qualified research and development when:

(i) The person is in charge of a project or a phase of the project; and

(ii) The activities performed by that person in the project or the phase of the project constitute qualified research and development.

(iii) Examples.

(A) Company C is conducting qualified research and development. It enters into a contract with Company D requiring D to provide workers to perform activities under the direction of C. D is not entitled to the credit because D is not conducting qualified research and development. Its employees work under the direction of C. C is entitled to the credit if all other requirements of the credit are met.

(B) Company F enters into a contract with Company G requiring G to perform qualified research and development on a phase of its project. The phase of the project constitutes qualified research and development. F is not entitled to the credit because F is not conducting qualified research and development on that phase of the project. G, however, is entitled to the credit if all other requirements of the credit are met.

(f) **What is "qualified research and development" for purposes of this section?** "Qualified research and development" means research and development performed within this state in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology.

(g) **What is "research and development" for purposes of this section?** See subsection (3)(c) of this section for more information on the definition of research and development.

(i) Example. A company that engages in environmental cleanup contracted to clean up a site. It had never faced exactly the same situation before, but guaranteed at the outset that it could do the job. It used a variety of existing technologies to accomplish the task in a combination it had never used before. The company was not engaged in qualified research and development in performing this contract. While the company applied existing technologies in a unique manner, there was no uncertainty to attain the desired or necessary specifications, and therefore the outcome of the project was certain.

(ii) Example. Same facts as (g)(i) of this subsection, except that the company performed research on a technology that had been applied in other contexts but never in the context where the company was attempting to use it, and it was uncertain at the outset whether the technology could achieve the desired outcome in the new context. If the company failed, it would have to apply an existing technology that is much more costly in its cleanup effort. The company was engaged in qualified research and development with respect to the research performed in developing the technology.

(iii) Example. Company A is engaged in research and development in biotechnology and needs to perform standard blood tests as part of its development of a drug. It contracts with a lab, B, to perform the tests. The costs of the tests are qualified research and development expenditures for A, the company engaged in the research and development. Although the tests themselves are routine, they are only a part of what A is doing in the course of developing the drug. B, the lab contracted to perform the testing, is not engaged in

research and development with respect to the drug being developed. B is neither discovering technological information nor translating technological information into new or improved products, processes, techniques, formulas, inventions, or software. B is not entitled to a credit on account of the compensation it receives for conducting the tests.

(h) **What are the five high technology areas?** See subsection (3)(e) of this section for more information.

(19) How is the business and occupation tax credit calculated?

(a) **On or after July 1, 2004.** The amount of the credit is calculated as follows:

(i) A person must first determine the greater of:
The person's qualified research and development expenditures;

or

Eighty percent of amounts received by a person other than a public educational or research institution as compensation for conducting qualified research and development.

(ii) Then the person subtracts, from the amount determined under (a)(i) of this subsection, 0.92 percent of its taxable amount. If 0.92 percent of the taxable amount exceeds the amount determined under (a)(i) of this subsection, the person is not eligible for the credit.

(iii) The credit is calculated by multiplying the amount determined under (a)(ii) of this subsection by the following:

(A) For the periods of July 1, 2004, to December 31, 2006, the person's average tax rate for the calendar year for which the credit is claimed;

(B) For the periods of January 1, 2007, to December 31, 2007, the greater of the person's average tax rate for the calendar year or 0.75 percent;

(C) For the periods of January 1, 2008, to December 31, 2008, the greater of the person's average tax rate for the calendar year or 1.0 percent;

(D) For the periods of January 1, 2009, to December 31, 2009, the greater of the person's average tax rate for the calendar year or 1.25 percent; and

(E) For the periods after December 31, 2009, 1.50 percent.

(iv) For the purposes of this section, "average tax rate" means a person's total business and occupation tax liability for the calendar year for which the credit is claimed, divided by the person's total taxable amount for the calendar year for which the credit is claimed.

(v) For purposes of calculating the credit, if a person's reporting period is less than annual, the person may use an estimated average tax rate for the calendar year for which the credit is claimed, by using the person's average tax rate for each reporting period. When the person files its last return for the calendar year, the person must make an adjustment to the total credit claimed for the calendar year using the person's actual average tax rate for the calendar year.

(vi) Examples.

(A) A business engaging in qualified research and development has a taxable amount of \$10,000,000 in a year. It pays \$80,000 in that year in wages and benefits to employees directly engaged in qualified research and development. The business has no other qualified research and development

expenditures. Its qualified research and development expenditures of \$80,000 are less than \$92,000 (0.92 percent of its taxable amount of \$10,000,000). If a business's qualified research and development expenditures (or eighty percent of amounts received for the conduct of qualified research and development) are less than 0.92 percent of its taxable amount, it is not eligible for the credit.

(B) A business engaging in qualified research and development has a taxable amount of \$10,000,000 in 2005. Seven million dollars of this amount is taxable at the rate of 0.015 under the B&O tax classification for services and \$3,000,000 is taxable at the rate of 0.00484 under the B&O tax classification for royalties. The business pays \$119,520 in B&O tax for this reporting period. It pays \$200,000 in that year to employees directly engaged in qualified research and development. The business has no other qualified research and development expenditures.

In order to determine the amount of its credit, the business subtracts \$92,000 (0.92 percent of its taxable amount of \$10,000,000) from \$200,000, its qualified research and development expenditures. The resulting amount of \$108,000 multiplied by the business's average tax rate equals the amount of the credit.

The business's average tax rate in 2005 is determined by dividing its B&O tax of \$119,520 by its taxable amount of \$10,000,000. The result, 0.01195, is multiplied by \$108,000 to determine the amount of the credit. The credit is \$1,291 (\$1,290.60 rounded to the nearest whole dollar).

(b) **From July 1, 1998 to June 30, 2004.** The amount of the credit is equal to the greater of:

The person's qualified research and development expenditures;

or

Eighty percent of amounts received by a person other than a public educational or research institution as compensation for conducting qualified research and development multiplied by 0.00484 in the case of a nonprofit corporation or association; and

multiplied by 0.015 in the case of all other persons.

(c) **Prior to July 1, 1998.** The amount of the credit is equal to the greater of:

The person's qualified research and development expenditures;

or

Eighty percent of amounts received by a person other than a public educational or research institution as compensation for conducting qualified research and development

multiplied by 0.00515 in the case of a nonprofit corporation or association; and

multiplied by 0.025 in the case of all other persons.

(d) The credit for any calendar year may not exceed the lesser of two million dollars or the amount of business and occupation tax otherwise due for the calendar year.

(e) Credits may not be carried forward or carried back to other calendar years.

(20) Is the person claiming the business and occupation tax credit required to submit annual surveys? Each person claiming the credit granted under RCW 82.04.4452

must complete an annual survey. See WAC 458-20-268 (Annual surveys for certain tax adjustments) for more information on the requirements to file annual surveys.

(21) **Is the business and occupation tax credit assignable?** A person entitled to the credit because of qualified research and development conducted under contract for another person may assign all or a portion of the credit to the person who contracted for the performance of the qualified research and development.

(a) Both the assignor and the assignee must be eligible for the credit for the assignment to be valid.

(b) The total of the credit claimed and the credit assigned by a person assigning credit may not exceed the lesser of two million dollars or the amount of business and occupation tax otherwise due from the assignor in any calendar year.

(c) The total of the credit claimed, including credit received by assignment, may not exceed the lesser of two million dollars or the amount of business and occupation tax otherwise due from the assignee in any calendar year.

(22) **What happens if a person has claimed the business and occupation tax credit earlier but is later found ineligible?** If a person has claimed the credit earlier but is later found ineligible for the credit, then the department will declare the taxes against which the credit was claimed to be immediately due and payable. Interest on the taxes, but not penalties, must be paid retroactively to the date the credit was claimed.

(23) **When will the business and occupation tax credit program expire?** The business and occupation tax credit program for high technology businesses expires January 1, 2015.

(24) **Do staffing companies qualify for the business and occupation tax credit program?** A staffing company may be eligible for the credit if its research and development spending in the calendar year for which credit is claimed exceeds 0.92 percent of the person's taxable amount for the same calendar year.

(a) **Qualifications of the credit.** In order to qualify for the credit, a staffing company must meet the following criteria:

(i) It must conduct qualified research and development through its employees;

(ii) Its employees must perform qualified research and development activities in a project or a phase of the project, without considering any activity performed:

(A) By the person contracting with the staffing company for such performance; or

(B) By any other person;

(iii) It must complete an annual survey by March 31st following any year in which the credit was taken; and

(iv) It must document any claim of the B&O tax credit.

(b) Examples.

(i) Company M, a staffing company, furnishes three employees to Company N for assisting a research project in electronic device technology. N has a manager and five employees working on the same project. The work of M's employees and N's employees combined as a whole constitutes qualified research and development. M's employees do not perform sufficient activities themselves to be considered

performing qualified research and development. M does not qualify for the credit.

(ii) Company V, a staffing company, furnishes three employees to Company W for performing a phase of a research project in advanced materials. W has a manager and five employees working on other phases of the same project. V's employees are in charge of a phase of the project that results in discovery of technological information. The work of V's employees alone constitutes qualified research and development. V qualifies for the credit if all other requirements of the credit are met.

(iii) Same as (b)(ii) of this subsection, except that the phase of the research project involves development of computer software for W's internal use. The work of V's employees alone constitutes qualified research and development. V qualifies for the credit if all other requirements of the credit are met.

WSR 10-16-012
WITHDRAWAL OF
EXPEDITED RULE MAKING
PROFESSIONAL EDUCATOR
STANDARDS BOARD
[Filed July 22, 2010, 8:53 a.m.]

Please withdraw expedited rule CR-105 WSR 10-11-062 filed May 13, 2010. The proposal as filed addressed technical changes. Since its filing, the professional educator standards board has identified policy changes that are best included with the technical improvements.

David Brenna
Legislative Policy Coordinator

WSR 10-16-051
EXPEDITED RULES
DEPARTMENT OF REVENUE
[Filed July 28, 2010, 9:14 a.m.]

Title of Rule and Other Identifying Information: WAC 458-20-196 Bad debts, provides information about the tax treatment of bad debts under the business and occupation (B&O), public utility, retail sales, and use taxes.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Gayle Carlson, Department of Revenue, P.O. Box 47453, Olympia, WA 98504-7453, e-mail GayleC@dor.wa.gov, AND RECEIVED BY October 4, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: The department is proposing revision to WAC 458-20-196 (Rule 196) to:

- Recognize provisions of Chapter 23, Laws of 2010 1st sp. sess. (E2SSB 6143). This legislation amended the law to provide that only the original seller in the transaction that generated the bad debt, or a certified service provider used by the seller, may claim a retail sales or use tax credit or refund on or after July 1, 2010.
- Recognize the decision of the Washington State Court of Appeals Division 2 in *Home Depot USA, Inc. vs. State of Washington*, 151 Wash. App. 909, 215 P.3d 222. This decision held that a seller cannot claim a bad debt sales tax refund for bad debts incurred by the private label credit card issuer that financed its customers' purchases.

Copies of draft rules are available for viewing and printing on our web site at <http://dor.wa.gov/content/FindALawOrRule/RuleMaking/agenda.aspx>.

Reasons Supporting Proposal: To recognize the legislation and court decision noted above.

Statutory Authority for Adoption: RCW 82.32.300 and 82.01.060(2).

Statute Being Implemented: RCW 82.08.037 and 82.12.037.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: Department of revenue, governmental.

Name of Agency Personnel Responsible for Drafting: Gayle Carlson, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6126; Implementation: Alan R. Lynn, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6125; and Enforcement: Gilbert Brewer, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6147.

July 28, 2010

Alan R. Lynn

Rules Coordinator

AMENDATORY SECTION (Amending WSR 06-01-005, filed 12/8/05, effective 1/8/06)

WAC 458-20-196 Bad debts. (1) Introduction.

~~((a) New laws effective July 1, 2004.))~~ This ~~((rule))~~ section provides information about the tax treatment of bad debts under the business and occupation (B&O), public utility, retail sales, and use taxes ~~((, and reflects legislation enacted in 2003 and 2004 conforming Washington law to provisions of the national Streamlined Sales and Use Tax Agreement. See chapter 168, Laws of 2003 and chapter 153, Laws of 2004. The new laws related to bad debts are effective July 1, 2004.))~~.

~~((b))~~ **(a) Bad debt deduction for accrual basis taxpayers.** Bad debt credits, refunds, and deductions occur when income reported by a taxpayer is not received. Taxpayers who report using the cash method do not report income until it is received. For this reason, bad debts are most relevant to taxpayers reporting income on an accrual basis. How-

ever, some transactions must be reported on an accrual basis by all taxpayers, including installment sales and leases. These transactions are eligible for a bad debt credit, refund, or deduction as described in this ~~((rule))~~ section. For information on cash and accrual accounting methods, refer to WAC 458-20-197 (When tax liability arises) and WAC 458-20-199 (Accounting methods). Refer to WAC 458-20-198 (Installment sales, method of reporting) and WAC 458-20-199(3) for information about reporting installment sales.

~~((c))~~ **(b) Relationship between retailing B&O tax deduction and retail sales tax credit.** Generally, a retail sales tax credit for bad debts is reported as a deduction from the measure of sales tax on the excise tax return. The amount of this deduction, or the measure of a recovery of sales tax that must be reported, ~~((is the same as the amount reported as a deduction or recovery under the retailing B&O tax classification-~~

~~((d))~~ may differ from the amount reported as a deduction or recovery from the retailing B&O tax classification due to exempt sales (for example: Sales of motor vehicles and trailers for use in interstate or foreign commerce (RCW 82.08.0263); sales of manufacturing machinery and equipment (RCW 82.08.02565).)

(c) Relationship to federal income tax return. Washington credits, refunds, and deductions for bad debts are based on federal standards for worthlessness under section 166 of the Internal Revenue Code. If a federal income tax return is not required to be filed (for example, where the taxpayer is an exempt entity for federal purposes), the taxpayer is eligible for a bad debt credit, refund, or deduction on the Washington tax return if the taxpayer would otherwise be eligible for the federal bad debt deduction.

(2) Retail sales and use tax.

(a) General rule. Under RCW 82.08.037 and 82.12.-037, sellers are entitled to a credit or refund for sales and use taxes previously paid on "bad debts" under section 166 of the Internal Revenue Code, as amended or renumbered as of January 1, 2003. Taxpayers may claim the credit or refund for the tax reporting period in which the bad debt is written off as uncollectible in the taxpayer's books and records and would be eligible for a bad debt deduction for federal income tax purposes. However, ~~((the amount of any credit or refund must be adjusted to exclude amounts attributable to))~~ "bad debts" do not include:

(i) Amounts due on property that remains in the possession of the seller until the full purchase price is paid;

(ii) Expenses incurred in attempting to collect debt; ~~((and))~~

(iii) Debts sold or assigned by the seller to third parties, where the third party is without recourse against the seller (see (c) of this subsection for additional information about this restriction); and

(iv) The value of repossessed property taken in payment of debt.

(b) Recoveries. If a taxpayer takes a credit or refund for sales or use taxes paid on a bad debt and later collects some or all of the debt, the amount of sales or use tax recovered must be repaid in the tax-reporting period during which collection was made. The amount of tax that must be repaid is determined by applying the recovered amount first propor-

tionally to the taxable price of the property or service and the sales or use tax thereon and secondly to any interest, service charges, and any other charges.

(c) Assigned debt and installment sales. Effective July 1, 2010, RCW 82.08.037 and 82.12.037 limit who can claim a credit or refund for retail sales or use tax. Only the original seller in the transaction that generated the bad debt, or a certified service provider (CSP) used by the seller, is entitled to claim a credit or refund on or after July 1, 2010. If the original seller in the transaction that generated the bad debt has sold or assigned the debt instrument to a third party with recourse, the original seller may claim a credit or refund only after the debt instrument is reassigned by the third party to the original seller. In the case where the seller uses a CSP to administer its sales tax responsibilities the CSP may claim, on behalf of the seller, the credit or refund allowed. See chapter 23, Laws of 2010, 1st sp. sess., (2ESSB 6143).

(3) Business and occupation tax.

(a) General rule. Under RCW 82.04.4284, taxpayers may deduct from the measure of B&O tax "bad debts" under section 166 of the Internal Revenue Code, as amended or renumbered as of January 1, 2003, on which tax was previously paid. Taxpayers may claim the deduction for the tax reporting period in which the bad debt is written off as uncollectible in the taxpayer's books and records and would be eligible for a bad debt deduction for federal income tax purposes. However, the amount of the deduction must be adjusted to exclude amounts attributable to:

- (i) Amounts due on property that remains in the possession of the seller until the full purchase price is paid;
- (ii) Sales or use taxes payable to a seller;
- (iii) Expenses incurred in attempting to collect debt; and
- (iv) The value of repossessed property taken in payment of debt.

(b) Recoveries. Recoveries received by a taxpayer after a bad debt is claimed are applied under the rules described in subsection (2)(b) of this section if the transaction involved is a retail sale. The amount attributable to "taxable price" is reported under the retailing B&O tax classification. If the recovery of debt is not related to a retail sale, recovered amount is applied proportionally against the components of the debt (e.g., interest and principal remaining on a wholesale sale).

(c) Extracting and manufacturing classifications. Bad debt deductions are only allowed under the extracting or manufacturing classifications when the value of products is computed on the basis of gross proceeds of sales.

(4) Public utility tax. Under RCW 82.16.050(5), taxpayers may deduct from the measure of public utility tax "bad debts" under section 166 of the Internal Revenue Code, as amended or renumbered as of January 1, 2003, on which tax was previously paid. Taxpayers may claim the deduction for the tax reporting period in which the bad debt is written off as uncollectible in the taxpayer's books and records and would be eligible for a bad debt deduction for federal income tax purposes. No deduction is allowed for collection or other expenses.

(5) Application of payments - general rule. The special rules for application of payments received in recovery of previously claimed bad debts described in subsections (2)(b)

and (3)(b) of this section are not used for other payments. Payments received before a bad debt credit, refund, or deduction is claimed should be applied first against interest and then ratably against other charges. Another commercially reasonable method may be used if approved by the department.

(6) ((Assigned debt and installment sales.

(a) General rule. If a person makes a retail sale under an installment sales contract and then legally assigns his or her rights under the contract to another party, the assignee "steps into the shoes" of the person making the sale and may claim a bad debt credit or refund for unpaid retail sales tax to the extent a credit or refund would have been available to the original seller and to the extent that the assignee actually incurs a loss. The seller's B&O tax deduction for bad debt may not be claimed by an assignee. A retail sales tax bad debt credit or refund for unpaid sales tax is available only to the person who makes the retail sale or an assignee under the contract. For example, a bank that loans money to the purchaser of a vehicle may not claim a retail sales tax bad debt credit or refund. The bank did not sell the vehicle and is not an assignee of the dealer who made the retail sale.

(b) Discounts. A person who makes a retail sale on credit and then assigns the sales contract in exchange for less than the face value of the contract may not claim a bad debt credit, refund, or deduction for the difference between the face value and the amount received. The discount is a nondeductible cost of doing business, not a bad debt. An assignee of a retail sales contract that pays less than face value for the contract is not required to reduce the amount of a retail sales tax bad debt credit or refund in proportion to the amount of the discount. The assignee may take a credit or refund for the amount that would have been available to the original seller if the original seller had retained the contract and received the payments made by the buyer.

(c) Recourse financing. An assignee who receives payment on a bad debt from the assignor must reduce the sales tax credit in proportion to the payment. The assignor may claim a sales tax credit and retailing B&O tax deduction in proportion to the payment if obligated to make the payment and otherwise qualified under this rule.

(d) Documentation. All persons claiming a bad debt credit for installment contracts must retain appropriate documentation, including documentation establishing:

(i) The amount of the original sale by the seller, and component amounts necessary to determine that amount, such as credits for trade-ins, down payments, and individual amounts charged for different products;

(ii) The buyer's equity in any trade-in property;

(iii) The contract principal owed at the time of repossession, if any; and

(iv) The deductibility of the debt as worthless for federal income tax purposes.)

Private label credit cards. If a business contracts with a financial company to provide a private label credit card program, and the financial company becomes the exclusive owner of the credit card accounts and solely bears the risk of all credit losses, the business that contracted with the financial company is not entitled to any bad debt deduction if a customer fails to pay his or her credit card invoice.

Example. Hot Shot Ski Equipment (Hot Shot) is a sporting equipment retailer. Hot Shot contracts with ABC Financial Institution (ABC) to issue a Hot Shot private label credit card. ABC has the authority to accept or reject an applicant's credit card application. After Hot Shot transmits the credit card sales records to ABC, ABC pays Hot Shot the proceeds of the sales including the retail sales tax minus any applicable service fees. Hot Shot remits the retail sales tax to the Department of Revenue. If a customer using the Hot Shot credit card fails to pay ABC the outstanding amount on the credit card invoice, ABC suffers the loss. Hot Shot is not entitled to a bad debt deduction or credit as it has no bad debt loss when a customer defaults on a debt to ABC.

(7) **Reserve method.** Ordinarily, taxpayers must report bad debt refunds, credits or deductions for specifically identified transactions. However, taxpayers who are allowed by the Internal Revenue Service to use a reserve method of reporting bad debts for federal income tax purposes, or who secure permission from the department to do so, may deduct a reasonable addition to a reserve for bad debts. What constitutes a reasonable addition to a reserve for bad debts must be determined in light of the facts and will vary between classes of business and with conditions of business prosperity. An addition to a reserve allowed as a deduction by the Internal Revenue Service for federal income tax purposes, in the absence of evidence to the contrary, will be presumed reasonable. When the reserve method is employed, an adjustment to the amount of loss deducted must be made annually to make the total loss claimed for the tax year coincide with the amount actually sustained.

(8) **Statute of limitations for claiming bad debts.** No credit, refund, or deduction, as applicable, may be claimed for debt that became eligible for a bad debt deduction for federal income tax purposes more than four years before the beginning of the calendar year in which the credit, refund, or deduction is claimed.

(9) **Examples.** The following examples identify a number of facts and then state a conclusion. These examples should be used only as a general guide. The tax results of other situations must be determined after a review of all of the facts and circumstances.

In all cases, an eight percent combined state and local sales tax rate is assumed. Figures are rounded to the nearest dollar. Payments are applied first against interest and then ratably against the taxable price, sales tax, and other charges except when the special rules for subsequent recoveries on a bad debt apply (see subsections (2) and (3) of this section). It is assumed that the income from all retail sales described has been properly reported under the retailing B&O tax classification and that all interest or service fees described have been accrued and reported under the service and other activities B&O tax classification.

(a) ~~((Seller))~~ **Scenario 1. Joe's Hardware** makes a retail sale of goods with a selling price of \$500 and pays \$40 in sales tax to the department. No payment is received by ~~((Seller))~~ Joe at the time of sale.

(i) **Bad debt.** One and a half years later, no payment has been received by ~~((Seller))~~ Joe, and the balance with interest is \$627. ~~((Seller))~~ Joe is entitled to claim a bad debt deduction on ~~((he))~~ his federal income tax return. ~~((Seller))~~ He is also

entitled to claim a bad debt sales tax credit or refund in the amount of \$40, a B&O tax deduction of \$500 under the retailing B&O tax classification, and a B&O tax deduction of \$87 under the service and other activities B&O tax classification.

~~((b) The facts are the same as in (a) of this subsection, except that))~~ (ii) **Recoveries.** Six months after the credit and deduction are claimed, a \$50 payment is received on the debt. Recoveries received on a retail sale after a credit and deduction have already been claimed must be applied first proportionally to the taxable price and sales tax thereon in order to determine the amount of tax that must be repaid. Therefore, ~~((Seller))~~ Joe must report \$4, or $50 \times (\$40/\$540)$, of sales tax on the current excise tax return and \$46, or $50 \times (\$500/\$540)$ under the retailing B&O tax classification. Additional recoveries should be applied in the same manner until the original \$40 credit for sales tax is reduced to zero.

~~((e) Seller))~~ (b) **Scenario 2.** Joe makes a retail sale of goods on credit for \$500 and pays \$40 in sales tax to the department. No payment is received at the time of sale. Over the following year, regular payments are received and the debt is reduced to \$345, exclusive of any interest or service charges. The \$345 represents sales tax due to ~~((Seller))~~ Joe in the amount of \$26, or $345 \times (\$40/\$540)$, and \$319 remaining of the original purchase price, or $345 \times (\$500/\$540)$. Payments cease.

(i) **Bad debt.** Six months later the balance with interest and service fees is \$413. ~~((Seller))~~ Joe is entitled to claim a bad debt deduction on the federal income tax return. ~~((Seller))~~ He is also entitled to claim a sales tax refund or credit on the current excise tax return of \$26, a deduction under the retailing B&O tax classification of \$319, and a deduction under the service and other activities B&O tax classification of \$68.

~~((d) The facts are the same as in (e) of this subsection, except that before Seller))~~ (ii) **Recoveries.** Before Joe charges off the debt, ~~((Seller))~~ he repossesses the goods. At that time, the goods have a fair market value of \$250. No credit is allowed for repossessed property, so the value of the collateral must be applied against the outstanding balance. After the value of the collateral is applied, ~~((Seller))~~ Joe has a remaining balance of \$163, or $413 - \$250$. The allocation rules for recoveries do not apply because a bad debt credit or refund has not yet been taken. The value is applied first against the \$68, or $413 - \$345$, of interest, so the \$163 remaining is attributable entirely to taxable price and sales tax. Any costs ~~((Seller))~~ Joe may incur related to locating, repossessing, storing, or selling the goods do not offset the value of the collateral because no credit is allowed for collection costs. ~~((Seller))~~ Joe is entitled to a sales tax refund or credit in the amount of \$12, or $163 \times (\$40/\$540)$ and deduction of \$151, or $163 \times (\$500/\$540)$ under the retailing B&O tax classification.

(iii) **Sales of repossessed goods.** If ~~((Seller))~~ Joe later sells the repossessed goods, ~~((Seller))~~ he must pay B&O tax and collect retail sales tax as applicable. If the sales price of the repossessed goods is different from the fair market value previously reported and the statute of limitations applicable to the original transaction has not expired, ~~((Seller))~~ Joe must report the difference between the selling price and the claimed fair market value as an additional bad debt credit or

deduction or report it as an additional recovery, as appropriate.

~~((e))~~ Scenario 3. Phil, of Phil's Fine Cars, sells a car at retail for \$1000 and charges Alice, the buyer, an additional \$50 for license and registration fees. ~~((Seller))~~

(i) Trade-in accepted. Phil accepts trade-in property with a value of \$500 in which ~~((the buyer))~~ Alice has \$300 of equity. (The value of trade-in property of like kind is excluded from the selling price for purposes of the retail sales tax. Refer to WAC 458-20-247 for further information.) ~~((Seller))~~ Phil properly bills ~~((the buyer))~~ Alice for \$40 of sales tax, for a total of \$1090 owed to ~~((Seller))~~ Phil by ~~((the buyer))~~ Alice. ~~((Seller))~~ Phil pays the department the \$40 in sales tax. No payment other than the trade-in is received by ~~((Seller))~~ Phil at the time of sale.

(ii) Bad debt. Eight months later, ~~((Seller))~~ Phil has not received any payment. ~~((Seller))~~ Phil is entitled to claim a bad debt deduction on ~~((the))~~ his federal income tax return. The equity in the trade-in is equivalent to a payment received at the time of purchase, reducing the balance remaining on the initial sale to \$790, or \$1090 - \$300. ~~((Seller))~~ Phil is entitled to claim a sales tax credit or refund of \$29, or \$790 x (\$40/\$1090) of sales tax, and a deduction of \$725, or \$790 x (\$1000/\$1090) under the retailing B&O tax classification, exclusive of any deduction for accrued interest.

~~((f))~~ Scenario 4. Phil sells a car at retail for \$1000, and charges ~~((the buyer))~~ Jake an additional \$50 for license and registration fees. ~~((Seller))~~ Phil properly bills ~~((the buyer))~~ Jake for \$80 of sales tax and remits it to the department. No money is received from ~~((the buyer))~~ Jake at the time of sale.

(i) Bad debt. Eight months later ~~((Seller))~~ Phil is entitled to claim a bad debt deduction on the federal income tax return. ~~((Seller))~~ Phil claims an \$80 sales tax credit, a \$1000 retailing B&O tax deduction, and an additional amount under the service and other activities classification for accrued interest.

(ii) Recoveries. Six months after ~~((that))~~ claiming a bad debt, ~~((Seller))~~ Phil receives a \$200 payment from ~~((the buyer))~~ Jake. Recoveries must be allocated first proportionally to the taxable price (the measure of the sales tax) and the sales tax thereon, and secondly to other charges. B&O tax consequences follow the same rules. Accordingly, ~~((Seller))~~ Phil must report \$15, or \$200 x (\$80/\$1080) of sales tax and \$185, or \$200 x (\$1000/\$1080) of income under the retailing B&O tax classification. Additional recoveries should be applied in the same manner until the original \$80 sales tax credit is reduced to zero.

~~((g))~~ Scenario 5. Phil sells a car at retail for \$1000, and charges ~~((the buyer))~~ Robin an additional \$50 for license and registration fees. ~~((Seller))~~

(i) Trade-in accepted. Phil accepts trade-in property with a value of \$500 in which ~~((the buyer))~~ Robin has \$300 of equity. ~~((Seller))~~ Phil properly bills ~~((the buyer))~~ Robin for \$40 of sales tax for a total of \$1090 owed to ~~((Seller))~~ Phil by ~~((the buyer))~~ Robin. No payment other than the trade-in is received by ~~((Seller))~~ Phil at the time of sale.

(ii) Bad debt. Eight months later, no payment has been received by ~~((Seller))~~ Phil. ~~((Seller))~~ Phil is entitled to claim a bad debt deduction on the federal income tax return. The

equity in the trade-in is equivalent to a payment received at the time of purchase, reducing the balance remaining on the initial sale to \$790, or \$1090 - \$300. ~~((Seller))~~ Phil is entitled to claim a sales tax credit or refund of \$29, or \$790 x (\$40/\$1090) of sales tax, and a deduction of \$725, or \$790 x (\$1000/\$1090) under the retailing B&O tax classification, exclusive of any deduction for accrued interest.

(iii) Recoveries. Six months after that, ~~((Seller))~~ Phil receives a \$200 payment from ~~((the buyer))~~ Robin. Recoveries must be allocated first proportionally to the taxable price (the measure of the sales tax) and sales tax thereon, and secondly to other charges. B&O tax consequences follow the same rules. Accordingly, ~~((Seller))~~ Phil must report \$15, or \$200 x (\$40/\$540) in sales tax, and \$185, or \$200 x (\$500/\$540) under the retailing B&O tax classification. Additional recoveries should be applied in the same manner until the original \$29 sales tax credit is reduced to zero.

~~((h))~~ Scenario 6. The facts are the same as in ~~((e))~~ Scenario 3 (c) of this subsection, except that immediately after the sale, ~~((Seller))~~ Phil assigns the contract to a finance company without recourse, receiving face value for the contract. The finance company may not claim the retail sales tax credit or refund ~~((of \$29))~~. The finance company may not claim any deductions for ~~((Seller's))~~ Phil's B&O tax liability. No bad debt deduction or credit is available to ~~((Seller))~~

~~((i))~~ The facts are the same as in ~~((h))~~ of this subsection, except that the Seller receives less than face value for the contract. The result is the same as in ~~((h))~~ of this subsection for both parties. The finance company may claim a \$29 retail sales tax bad debt credit or refund, but may not claim a B&O bad debt deduction for Seller's B&O tax liability. No bad debt deduction or credit is available to ~~((Seller))~~ Phil, as the contract was sold without recourse.

WSR 10-16-064

EXPEDITED RULES

DEPARTMENT OF REVENUE

[Filed July 29, 2010, 9:12 a.m.]

Title of Rule and Other Identifying Information: WAC 458-20-244 Food and food ingredients, provides guidelines for determining if food or food ingredients qualify for retail sales tax and use tax exemptions provided by RCW 82.08.0293 and 82.12.0293.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Gayle Carlson, Department of Revenue, P.O. Box 47453, Olympia, WA 98504-7453, e-mail GayleC@dor.wa.gov, AND RECEIVED BY October 4, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: The department is proposing to amend WAC 458-20-244 to recognize the following recent legislation:

- o E2SSB 6143 (chapter 23, Laws of 2010), which extended sales tax to sales of candy and bottled water;
- o E2SHB 1597 (chapter 23, Laws of 2010), which clarified that retail sales tax applies to the gross vending machine proceeds from sales of soft drinks; and
- o SB 5470 (chapter 483, Laws of 2009), which provides a sales tax exemption for sales of meals provided at qualified low-income senior housing facilities.

Minor editing changes are also proposed.

Copies of draft rules are available for viewing and printing on our web site at <http://dor.wa.gov/content/FindALawOrRule/RuleMaking/agenda.aspx>.

Reasons Supporting Proposal: To recognize recent legislation.

Statutory Authority for Adoption: RCW 82.32.300 and 82.01.060(2).

Statute Being Implemented: RCW 82.08.0293 and 82.12.0293.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: Department of revenue, governmental.

Name of Agency Personnel Responsible for Drafting: Gayle Carlson, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6126; Implementation: Alan R. Lynn, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6125; and Enforcement: Gilbert Brewer, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6147.

July 29, 2010

Alan R. Lynn

Rules Coordinator

AMENDATORY SECTION (Amending WSR 07-24-038, filed 11/30/07, effective 12/31/07)

WAC 458-20-244 Food and food ingredients. (1) Introduction.

(a) **What is the purpose of this section?** This section, WAC 458-20-244, provides guidelines for determining if food or food ingredients qualify for the retail sales tax and use tax exemptions under RCW 82.08.0293 and 82.12.0293 (collectively referred to in this section as the "exemptions").

There is no corresponding business and occupation (B&O) tax exemption. Even if a sale of food or food ingredients is exempt from retail sales tax or use tax under the exemptions, gross proceeds from sales of food or food ingredients remain subject to the retailing B&O tax.

(b) ~~(How has the law changed since the prior version of this section was published? In 2003 and 2004, the legislature amended RCW 82.08.0293 and 82.12.0293 to comply with the national Streamlined Sales and Use Tax Agreement. These amendments alter the definitions used to determine~~

~~whether a particular food or food ingredient qualifies for the exemptions.~~

~~(e))~~ **What other sections might apply?** The following sections may contain additional relevant information:

- WAC 458-20-119 ~~((f))~~, Sales of meals~~((g))~~;
- WAC 458-20-124 ~~((f))~~, Restaurants, cocktail bars, taverns and similar businesses~~((g))~~;
- WAC 458-20-12401 ~~((f))~~, Special stadium sales and use tax~~((g))~~;
- WAC 458-20-166 ~~((f))~~, Hotels, motels, boarding houses, rooming houses, resorts, summer camps, trailer camps, etc.~~((g))~~;
- WAC 458-20-167 ~~((f))~~, Education institutions, school districts, student organizations, and private schools~~((g))~~;
- WAC 458-20-168 ~~((f))~~, Hospitals, medical care facilities, and adult family homes~~((g))~~; ~~((and))~~
- WAC 458-20-169 ~~((f))~~, Nonprofit organizations~~((g))~~; and
- WAC 458-20-229, Refunds.

(2) What qualifies for the exemptions?

(a) **In general.** The exemptions apply to food and food ingredients. "Food and food ingredients" means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value.

(b) **Items not used solely for ingestion or chewing.** Items that are commonly ingested or chewed by humans for their taste or nutritional value but which may also be used for other purposes are generally treated as food or food ingredients. For example, pumpkins are presumed to be a food or food ingredient unless the pumpkin is sold painted or is otherwise clearly for decorative purposes rather than consumption. This is true even though the purchaser may use an undecorated pumpkin for carving and display rather than for eating.

(3) **What does not qualify for the exemptions?** The exemptions do not apply to the following items, which are not considered "food or food ingredients" or which are otherwise specifically excluded from the exemptions:

(a) **Items sold for medical or hygiene purposes.** Items commonly used for medical or hygiene purposes, such as cough drops, breath sprays, toothpaste, etc., are not ingested for taste or nutrition and are not considered a food or food ingredient. In contrast, breath mints are commonly ingested for taste and are considered a food or food ingredient.

(b) **Bulk sales of ice.** Ice sold in bags, containers, or units of greater than ten pounds and blocks of ice of any weight are not considered a food or food ingredient. Ice sold in cubed, shaved, or crushed form in packages or quantities of ten pounds or less is considered a food or food ingredient. Refer to WAC 458-20-120 ~~((f))~~, Sales of ice~~((g))~~, for additional guidance on the sale of ice.

(c) **Alcoholic beverages.** Alcoholic beverages are excluded from the definition of food and food ingredients. "Alcoholic beverages" means beverages that are suitable for human consumption and contain one-half of one percent or more of alcohol by volume.

(d) **Tobacco.** Tobacco is excluded from the definition of food and food ingredients. "Tobacco" includes cigarettes,

cigars, chewing or pipe tobacco, or any other items that contain tobacco.

(e) **Candy.** Effective June 1, 2010, chapter 23, Laws of 2010, sp. sess., (2ESSB 6143) excludes candy from the exemptions.

(i) "Candy" means a preparation of sugar, honey, or other natural or artificial sweeteners in combination with chocolate, fruits, nuts, or other ingredients or flavorings in the form of bars, drops, or pieces.

(ii) "Candy" does not include any preparation containing flour and does not require refrigeration.

(iii) For a list of products and whether they meet the definition of candy, refer to the department's internet site at <http://dor.wa.gov/>. If the product in question is not listed on the internet site write the department, including a label or copy of label for the product, for a ruling at:

Taxpayer Services
Department of Revenue
P.O. Box 47478
Olympia, WA 98504-7478

(f) **Bottled water.** From June 1, 2010, through June 30, 2013, chapter 23, Laws of 2010, sp. sess., (2ESSB 6143) excludes bottled water from the exemptions.

(i) "Bottled water" means water that is placed in a sealed container or package for human consumption.

(ii) Bottled water is calorie free and does not contain sweeteners or other additives except that it may contain:

(A) Antimicrobial agents;

(B) Fluoride;

(C) Carbonation;

(D) Vitamins, minerals, and electrolytes;

(E) Oxygen;

(F) Preservatives; and

(G) Only those flavors, extracts, or essences derived from a spice or fruit.

(iii) "Bottled water" includes water that is delivered to the buyer in a reusable container that is not sold with the water.

(iv) See subsection (8) of this section for limited exceptions to the tax on bottled water.

(g) **Soft drinks.** Soft drinks are excluded from the exemptions. "Soft drinks" means any nonalcoholic beverage that contains natural or artificial sweeteners, except beverages that contain:

- Milk or milk products;
- Soy, rice, or similar milk substitutes; or
- More than fifty percent by volume of vegetable or fruit juice.

For example, sweetened sports beverages are considered "soft drinks," but a sweetened soy beverage is a food or food ingredient.

Beverage mixes that are not sold in liquid form are not soft drinks even though they are intended to be made into a beverage by the customer. Examples include powdered fruit drinks, powdered tea or coffee drinks, and frozen concentrates. These items are a food or food ingredient and are not subject to retail sales tax.

((f)) (h) **Dietary supplements.** Dietary supplements are excluded from the exemptions. "Dietary supplement"

means any product intended to supplement the diet, other than tobacco, which meets all of the following requirements:

- Contains a vitamin; mineral; herb or other botanical; amino acid; a substance for use by humans to increase total dietary intake; or a concentrate, metabolite, constituent, extract; or combination of any of them;

- Is intended for ingestion in tablet, capsule, powder, soft gel, gelcap, or liquid form, or if not intended for ingestion in such a form, is not represented as conventional food and is not represented for use as a sole item of a meal or of the diet; and

- Is required to be labeled with a Food and Drug Administration "supplement facts" box. If a product is otherwise considered a food or food ingredient and labeled with both a "supplement facts" box and "nutrition facts" box, the product is treated as a food or food ingredient.

Nutrition products formulated to provide balanced nutrition as a sole source of a meal or of the diet are considered a food or food ingredient and not a dietary supplement. Refer to RCW 82.08.925 for information on the sales tax exemption applicable to dietary supplements dispensed under a prescription.

((g)) (i) **Prepared food.** Prepared food is excluded from the exemptions. Prepared food generally means heated foods, combined foods, or foods sold with utensils provided by the seller, as described in more detail in subsection (4) of this section. "Prepared food" does not include food sold by a seller whose proper primary North American industry classification system (NAICS) classification is manufacturing in sector 311, except subsector 3118 (bakeries), unless the food is sold with utensils provided by the seller (see subsection (4)(c) of this section).

(4) **What is "prepared food"?** Food or food ingredients are "prepared foods" if any one of the following are true:

(a) **Heated foods.** Food or food ingredients are "prepared foods" if sold in a heated state or are heated by the seller, except bakery items. "Bakery items" include bread, rolls, buns, biscuits, bagels, croissants, pastries, donuts, Danish, cakes, tortes, pies, tarts, muffins, bars, cookies, and tortillas. Food is sold in a heated state or is heated by the seller when the seller provides the food to the customer at a temperature that is higher than the air temperature of the seller's establishment. Food is not sold in a heated state or heated by the seller if the customer, rather than the seller, heats the food in a microwave provided by the seller.

(b) **Combined foods.** Food or food ingredients are "prepared foods" if the item sold consists of two or more foods or food ingredients mixed or combined by the seller for sale as a single item, unless the food or food ingredients are any of the following:

- Bakery items (defined in (a) of this subsection);
- Items that the seller only cuts, repackages, or pasteurizes;
- Items that contain eggs, fish, meat, or poultry, in a raw or undercooked state requiring cooking as recommended by the federal Food and Drug Administration in chapter 3, part 401.11 of *The Food Code*, published by the Food and Drug Administration, as amended or renumbered as of January 1, 2003, so as to prevent foodborne illness; or

- Items sold in an unheated state as a single item at a price that varies based on weight or volume.

(c) **Food sold with utensils provided by the seller.** Food or food ingredients are "prepared foods" if sold with utensils provided by the seller. Utensils include plates, knives, forks, spoons, glasses, cups, napkins, and straws. A plate does not include a container or packaging used to transport the food.

(i) **Utensils are customarily provided by the seller.** A food or food ingredient is "sold with utensils provided by the seller" if the seller's customary practice for that item is to physically deliver or hand a utensil to the customer with the food or food ingredient as part of the sales transaction. If the food or food ingredient is prepackaged with a utensil, the seller is considered to have physically delivered a utensil to the customer unless the food and utensil are prepackaged together by a food manufacturer classified under sector 311 of the NAICS. Examples of utensils provided by such manufacturers include juice boxes that are packaged with drinking straws, and yogurt or ice cream cups that are packaged with wooden or plastic spoons.

(ii) **Utensils are necessary to receive the food.** Individual food or food ingredient items are "sold with utensils provided by the seller" if a plate, glass, cup, or bowl is necessary to receive the food or food ingredient and the seller makes those utensils available to its customers. For example, items obtained from a self-serve salad bar are sold with utensils provided by the seller, because the customer must use a bowl or plate provided by the seller in order to receive the items.

(iii) **More than seventy-five percent prepared food sales with utensils available.** All food and food ingredients sold at an establishment, including foods prepackaged with a utensil by a manufacturer classified under sector 311 of the NAICS, are "sold with utensils provided by the seller" if the seller makes utensils available to its customers and the seller's gross sales of prepared food under (a), (b), and (c)(ii) of this subsection equal more than seventy-five percent of the seller's gross sales of all food and food ingredients, including prepared food, soft drinks, and dietary supplements.

(A) **Exception for four or more servings.** Even if a seller has more than seventy-five percent prepared food sales, four servings or more of food or food ingredients packaged for sale as a single item and sold for a single price are not "sold with utensils provided by the seller" unless the seller's customary practice for the package is to physically hand or otherwise deliver a utensil to the customer as part of the sales transaction. Whenever available, the number of servings included in a package of food or food ingredients is to be determined based on the manufacturer's product label. If no label is available, the seller must reasonably determine the number of servings.

(B) **Determining total sales of prepared foods.** The seller must determine a single prepared food sales percentage annually for all the seller's establishments in the state based on the prior year of sales. The seller may elect to determine its prepared food sales percentage based either on the prior calendar year or on the prior fiscal year. A seller may not change its elected method for determining its prepared food percentage without the written consent of the department of revenue. The seller must determine its annual prepared food

sales percentage as soon as possible after accounting records are available, but in no event later than ninety days after the beginning of the seller's calendar or fiscal year. A seller may make a good faith estimate of its first annual prepared food sales percentage if the seller's records for the prior year are not sufficient to allow the seller to calculate the prepared food sales percentage. The seller must adjust its good faith estimate prospectively if its relative sales of prepared foods in the first ninety days of operation materially depart from the seller's estimate.

(d) **Examples.** The following examples identify a number of facts and then state a conclusion. These examples should be used only as a general guide. The tax results of other situations must be determined after a review of all of the facts and circumstances.

(i) **Example 1.** Fast Cafe sells hot and cold coffee and mixed coffee and mixed milk beverages, cold soft drinks, ((bottled water,)) milk and juice in single-serving containers, sandwiches, whole fruits, cold pasta salad, cookies and other pastries. Fast Cafe prepares the pasta salad on-site. It orders the pastries from a local bakery, including specialty cakes which it sells both as whole cakes and by the slice. It purchases its sandwiches from a local caterer. The sandwiches are delivered by the caterer prewrapped in plastic with condiments and a plastic knife. Fast Cafe makes straws, napkins and cup lids available for all customers by placing them on a self-service stand. In its first full year of operation, Fast Cafe's annual gross sales of all food and food ingredients, including prepared food, soft drinks, and dietary supplements is \$100,000. Of this gross sales total, \$80,000 is from the sale of hot coffee and hot and cold mixed coffee and milk beverages, all sold in disposable paper or plastic cups with the Fast Cafe logo.

Because more than seventy-five percent of Fast Cafe's total sales of food and food ingredients, including prepared food, soft drinks, and dietary supplements are sales of food or food ingredients that are heated or combined by the seller or sold with a utensil (cups) necessary to receive the food, Fast Cafe has more than seventy-five percent prepared food sales. Because Fast Cafe makes utensils available for its customers, all food and food ingredients sold by Fast Cafe are considered "prepared food," including the cold milk beverages, cookies and pastries, pasta salad, sandwiches and whole fruits. The only exception is the sale of whole specialty cakes. Because a whole cake contains four or more servings, it is not subject to retail sales tax unless Fast Cafe customarily hands a utensil to the customer as part of the sale transaction.

(ii) **Example 2.** Assume the same facts as in Example 1, but that only \$60,000 of Fast Cafe's Year 1 gross sales were sales of hot coffee and hot and cold mixed coffee and milk beverages. The remainder of its sales were sales of sandwiches, whole fruits, cookies and other pastries. Under these facts, Fast Cafe does not have more than seventy-five percent prepared food sales. Thus, the items sold by Fast Cafe are taxed as follows:

- Hot coffee and milk beverages are heated by the seller and are also sold by Fast Cafe with a utensil (a paper cup) necessary to receive the food. The hot coffee and milk beverages are "prepared food" for either reason and are subject to retail sales tax.

- Cold mixed milk beverages are a combination of two or more foods or food ingredients and are also sold by Fast Cafe with a utensil (a paper or plastic cup) necessary to receive the food. The cold milk beverages are "prepared food" for either reason and are subject to retail sales tax.

- Cold soft drinks are not exempt and are subject to retail sales tax.

- Sandwiches prepared by the caterer are subject to retail sales tax. Even though the caterer, rather than the seller, combines the ingredients and includes a utensil, Fast Cafe is considered to have provided the utensil because the caterer is not a food manufacturer classified under sector 311 of the NAICS.

- Pasta salad is combined by the seller and is subject to retail sales tax. Note that if the pasta salad was sold by the pound, rather than by servings, it would not be subject to retail sales tax.

- ~~((Bottled water,))~~ Milk and juice in single serving containers, whole fruit, cookies, pastries, slices of cake, and whole cakes are not subject to retail sales tax unless the seller's customary practice is to hand a utensil to the customer as part of the sales transaction. None of these items are heated by the seller, combined by the seller, or require a plate, glass, cup, or bowl in order to receive the item. Even if Fast Cafe heats the pastries for its customers, the pastries are not subject to retail sales tax.

(iii) **Example 3.** A pizza restaurant sells whole hot pizzas, hot pizza by the slice, and unheated ready-to-bake pizzas. The whole hot pizzas and hot pizza sold by the slice, including delivered pizzas, are "prepared food" because these items are sold in a heated state. If the unheated ready-to-bake pizzas are prepared by the seller, they are "prepared food" because the seller has mixed or combined two or more food ingredients. This is true even though some ingredients in the unheated pizzas are raw or uncooked, because those ingredients do not require cooking to prevent foodborne illness. If the unheated ready-to-bake pizzas are prepared by a manufacturer other than the seller, they will be taxable as "prepared food" only if sold with utensils provided by the seller.

(5) How are combined sales of taxable and exempt items taxed?

(a) **Combined sales.** Where two or more distinct and identifiable items of tangible personal property, at least one of which is a food or food ingredient, are sold for one non-itemized price that does not vary based on the selection by the purchaser of items included in the transaction:

- The entire transaction is taxable if the seller's purchase price or sales price of the taxable items is greater than fifty percent of the combined purchase price or sales price; and

- The entire transaction is exempt from retail sales tax if the seller's purchase price or sales price of the taxable items is fifty percent or less of the combined purchase price or sales price.

The seller may make the determination based on either purchase price or sales price, but may not use a combination of the purchase price and sales price.

(b) **Example(s).**

((+)) A combination wine and cheese picnic basket contains four items packaged together: A bottle of wine, a wine opener, single-serving cheeses, and the picnic basket holding

these items. The seller's purchase price for the wine, wine-opener, and picnic basket totals ten dollars. The seller's purchase price for the cheeses is two dollars. The seller must collect retail sales taxes on the entire package, because the seller's purchase price for the taxable items (ten dollars) is greater than fifty percent of the combined purchase price (twelve dollars).

~~((ii) A retailer sells a decorative jar containing individually wrapped candies for the selling price of twelve dollars. The retailer sells the decorative jar by itself for the price of five dollars. The retailer's selling price for the candy alone is seven dollars. The retailer is not required to collect retail sales taxes on the decorative jar filled with candies, because the retailer's selling price for the tax exempt candies is greater than its selling price for the taxable jar.))~~

(c) **Incidental packaging.** "Distinct and identifiable items" does not include packaging which is immaterial or incidental to the sale of another item or items. For example, a decorative bag sold filled with candy is not the sale of "distinct and identifiable" items where the bag is merely ornamental packaging immaterial in the sale of the candy.

(d) **Free items.** "Distinct and identifiable items" does not include items provided free of charge. An item is only provided free of charge if the seller's sales price does not vary depending on whether the item is included in the sale.

(6) **What are the seller's accounting requirements?** All sales of food and food ingredients at an establishment will be treated as taxable unless the seller separately accounts for sales of exempt and nonexempt food and food ingredients. It is sufficient separation for accounting purposes if cash registers or the like are programmed to identify items that are not tax exempt and to calculate and assess the proper sales tax accordingly.

(7) Are there any other retail sales tax exemptions that apply?

(a) **Meals served ~~((by not for profit organizations))~~.** The exemptions apply to ~~((meals sold))~~ food and food ingredients furnished, prepared, or served as meals:

(i) Under a state-administered nutrition program for the aged as provided for in the Older Americans Act (Public Law 95-478 Title III) and RCW 74.38.040(, and meals sold to or for);

(ii) That are provided to senior citizens, ~~((disabled persons))~~ individuals with disabilities, or low-income persons by a not-for-profit organization organized under chapter 24.03 or 24.12 RCW(, The exemptions apply even if the meals would otherwise be considered prepared food); or

(iii) Effective August 1, 2009, RCW 82.08.0293 provides to residents, sixty-two years of age or older, of a qualified low-income senior housing facility by the lessor or operator of the facility. The sale of a meal that is billed to both spouses of a marital community or both domestic partners of a domestic partnership meets the age requirement in this subsection (a)(iii) if at least one of the spouses or domestic partners is at least sixty-two years of age. For purposes of this subsection, "qualified low-income senior housing facility" means a facility:

(A) That meets the definition of a qualified low-income housing project under Title 26 U.S.C. Sec. 42 of the federal Internal Revenue Code, as existing on August 1, 2009;

(B) That has been partially funded under Title 42 U.S.C. Sec. 1485 of the federal Internal Revenue Code; and

(C) For which the lessor or operator has at any time been entitled to claim a federal income tax credit under Title 26 U.S.C. Sec. 42 of the federal Internal Revenue Code.

(b) Foods exempt under the ~~((Federal Food Stamp Act)) Supplemental Nutrition Assistance Program (SNAP).~~ Under RCW 82.08.0297, eligible foods under the Food Stamp Act of 1977 purchased with food coupons are exempt from the retail sales tax. This is a separate and broader exemption than the retail sales exemption for food and food ingredients under RCW 82.08.0293. For example, soft drinks and garden seeds are "eligible foods" but are not ~~((a))~~ "food or food ingredients." If such items are purchased with food coupons, they are exempt from the retail sales tax under RCW 82.08.0297, even though the items do not qualify for the exemption under RCW 82.08.0293.

(i) Definition of food coupons. The term "food coupons," as used in this subsection means any coupon, stamp, type of certificate, authorization card, cash or check issued in lieu of a coupon, or access device, including an electronic benefit transfer card or personal identification number issued pursuant to the provisions of the Food Stamp Act of 1977. See 7 CFR § 271.2, as amended or renumbered as of January 1, 2003.

(ii) Use of food coupons combined with other means of payment. When both food coupons and other means of payment are used in the same sales transaction, for purposes of collecting retail sales taxes, the other means of payment shall be applied first to items which are food and food ingredients exempt under RCW 82.08.0293. The intent is to apply the coupons and other means of payment in such a way as to provide the greatest possible exemption from retail sales tax.

(iii) Example. A customer purchases the following at a grocery store: Meat for three dollars, cereal for three dollars, canned soft drinks for five dollars, and soap for two dollars for a total of thirteen dollars. The customer pays with seven dollars in coupons and six dollars in cash. The cash is applied first to the soap because the soap is neither exempt under RCW 82.08.0293 nor an eligible food under the Food Stamp Act. The remaining cash (four dollars) is applied first to the meat and the cereal. The food stamps are applied to the balance of the meat and cereal (two dollars) and to the soft drinks (five dollars). Retail sales tax is due only on the soap.

(8) Exceptions to tax on bottled water. Chapter 23, Laws of 2010, sp. sess., (2ESSB 6143) provides two exemptions to the retail sales and use taxes on bottled water effective June 1, 2010.

(a) Prescription issued bottled water. Bottled water prescribed to patients for use in the cure, mitigation, treatment, or prevention of disease or other medical condition and delivered to the buyer in a reusable container that is not sold with the water is exempt provided the buyer provides the seller with a completed buyer's retail sales tax exemption certificate or a streamlined sales tax exemption certificate. A seller must retain a copy of the certificate for their files. Tax

will be collected on all other sales of prescribed bottled water. Any buyer that has paid at least twenty-five dollars in state and local sales taxes on purchases of bottled water subject to this exemption may apply for a refund of the collected taxes directly from the department. No refund may be made for tax paid more than four years after the end of the calendar year in which the tax was paid to a seller.

(b) Potable water not readily available. Bottled water for human use to persons who do not otherwise have a readily available source of potable water and delivered to the buyer in a reusable container that is not sold with the water is exempt provided the buyer provides the seller with a completed buyer's retail sales tax exemption certificate or a streamlined sales tax exemption certificate. A seller must retain a copy of the certificate for their files. Tax will be collected on all other sales of bottled water. Any buyer that has paid at least twenty-five dollars in state and local sales taxes on purchases of bottled water subject to this exemption may apply for a refund of the collected taxes directly from the department. No refund may be made for tax paid more than four years after the end of the calendar year in which the tax was paid to a seller.

(c) Forms and additional information are available. Forms and additional information can be obtained from the department's internet site at <http://dor.wa.gov/> or by contacting the department at:

Taxpayer Services
Department of Revenue
P.O. Box 47478
Olympia, WA 98504-7478
1-800-647-7706

(9) Vending machine sales. The exemptions do not apply to sales of food and food ingredients dispensed from vending machines. There are special requirements for reporting sales tax collected on vending machine sales, discussed in (a) of this subsection. "Honor box" sales (sales of snacks or other items from open display trays) are not considered vending machine sales.

(a) Calculating and reporting retail sales tax collected on vending machine sales. Vending machine owners do not need to state the retail sales tax amount separately from the selling price. See RCW 82.08.050(5) and 82.08.0293. Instead, vending machine owners must determine the amount of retail sales tax collected on the sale of food or food ingredients by using one of the following methods:

(i) Food or food ingredients dispensed in a heated state and soft drinks. For food or food ingredients dispensed from vending machines in a heated state (e.g., hot coffee, soups, tea, and hot chocolate) and vending machine sales of soft drinks, a vending machine owner must calculate the amount of retail sales tax that has been collected ("tax in gross") based on the gross vending machine proceeds. The "tax in gross" is a deduction against the gross amount of both retailing B&O and retail sales. The formula is:

$$\text{gross machine proceeds} - (\text{gross machine proceeds}) = \text{tax in gross} \\ (1 + \text{sales tax rate})$$

(ii) **All other food or food ingredients.** For all other food and food ingredients dispensed from vending machines, a vending machine owner must calculate the amount of retail sales tax that has been collected ("tax in gross") based on

$$(\text{gross machine proceeds} \times .57) \times \text{sales tax rate} = \text{tax in gross}$$

The remaining 43% of the gross vending machine proceeds, less the "tax in gross" amount, is reported as an exempt

$$(\text{gross machine proceeds} \times .43) - \text{tax in gross} = \text{exempt food deduction}$$

(b) **Example.** Jane owns a vending machine business with machines in Spokane and Seattle. In each location, she has a vending machine selling candy and water and a second vending machine selling hot cocoa and coffee drinks. Her annual sales for the vending machines and the combined retail sales tax rates for Seattle and Spokane are as follows:

fifty-seven percent of the gross vending machine proceeds. The "tax in gross" is a deduction against the gross amount of both retailing B&O and retail sales. The formula is:

food sales deduction against retail sales proceeds only calculated as follows:

	Coffee Machine (cocoa & coffee)	Candy Machine (candy & water)	Combined Retail Sales Tax Rate
Seattle	\$2,500	\$10,000	.088
Spokane	\$3,000	\$6,000	.086

To determine the amount of retail sales tax she collected on the sale of cocoa and coffee (food dispensed in a heated state), Jane calculates the "tax in gross" amount as follows:

$$\text{gross machine proceeds} - \frac{\text{gross machine proceeds}}{1 + \text{sales tax rate}} = \text{tax in gross}$$

$$\begin{aligned} \$2,500 - (\$2,500/1.088) &= \$202.21 && \text{(Seattle coffee machine)} \\ \$3,000 - (\$3,000/1.086) &= \underline{\$237.57} && \text{(Spokane coffee machine)} \\ &&& \$439.78 \end{aligned}$$

Thus, for both retailing B&O and retail sales, Jane must report her total gross coffee machine proceeds of \$5,500 with a "tax in gross" deduction of \$439.78.

To determine the amount of retail sales tax she collected on the sale of candy and water, Jane calculates the "tax in gross" amount as follows:

$$(\text{gross machine proceeds} \times .57) \times \text{sales tax rate} = \text{tax in gross}$$

$$\begin{aligned} \$10,000 \times .57 \times .088 &= \$501.60 && \text{(Seattle candy machine)} \\ \$6,000 \times .57 \times .086 &= \underline{\$294.12} && \text{(Spokane candy machine)} \\ &&& \$795.72 \end{aligned}$$

Thus, for both retailing B&O and retail sales, Jane must report her total gross candy machine proceeds of \$16,000 with a "tax in gross" deduction of \$795.72.

Jane must also report an exempt food sales deduction representing the remaining 43% of the gross candy machine proceeds.

$$\begin{aligned} (43\% \times \text{gross machine proceeds}) - \text{tax in gross} &= \text{exempt food deduction} \\ (.43 \times \$16,000) - \$795.72 &= \$6,084.28 \end{aligned}$$

Jane reports the exempt food sales deduction only against the gross amount of her retail sales. The deduction does not apply to retailing B&O.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Tim Nogler, State Building Code Council, P.O. Box 41011, Olympia, WA 98504-1011, AND RECEIVED BY October 5, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: Correcting refer-

**WSR 10-16-091
EXPEDITED RULES
BUILDING CODE COUNCIL**

[Filed July 30, 2010, 1:34 p.m.]

Title of Rule and Other Identifying Information: Chapter 51-11 WAC, the Washington State Energy Code, 2009 Edition.

ences, table borders and correlation errors in the Washington State Energy Code, chapter 51-11 WAC, 2009 Edition as outlined below.

WAC 51-11-0402: In the exception to Section 402.2, the percentage by which the proposed design is required to beat the standard design was lowered to eight percent to correlate with the change made to lower the number of points required by Section 901 in WSR 10-03-115.

WAC 51-11-0625: Footnote 1 of Table 6-1 was adjusted to represent the current percentage of glazing referenced in the table.

WAC 51-11-0900: The exception to Section 901 was edited as noted for WAC 51-11-0402.

WAC 51-11-1007: Table 1007-F was reformatted to have column and row headers in the appropriate places. In addition, nonapplicable footnote references were eliminated in Table 9-1.

WAC 51-11-1334: Equation 13-3 was modified to use the new definitions from Equation 13-1 established in WSR 10-03-115.

WAC 51-11-1416: The section reference in Section 1416.2 was corrected.

WAC 51-11-1438: Some text in Section 1438.1 that should have been part of the main section was inadvertently included in the exception.

Reasons Supporting Proposal: A number of editorial errors were identified in the rules filed under WSR 10-03-115. This rule corrects those errors.

Statutory Authority for Adoption: RCW 19.27A.025, 19.27A.045.

Statute Being Implemented: Chapters 19.27, 19.27A, and 34.05 RCW.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: State building code council, governmental.

Name of Agency Personnel Responsible for Drafting: Krista Braaksma, P.O. Box 41011, (360) 902-7290; Implementation and Enforcement: Local jurisdictions.

June 30, 2010

John C. Cochran
Council Chair

AMENDATORY SECTION (Amending WSR 10-03-115 and 10-13-113, filed 1/20/10 and 6/21/10, effective 10/29/10)

WAC 51-11-0402 Systems analysis.

402.1 Special Requirements for Single-Family Residential:

402.1.1 Energy Budgets: Proposed buildings designed in accordance with this section shall be designed to use no more energy from nonrenewable sources for space heating, space cooling and domestic hot water heating than a standard building whose enclosure elements and energy consuming systems are designed in accordance with section 502.2 of this Code for the appropriate climate zone, and heating system type and cooling system and whose mechanical system type is the same as the proposed building and which complies with Section 503 of this Code. Energy derived from renewable

sources may be excluded from the total annual energy consumption attributed to the alternative building.

402.1.2 Calculation of Energy Consumption: The application for a building permit shall include documentation which demonstrates, using a calculation procedure as listed in Chapter 8, or an approved alternate, that the proposed building's annual space heating, space cooling and domestic hot water heating energy use does not exceed the annual space heating, space cooling and domestic hot water heating energy use of a standard building conforming to Chapter 5 of this Code for the appropriate climate zone. The total calculated annual energy consumption shall be shown in units of kWh/ft²-yr or Btu/ft²-yr of conditioned area.

402.1.3 Input Values: The following standardized input values shall be used in calculating annual space heating budgets:

PARAMETER	VALUE
Thermostat set point, heating	65° F
Thermostat set point, cooling	78° F
Thermostat night set back	65° F
Thermostat night set back period	0 hours
Internal gain	3000 Btu/h
Domestic Hot Water Heater Setpoint	120° F
Domestic Hot Water Consumption	20 gallons/person/day.
Minimum heat storage	Calculated using standard engineering practice for the actual building or as approved.
Site weather data	Typical meteorological year (TMY) or ersatz TMY data for the closest appropriate TMY site or other sites as approved.
Heating and cooling equipment efficiency	Equipment shall comply with Section 1411.

The standard building shall be modeled with glazing area distributed equally among the four cardinal directions. Parameter values that may be varied by the building designer to model energy saving options include, but are not limited to, the following:

1. Overall thermal transmittance, U_o, of building envelope or individual building components;
2. Heat storage capacity of building;
3. Glazing orientation; area; and solar heat coefficients; (where Chapter 5 does not contain SHGC requirements, the standard design shall be modeled with glazing SHGC as determined by Tables 13-1 and 13-2. SHGC values shall be determined in accordance with Section 1312.2.)

4. Heating system efficiency.

Parameter values that may not be varied:

- Domestic hot water consumption.

402.1.4 Solar Shading and Access: Building designs using passive solar features with eight percent or more south facing equivalent glazing to qualify shall provide to the building official a sun chart or other approved documentation depicting actual site shading for use in calculating compliance under this section. The building shall contain at least forty-five Btu/°F for each square foot of south facing glass.

402.1.5 Infiltration: Infiltration levels used shall be set at 0.35 air changes per hour for thermal calculation purposes only.

402.1.6 Heat Pumps: The heating season performance factor (HSPF) for heat pumps shall be calculated using procedures consistent with section 5.2 of the U.S. Department of Energy Test Procedure for Central Air Conditioners, including heat pumps published in the December 27, 1979 Federal Register Vol. 44, No. 24.10 CFR 430. Climate data as specified above, the proposed buildings overall thermal performance value (Btu/°F) and the standardized input assumptions specified above shall be used to model the heat pumps HSPF.

402.2 Energy Analysis: Compliance with this chapter will require an analysis of the annual energy usage, hereinafter called an annual energy analysis.

EXCEPTIONS: Chapters 5, and 6 of this Code establish criteria for different energy-consuming and enclosure elements of the building which, will eliminate the requirement for an annual systems energy analysis while meeting the intent of this Code.

A building designed in accordance with this chapter will be deemed as complying with this Code if the calculated annual energy consumption is ~~((+6))~~ 8 percent less than a similar building (defined as a "standard design") whose enclosure elements and energy-consuming systems are designed in accordance with Chapter 5.

For an alternate building design to be considered similar to a "standard design," it shall utilize the same energy source(s) for the same functions and have equal floor area and the same ratio of envelope area to floor area, environmental requirements, occupancy, climate data and usage operational schedule.

402.3 Design: The standard design, conforming to the criteria of Chapter 5 and the proposed alternative design shall be designed on a common basis as specified herein:

The comparison shall be expressed as kBtu or kWh input per square foot of conditioned floor area per year at the building site.

402.4 Analysis Procedure: The analysis of the annual energy usage of the standard and the proposed alternative building and system design shall meet the following criteria:

a. The building heating/cooling load calculation procedure used for annual energy consumption analysis shall be detailed to permit the evaluation of effect of factors specified in section 402.5.

b. The calculation procedure used to simulate the operation of the building and its service systems through a full-year operating period shall be detailed to permit the evaluation of the effect of system design, climatic factors, operational characteristics, and mechanical equipment on annual energy usage. Manufacturer's data or comparable field test data shall be used when available in the simulation of systems and equipment. The calculation procedure shall be based upon eight thousand seven hundred sixty hours of operation of the building and its service systems.

402.5 Calculation Procedure: The calculation procedure shall cover the following items:

a. Design requirements—Environmental requirements as required in Chapter 3.

b. Climatic data—Coincident hourly data for temperatures, solar radiation, wind and humidity of typical days in the year representing seasonal variation.

c. Building data—Orientation, size, shape, mass, air, moisture and heat transfer characteristics.

d. Operational characteristics—Temperature, humidity, ventilation, illumination, control mode for occupied and unoccupied hours.

e. Mechanical equipment—Design capacity, part load profile.

f. Building loads—Internal heat generation, lighting, equipment, number of people during occupied and unoccupied periods.

EXCEPTION: Single-family residential shall comply with calculation procedures in Chapter 8, or an approved alternate.

402.6 Documentation: Proposed alternative designs, submitted as requests for exception to the standard design criteria, shall be accompanied by an energy analysis comparison report. The report shall provide technical detail on the two building and system designs and on the data used in and resulting from the comparative analysis to verify that both the analysis and the designs meet the criteria of Chapter 4 of this Code.

AMENDATORY SECTION (Amending WSR 10-03-115 and 10-13-113, filed 1/20/10 and 6/21/10, effective 10/29/10)

WAC 51-11-0625 Table 6-1.

TABLE 6-1
PRESCRIPTIVE REQUIREMENTS^{0,1} FOR SINGLE-FAMILY RESIDENTIAL
CLIMATE ZONE 1

Option	Glazing Area ¹⁰ : % of Floor	Glazing U-Factor		Door ⁹ U-Factor	Ceiling ²	Vaulted Ceiling ³	Wall ¹² Above Grade	Wall• int ⁴ Below Grade	Wall• ext ⁴ Below Grade	Floor ⁵	Slab ⁶ on Grade
		Vertical	Overhead ¹¹								
I.	13%	0.34	0.50	0.20	R-49 or R-38 adv	R-38	R-21 int ⁷	R-21 TB	R-10	R-30	R-10 2'
II.*	25%	0.32	0.50	0.20	R-49 or R-38 adv	R-38	R-21 int ⁷	R-21 TB	R-10	R-30	R-10 2'
III.	Unlimited	0.30	0.50	0.20	R-49 or R-38 adv	R-38	R-21 int ⁷	R-21 TB	R-10	R-30	R-10 2'

- * Reference Case
- 0. Nominal R-values are for wood frame assemblies only or assemblies built in accordance with Section 601.1.
- 1. Minimum requirements for each option listed. For example, if a proposed design has a glazing ratio to the conditioned floor area of ((+3)) 15%, it shall comply with all of the requirements of the ((+5)) 25% glazing option (or higher). Proposed designs which cannot meet the specific requirements of a listed option above may calculate compliance by Chapters 4 or 5 of this Code.
- 2. Requirement applies to all ceilings except single rafter or joist vaulted ceilings complying with note 3. 'Adv' denotes Advanced Framed Ceiling.
- 3. Requirement applicable only to single rafter or joist vaulted ceilings.
- 4. Below grade walls shall be insulated either on the exterior to a minimum level of R-10, continuous or on the interior as a framed wall. Exterior insulation installed on below grade walls shall be a water resistant material, manufactured for its intended use, and installed according to the manufacturer's specifications. See Section 602.2.
- 5. Floors over crawl spaces or exposed to ambient air conditions.
- 6. Required slab perimeter insulation shall be a water resistant material, manufactured for its intended use, and installed according to manufacturer's specifications. See Section 602.4. For slabs inside a foundation wall, the insulation shall be installed to provide a thermal break (TB) between the slab edge and the foundation. Monolithic slabs shall include insulation, installed outside the foundation wall, and shall extend downward from the top of the slab for a minimum distance of 24 inches or downward and then horizontally for a minimum combined distance of 24 inches. Monolithic slabs shall also include R-10 insulation under the nonload bearing portions of the slab.
- 7. Int. denotes standard framing 16 inches on center with headers insulated with a minimum of R-10 insulation.
- 8. Reserved.
- 9. Doors, including all fire doors, shall be assigned default U-factors from Table 10-6C.
- 10. Where a maximum glazing area is listed, the total glazing area (combined vertical plus overhead) as a percent of gross conditioned floor area shall be less than or equal to that value. Overhead glazing with U-factor of U = 0.35 or less is not included in glazing area limitations.
- 11. Overhead glazing shall have U-factors determined in accordance with NFRC 100 or as specified in Section 502.1.5.
- 12. Log and solid timber walls with a minimum average thickness of 3.5" are exempt from this insulation requirement.

TABLE 6-2
PRESCRIPTIVE REQUIREMENTS^{0,1} FOR SINGLE-FAMILY RESIDENTIAL
CLIMATE ZONE 2

Option	Glazing Area ¹⁰ : % of Floor	Glazing U-Factor		Door ⁹ U-Factor	Ceiling ²	Vaulted Ceiling ³	Wall ¹² Above Grade	Wall• int ⁴ Below Grade	Wall• ext ⁴ Below Grade	Floor ⁵	Slab ⁶ on Grade
		Vertical	Overhead ¹¹								
I.	12%	0.32	0.50	0.20	R-49 or R-38 adv	R-38	R-21 int ⁷	R-21 TB	R-12	R-30	R-10 2'
II.*	15%	0.32	0.50	0.20	R-49 or R-38 adv	R-38	R-19 +R-5 ⁸	R-21 TB	R-12	R-30	R-10 2'
III.	Unlimited	0.30	0.50	0.20	R-49 or R-38 adv	R-38	R-19 +R-5 ⁸	R-21 TB	R-12	R-30	R-10 2'

- * Reference Case.
- 0. Nominal R-values are for wood frame assemblies only or assemblies built in accordance with Section 601.1.
- 1. Minimum requirements for each option listed. For example, if a proposed design has a glazing ratio to the conditioned floor area of 13%, it shall comply with all of the requirements of the 15% glazing option (or higher). Proposed designs which cannot meet the specific requirements of a listed option above may calculate compliance by Chapters 4 or 5 of this Code.
- 2. Requirement applies to all ceilings except single rafter or joist vaulted ceilings complying with note 3. 'Adv' denotes Advanced Framed Ceiling.
- 3. Requirement applicable only to single rafter or joist vaulted ceilings.
- 4. Below grade walls shall be insulated either on the exterior to a minimum level of R-12, continuous or on the interior as a framed wall.
- 5. Floors over crawl spaces or exposed to ambient air conditions.
- 6. Required slab perimeter insulation shall be a water resistant material, manufactured for its intended use, and installed according to manufacturer's specifications. See Section 602.4. For slabs inside a foundation wall, the insulation shall be installed to provide a thermal break (TB) between the slab edge and the foundation. Monolithic slabs shall include insulation, installed outside the foundation wall, and shall extend downward from the top of the slab for a minimum distance of 24 inches or downward and then horizontally for a minimum combined distance of 24 inches. Monolithic slabs shall also include R-10 insulation under the nonload bearing portions of the slab.

- 7. Int. denotes standard framing 16 inches on center with headers insulated with a minimum of R-10 insulation.
- 8. Reserved.
- 9. Doors, including all fire doors, shall be assigned default U-factors from Table 10-6C.
- 10. Where a maximum glazing area is listed, the total glazing area (combined vertical plus overhead) as a percent of gross conditioned floor area shall be less than or equal to that value. Overhead glazing with U-factor of U = 0.35 or less is not included in glazing area limitations.
- 11. Overhead glazing shall have U-factors determined in accordance with NFRC 100 or as specified in Section 502.1.5.
- 12. Log and solid timber walls with a minimum average thickness of 3.5" are exempt from this insulation requirement.

AMENDATORY SECTION (Amending WSR 10-03-115 and 10-13-113, filed 1/20/10 and 6/21/10, effective 10/29/10)

WAC 51-11-0900 Chapter 0900—Additional residential energy efficiency requirements.

901 Additional Residential Energy Efficiency Requirements. Dwelling units permitted under this Code shall comply with all provisions of Chapter 5 of this Code and develop 1 credit from Table 9-1.

EXCEPTION: Buildings complying using Chapter 4 Building Design by Systems Analysis shall meet this provision of this section by demonstrating that the proposed building energy use is ((46)) 8 percent less than the target building energy use.

**TABLE 9-1
ENERGY CREDITS (DEBITS)**

OPTION	DESCRIPTION	CREDIT(S)
1a	HIGH EFFICIENCY HVAC EQUIPMENT 1: Gas, propane or oil-fired furnace or boiler with minimum AFUE of 92%, or Air-source heat pump with minimum HSPF of 8.5.	1.0
1b	HIGH EFFICIENCY HVAC EQUIPMENT 2: Closed-loop ground source heat pump; with a minimum COP of 3.3.	2.0
1c	HIGH EFFICIENCY HVAC EQUIPMENT 3: DUCTLESS SPLIT SYSTEM HEAT PUMPS, ZONAL CONTROL: In home where the primary space heating system is zonal electric heating, a ductless heat pump system shall be installed and provide heating to at least one zone of the housing unit.	1.0

OPTION	DESCRIPTION	CREDIT(S)
2	HIGH EFFICIENCY HVAC DISTRIBUTION SYSTEM: ¹ All heating and cooling system components installed inside the conditioned space. All combustion equipment shall be direct vent or sealed combustion. Locating system components in conditioned crawl spaces is not permitted under this option. Electric resistance heat is not permitted under this option. Direct combustion heating equipment with AFUE less than 80% is not permitted under this option.	1.0
3a	EFFICIENT BUILDING ENVELOPE 1: Prescriptive compliance is based on Table 6-1, Option III with the following modifications: Window U = 0.28 floor R-38, slab on grade R-10 full, below grade slab R-10 full. or Component performance compliance: Reduce the Target UA from Table 5-1 by 5%, as determined using EQUATION 1.([†])	0.5
3b	EFFICIENT BUILDING ENVELOPE 2: Prescriptive compliance is based on Table 6-1, Option III with the following modifications: Window U = 0.25 and wall R-21 plus R-4 and R-38 floor, slab on grade R-10 full, below grade slab R-10 full, and R-21 plus R-5 below grade basement walls. or Component performance compliance: Reduce the Target UA from Table 5.1 by 15%, as determined using EQUATION 1.([†])	1.0
3c	SUPER-EFFICIENT BUILDING ENVELOPE 3: Prescriptive compliance is based on Table 6-1, Option III with the following modifications: Window U = 0.22 and wall R-21 plus R-12 and R-38 floor, slab on grade R-10 full, below	2.0

OPTION	DESCRIPTION	CREDIT(S)	OPTION	DESCRIPTION	CREDIT(S)
	grade slab R-10 full and R-21 plus R-12 below grade basement walls and R-49 advanced ceiling and vault. or Component performance compliance: Reduce the Target UA from Table 5.1 by 30%, as determined using EQUATION 1.:(⁺)			All whole house ventilation requirements as determined by Section M1508 of the Washington State Residential Code shall be met with a heat recovery ventilation system in accordance with Section M1508.7 of that Code.	
4a	AIR LEAKAGE CONTROL AND EFFICIENT VENTILATION: Envelope leakage reduced to SLA of 0.00020 building envelope tightness shall be considered acceptable when tested air leakage is less than specific leakage area of 0.00020 when tested with a blower door at a pressure difference of 50 PA. Testing shall occur after rough in and after installation of penetrations of the building envelope, including penetrations for utilities, plumbing, electrical, ventilation, and combustion appliances. and All whole house ventilation requirements as determined by Section M1508 of the Washington State Residential Code shall be met with a heat recovery ventilation system in accordance with Section M1508.7 of that Code.	0.5	5a	EFFICIENT WATER HEATING::(⁺) Water heating system shall include one of the following: Gas, propane or oil water heater with a minimum EF of 0.62. or Electric Water Heater with a minimum EF of 0.93. and for both cases All showerhead and kitchen sink faucets installed in the house shall meet be rated at 1.75 GPM or less. All other lavatory faucets shall be rated at 1.0 GPM or less. ²	0.5
			5b	HIGH EFFICIENCY WATER HEATING::(⁺) Water heating system shall include one of the following: Gas, propane or oil water heater with a minimum EF of 0.82. or Solar water heating supplementing a minimum standard water heater. Solar water heating will provide a rated minimum savings of 85 therms or 2000 kWh based on the Solar Rating and Certification Corporation (SRCC) Annual Performance of OG-300 Certified Solar Water Heating Systems. or Electric heat pump water heater with a minimum EF of 2.0.	1.5
4b	ADDITIONAL AIR LEAKAGE CONTROL AND EFFICIENT VENTILATION: Envelope leakage reduced to SLA of 0.00015 building envelope tightness shall be considered acceptable when tested air leakage is less than specific leakage area of 0.00015 when tested with a blower door at a pressure difference of 50 PA. Testing shall occur after rough in and after installation of penetrations of the building envelope, including penetrations for utilities, plumbing, electrical, ventilation, and combustion appliances. and	1.0	6	SMALL DWELLING UNIT 1::(⁺) Dwelling units less than 1500 square feet in floor area with less than 300 square feet of window + door area. Additions to existing building that are less than 750 square feet of heated floor area.	1.0

OPTION	DESCRIPTION	CREDIT(S)
7	LARGE DWELLING UNIT 1:(⁺) Dwelling units exceeding 5000 square feet of floor area shall be assessed a deduction for purposes of complying with Section 901 of this Code.	-1.0
8	RENEWABLE ELECTRIC ENERGY: For each 1200 kWh of electrical generation provided annually by on-site wind or solar equipment a 0.5 credit shall be allowed, up to 3 credits. Generation shall be calculated as follows: For solar electric systems, the design shall be demonstrated to meet this requirement using the National Renewable Energy Laboratory calculator PVWATTS. Documentation noting solar access shall be included on the plans. For wind generation projects designs shall document annual power generation based on the following factors: The wind turbine power curve; average annual wind speed at the site; frequency distribution of the wind speed at the site and height of the tower.	[0.5]

Footnotes:

1. **Interior Duct Placement:** Ducts included as Option 2 of Table 9-1 shall be placed wholly within the heated envelope of the housing unit. The placement shall be inspected and certified to receive the credits associated with this option.

EXCEPTION:

Ducts complying with this section may have up to 5% of the total linear feet of ducts located in the exterior cavities or buffer spaces of the dwelling. If this exception is used the ducts will be tested to the following standards:

Post-construction test: Leakage to outdoors shall be less than or equal to 1 CFM per 100 ft² of conditioned floor area when tested at a pressure differential of 0.1 inches w.g. (25 Pa) across the entire system, including the manufacturer's air handler enclosure. All register boots shall be taped or otherwise sealed during the test.

2. **Plumbing Fixtures Flow Ratings.** Low flow plumbing fixtures (water closets and urinals) and fittings (faucets and showerheads) shall comply with the following requirements:

(a) Residential bathroom lavatory sink faucets: Maximum flow rate - 3.8 L/min (1.0 gal/min) when tested in accordance with ASME A112.18.1/CSA B125.1.

(b) Residential kitchen faucets: Maximum flow rate - 6.6 L/min (1.75 gal/min) when tested in accordance with ASME A112.18.1/CSA B125.1.

(c) Residential showerheads: Maximum flow rate - 6.6 L/min (1.75 gal/min) when tested in accordance with ASME A112.18.1/CSA B125.1.

Reviser's note: The brackets and enclosed material in the text of the above section occurred in the copy filed by the agency and appear in the Register pursuant to the requirements of RCW 34.08.040.

AMENDATORY SECTION (Amending WSR 10-03-115 and 10-13-113, filed 1/20/10 and 6/21/10, effective 10/29/10)

WAC 51-11-1007 Section 1007 Ceilings.

1007.1 General: Table 10-7 lists heat-loss coefficients for the opaque portion of exterior ceilings below vented attics, vaulted ceilings, and roof decks in units of Btu/h•ft²•°F of ceiling.

They are derived from procedures listed in Standard RS-1, listed in Chapter 7. Ceiling U-factors are modified for the buffering effect of the attic, assuming an indoor temperature of 65° F and an outdoor temperature of 45°F.

Metal Framed Ceilings: The nominal R-values in Table 10-5A(2) - EFFECTIVE R-VALUES FOR METAL FRAMING AND CAVITY ONLY may be used for purposes of calculating metal framed ceiling section U-factors in lieu of the ASHRAE zone calculation method as provided in Chapter 27 of Standard RS-1.

Metal building roofs have a different construction and are addressed in Table 10-7(F).

1007.2 Component Description: The four types of ceilings are characterized as follows:

Ceilings Below a Vented Attic: Attic insulation is assumed to be blown-in, loose-fill fiberglass with a K-value of 2.6 hr•ft²•°F/Btu per inch. Full bag count for specified R-value is assumed in all cases. Ceiling dimensions for flat ceiling calculations are forty-five by thirty feet, with a gabled roof having a 4/12 pitch. The attic is assumed to vent naturally at the rate of three air changes per hour through soffit and ridge vents. A void fraction of 0.002 is assumed for all attics with insulation baffles. Standard-framed, unbaffled attics assume a void fraction of 0.008.

Attic framing is either standard or advanced. Standard framing assumes tapering of insulation depth around the perimeter with resultant decrease in thermal resistance. An increased R-value is assumed in the center of the ceiling due to the effect of piling leftover insulation. Advanced framing assumes full and even depth of insulation extending to the outside edge of exterior walls. Advanced framing does not change from the default value.

U-factors for flat ceilings below vented attics with standard framing may be modified with the following table:

Roof Pitch	U-Factor for Standard Framing	
	R-30	R-38
4/12	.036	.031
5/12	.035	.030
6/12	.034	.029
7/12	.034	.029
8/12	.034	.028
9/12	.034	.028
10/12	.033	.028
11/12	.033	.027

Roof Pitch	U-Factor for Standard Framing	
	R-30	R-38
12/12	.033	.027

Vented scissored truss attics assume a ceiling pitch of 2/12 with a roof pitch of either 4/12 or 5/12. Unbaffled standard framed scissored truss attics are assumed to have a void fraction of 0.016.

Vaulted Ceilings: Insulation is assumed to be fiberglass batts installed in roof joist cavities. In the vented case, at least 1.5-inches between the top of the batts and the underside of the roof sheathing is left open for ventilation in each cavity. A ventilation rate of 3.0 air changes per hour is assumed. In the unvented or dense pack case, the ceiling cavity is assumed to be fully packed with insulation, leaving no space for ventilation.

EXCEPTION: Where spray polyurethane foam meets the requirements of Section 502.1.6.3 or 1313.2, the cavity shall be filled to the depth to achieve R-value requirements.

Roof Decks: Rigid insulation is applied to the top of roof decking with no space left for ventilation. Roofing materials are attached directly on top of the insulation. Framing members are often left exposed on the interior side.

Metal Truss Framing: Overall system tested values for the roof/ceiling U_o for metal framed truss assemblies from approved laboratories shall be used, when such data is acceptable to the building official.

Alternatively, the U_o for roof/ceiling assemblies using metal truss framing may be obtained from Tables 10-7A, 10-7B, 10-7C, 10-7D and 10-7E.

Steel Truss Framed Ceiling, Table 10-7A.

Steel Truss Framed Ceiling with R-3 Sheathing, Table 10-7B.

Steel Truss Framed Ceiling with R-5 Sheathing, Table 10-7C.

Steel Truss Framed Ceiling with R-10 Sheathing, Table 10-7D.

Steel Truss Framed Ceiling with R-15 Sheathing, Table 10-7E.

Metal Building Roof, Table 10-7F: The base assembly is a roof where the insulation is compressed when installed beneath metal roof panels attached to the steel structure (purlins). Additional assemblies include continuous insulation, uncompressed and uninterrupted by framing.

Single Layer. The rated R-value of insulation is for insulation installed perpendicular to and draped over purlins and then compressed when the metal roof panels are attached. A minimum R-3 (R-0.5) thermal spacer block between the purlins and the metal roof panels is required, unless compliance is shown by the overall assembly U-factor.

Double Layer. The first rated R-value of insulation is for insulation installed perpendicular to and draped over purlins. The second rated R-value of insulation is for unfaced insulation installed above the first layer and parallel to the purlins and then compressed when the metal roof panels are

attached. A minimum R-3 (R-0.5) thermal spacer block between the purlins and the metal roof panels is required, unless compliance is shown by the overall assembly U-factor.

Continuous Insulation. For continuous insulation (e.g., insulation boards or blankets), it is assumed that the insulation is installed below the purlins and is uninterrupted by framing members. Insulation exposed to the conditioned space or semiheated space shall have a facing, and all insulation seams shall be continuously sealed to provide a continuous air barrier.

Liner System (Ls). A continuous membrane is installed below the purlins and uninterrupted by framing members. Uncompressed, unfaced insulation rests on top of the membrane between the purlins. For multilayer installations, the last rated R-value of insulation is for unfaced insulation draped over purlins and then compressed when the metal roof panels are attached. A minimum R-3 (R-0.5) thermal spacer block between the purlins and the metal roof panels is required, unless compliance is shown by the overall assembly U-factor.

Filled Cavity. The first rated R-value of insulation is for faced insulation installed parallel to the purlins. The second rated R-value of insulation is for unfaced insulation installed above the first layer, parallel to and between the purlins and compressed when the metal roof panels are attached. The facer of the first layer of insulation is of sufficient width to be continuously sealed to the top flange of the purlins and to accommodate the full thickness of the second layer of insulation. A supporting structure retains the bottom of the first layer at the prescribed depth required for the full thickness of the second layer of insulation being installed above it. A minimum R-5 (R-0.9) thermal spacer block between the purlins and the metal roof panels is required, unless compliance is shown by the overall assembly U-factor.

U-factors for Metal Building Roofs. U-factors for metal building roofs shall be taken from Table 10-7F, provided the average purlin spacing is at least 52 in. and the R-value of the thermal spacer block is greater than or equal to the thermal spacer block R-value indicated in Table 10-7F for the assembly. It is not acceptable to use the U-factors in Table 10-7F if additional insulated sheathing is not continuous.

Roofs with Insulation Entirely Above Deck (uninterrupted by framing), Table 10-7G: The base assembly is continuous insulation over a structural deck. Added insulation is continuous and uninterrupted by framing. For the insulation, the first column lists the R-value for continuous insulation with a uniform thickness; the second column lists the comparable area-weighted average R-value for continuous insulation provided that the insulation thickness is never less than R-5 (except at roof drains) and that the slope is no greater than 1/4 inch per foot.

TABLE 10-7
DEFAULT U-FACTORS FOR CEILINGS

Ceilings Below Vented Attics

	Standard Frame	Advanced Frame
Flat Ceiling	Baffled	
R-19	0.049	0.047
R-30	0.036	0.032
R-38	0.031	0.026
R-49	0.027	0.020
R-60	0.025	0.017
Scissors Truss		
R-30 (4/12 roof pitch)	0.043	0.031
R-38 (4/12 roof pitch)	0.040	0.025
R-49 (4/12 roof pitch)	0.038	0.020
R-30 (5/12 roof pitch)	0.039	0.032
R-38 (5/12 roof pitch)	0.035	0.026
R-49 (5/12 roof pitch)	0.032	0.020
Vaulted Ceilings		
	16" O.C.	24" O.C.
Vented		
R-19 2x10 joist	0.049	0.048
R-30 2x12 joist	0.034	0.033
R-38 2x14 joist	0.027	0.027
Unvented		
R-30 2x10 joist	0.034	0.033
R-38 2x12 joist	0.029	0.027
R-21 + R-21 2x12 joist	0.026	0.025
Roof Deck		
	4x Beams, 48" O.C.	
R-12.5 2" Rigid insulation	0.064	
R-21.9 3.5" Rigid insulation	0.040	
R-37.5 6" Rigid insulation	0.025	
R-50 8" Rigid insulation	0.019	

Table 10-7A
Steel Truss¹ Framed Ceiling U_o

Cavity R-value	Truss Span (ft)												
	12	14	16	18	20	22	24	26	28	30	32	34	36
19	0.1075	0.0991	0.0928	0.0878	0.0839	0.0807	0.0780	0.0757	0.0737	0.0720	0.0706	0.0693	0.0681
30	0.0907	0.0823	0.0760	0.0710	0.0671	0.0638	0.0612	0.0589	0.0569	0.0552	0.0538	0.0525	0.0513
38	0.0844	0.0759	0.0696	0.0647	0.0607	0.0575	0.0548	0.0525	0.0506	0.0489	0.0474	0.0461	0.0449
49	0.0789	0.0704	0.0641	0.0592	0.0552	0.0520	0.0493	0.0470	0.0451	0.0434	0.0419	0.0406	0.0395

Table 10-7B
Steel Truss¹ Framed Ceiling U_o with R-3 Sheathing²

Cavity R-value	Truss Span (ft)												
	12	14	16	18	20	22	24	26	28	30	32	34	36
19	0.0809	0.0763	0.0728	0.0701	0.0679	0.0661	0.0647	0.0634	0.0623	0.0614	0.0606	0.0599	0.0592
30	0.0641	0.0595	0.0560	0.0533	0.0511	0.0493	0.0478	0.0466	0.0455	0.0446	0.0438	0.0431	0.0424
38	0.0577	0.0531	0.0496	0.0469	0.0447	0.0430	0.0415	0.0402	0.0392	0.0382	0.0374	0.0367	0.0361
49	0.0523	0.0476	0.0441	0.0414	0.0393	0.0375	0.0360	0.0348	0.0337	0.0328	0.0319	0.0312	0.0306

Table 10-7C Steel Truss ¹ Framed Ceiling U _O with R-5 Sheathing ²													
Cavity R-value	Truss Span (ft)												
	12	14	16	18	20	22	24	26	28	30	32	34	36
19	0.0732	0.0697	0.0670	0.0649	0.0633	0.0619	0.0608	0.0598	0.0590	0.0583	0.0577	0.0571	0.0567
30	0.0564	0.0529	0.0502	0.0481	0.0465	0.0451	0.0440	0.0430	0.0422	0.0415	0.0409	0.0403	0.0399
38	0.0501	0.0465	0.0438	0.0418	0.0401	0.0388	0.0376	0.0367	0.0359	0.0351	0.0345	0.0340	0.0335
49	0.0446	0.0410	0.0384	0.0363	0.0346	0.0333	0.0322	0.0312	0.0304	0.0297	0.0291	0.0285	0.0280

Table 10-7D Steel Truss ¹ Framed Ceiling U _O with R-10 Sheathing ²													
Cavity R-value	Truss Span (ft)												
	12	14	16	18	20	22	24	26	28	30	32	34	36
19	0.0626	0.0606	0.0590	0.0578	0.0569	0.0561	0.0555	0.0549	0.0545	0.0541	0.0537	0.0534	0.0531
30	0.0458	0.0437	0.0422	0.0410	0.0401	0.0393	0.0387	0.0381	0.0377	0.0373	0.0369	0.0366	0.0363
38	0.0394	0.0374	0.0359	0.0347	0.0337	0.0330	0.0323	0.0318	0.0313	0.0309	0.0305	0.0302	0.0299
49	0.0339	0.0319	0.0304	0.0292	0.0283	0.0275	0.0268	0.0263	0.0258	0.0254	0.0251	0.0247	0.0245

Table 10-7E Steel Truss ¹ Framed Ceiling U _O with R-15 Sheathing ²													
Cavity R-value	Truss Span (ft)												
	12	14	16	18	20	22	24	26	28	30	32	34	36
19	0.0561	0.0550	0.0541	0.0535	0.0530	0.0526	0.0522	0.0519	0.0517	0.0515	0.0513	0.0511	0.0509
30	0.0393	0.0382	0.0373	0.0367	0.0362	0.0358	0.0354	0.0351	0.0349	0.0347	0.0345	0.0343	0.0341
38	0.0329	0.0318	0.0310	0.0303	0.0298	0.0294	0.0291	0.0288	0.0285	0.0283	0.0281	0.0279	0.0278
49	0.0274	0.0263	0.0255	0.0249	0.0244	0.0239	0.0236	0.0233	0.0230	0.0228	0.0226	0.0225	0.0223

- 1 - Assembly values based on 24 inch on center truss spacing; 11 Truss member connections penetrating insulation (4 at the eaves, 7 in the interior space); 1/2 inch drywall ceiling; all truss members are 2x4 "C" channels with a solid web.
- 2 - Ceiling sheathing installed between bottom chord and drywall.

**TABLE 10-7F
Default U-Factors for Metal Building Roofs**

Insulation System	Rated R-Value of Insulation	Overall U-Factor for Entire Base Roof Assembly	Overall U-Factor for Assembly of Base Roof Plus Continuous Insulation (uninterrupted by framing) Rated R-Value of Continuous Insulation					
			R-6.5	R-13	R-19.5	R-26	R-32.5	R-39
Standing Seam Roofs with Thermal Spacer Blocks^{a,b}								
Single Layer	None	1.280	0.137	0.073	0.049	0.037	0.030	0.025
	R-10	0.115	0.066	0.046	0.035	0.029	0.024	0.021
	R-11	0.107	0.063	0.045	0.035	0.028	0.024	0.021
	R-13	0.101	0.061	0.044	0.034	0.028	0.024	0.020
	R-16	0.096	0.059	0.043	0.033	0.027	0.023	0.020
	R-19	0.082	0.053	0.040	0.031	0.026	0.022	0.020
	((R-10 + R-10	0.088	0.056	0.041	0.032	0.027	0.023	0.020
	R-10 + R-11	0.086	0.055	0.041	0.032	0.027	0.023	0.020
	R-11 + R-11	0.085	0.055	0.040	0.032	0.026	0.023	0.020
R-10 + R-13	0.084	0.054	0.040	0.032	0.026	0.023	0.020	
Double Layer	<u>R-10 + R-10</u>	<u>0.088</u>	<u>0.056</u>	<u>0.041</u>	<u>0.032</u>	<u>0.027</u>	<u>0.023</u>	<u>0.020</u>
	<u>R-10 + R-11</u>	<u>0.086</u>	<u>0.055</u>	<u>0.041</u>	<u>0.032</u>	<u>0.027</u>	<u>0.023</u>	<u>0.020</u>
	<u>R-11 + R-11</u>	<u>0.085</u>	<u>0.055</u>	<u>0.040</u>	<u>0.032</u>	<u>0.026</u>	<u>0.023</u>	<u>0.020</u>
	<u>R-10 + R-13</u>	<u>0.084</u>	<u>0.054</u>	<u>0.040</u>	<u>0.032</u>	<u>0.026</u>	<u>0.023</u>	<u>0.020</u>
	<u>R-11 + R-13</u>	<u>0.082</u>	<u>0.053</u>	<u>0.040</u>	<u>0.032</u>	<u>0.026</u>	<u>0.022</u>	<u>0.020</u>
	R-13 + R-13	0.075	0.050	0.038	0.030	0.025	0.022	0.019

Insulation System	Rated R-Value of Insulation	Overall U-Factor for Entire Base Roof Assembly	Overall U-Factor for Assembly of Base Roof Plus Continuous Insulation (uninterrupted by framing) Rated R-Value of Continuous Insulation					
			R-6.5	R-13	R-19.5	R-26	R-32.5	R-39
	R10 + R-19	0.074	0.050	0.038	0.030	0.025	0.022	0.019
	R-11 + R-19	0.072	0.049	0.037	0.030	0.025	0.022	0.019
	R-13 + R-19	0.068	0.047	0.036	0.029	0.025	0.021	0.019
	R-16 + R-19	0.065	0.046	0.035	0.029	0.024	0.021	0.018
	R-19 + R-19	0.060	0.043	0.034	0.028	0.023	0.020	0.018
	((R-19 + R-11	0.035))						
Liner System	<u>R-19 + R-11</u>	<u>0.035</u>						
	R-25 + R-11	0.031						
	R-30 + R-11	0.029						
	R-25 + R-11 + R-11	0.026						
Filled Cavity with Thermal Spacer Blocks^c								
	R-10 + R-19	0.057	0.042	0.033	0.027	0.023	0.020	0.018
Standing Seam Roofs without Thermal Spacer Blocks								
Liner System	R-19 + R-11	0.040						
Thru-Fastened Roofs without Thermal Spacer Blocks								
((Liner System)) <u>Single Layer</u>	R-10	0.184						
	R-11	0.182						
	R-13	0.174						
	R-16	0.157						
	R-19	0.151						
	((R-19 + R-11	0.044))						
<u>Liner System</u>	<u>R-19 + R-11</u>	<u>0.044</u>						

(Multiple R-values are listed in order from inside to outside)

- a. A standing seam roof clip that provides a minimum 1.5 in. distance between the top of the purlins and the underside of the metal roof panels is required.
- b. A minimum R-3 thermal spacer block is required.
- c. A minimum R-5 thermal spacer block is required.

TABLE 10-7G

Assembly U-Factors for Roofs with Insulation Entirely Above Deck (uninterrupted by framing)

Rated R-Value of Insulation Alone: Minimum Through-out, Unslotted	Rated R-Value of Insulation Alone: Average (R-5 minimum), Sloped (1/4 inch per foot maximum)	Overall U-Factor for Entire Assembly
R-0	Not Allowed	U-1.282
R-1	Not Allowed	U-0.562
R-2	Not Allowed	U-0.360
R-3	Not Allowed	U-0.265
R-4	Not Allowed	U-0.209
R-5	Not Allowed	U-0.173
R-6	R-7	U-0.147
R-7	R-8	U-0.129
R-8	R-9	U-0.114
R-9	R-10	U-0.102

Rated R-Value of Insulation Alone: Minimum Through-out, Unslotted	Rated R-Value of Insulation Alone: Average (R-5 minimum), Sloped (1/4 inch per foot maximum)	Overall U-Factor for Entire Assembly
R-10	R-12	U-0.093
R-11	R-13	U-0.085
R-12	R-15	U-0.078
R-13	R-16	U-0.073
R-14	R-18	U-0.068
R-15	R-20	U-0.063
R-16	R-22	U-0.060
R-17	R-23	U-0.056
R-18	R-25	U-0.053
R-19	R-27	U-0.051
R-20	R-29	U-0.048
R-21	R-31	U-0.046
R-22	R-33	U-0.044
R-23	R-35	U-0.042
R-24	R-37	U-0.040
R-25	R-39	U-0.039
R-26	R-41	U-0.037
R-27	R-43	U-0.036

Rated R-Value of Insulation Alone: Minimum Through-out, Unsloped	Rated R-Value of Insulation Alone: Average (R-5 minimum), Sloped (1/4 inch per foot maximum)	Overall U-Factor for Entire Assembly
R-28	R-46	U-0.035
R-29	R-48	U-0.034
R-30	R-50	U-0.032
R-35	R-61	U-0.028
R-40	R-73	U-0.025
R-45	R-86	U-0.022
R-50	R-99	U-0.020
R-55	R-112	U-0.018
R-60	R-126	U-0.016

AMENDATORY SECTION (Amending WSR 10-03-115 and 10-13-113, filed 1/20/10 and 6/21/10, effective 10/29/10)

WAC 51-11-1334 Solar heat gain coefficient rate calculations. Solar heat gain coefficient shall comply with Section 1323.3. The target SHGCA_t and the proposed SHGCA_p shall be calculated using Equation 13-3 and 13-4 and the corresponding areas and SHGCs from Table 13-1 or 13-2.

**Equation 13-1:
Target UA_t**

UA _t	=	U _{radt} A _{radt} + U _{mrt} A _{mrt} + U _{rst} A _{rst} + U _{ort} A _{ort} + U _{ogcort} A _{ogcort} + U _{ogort} A _{ogort} + U _{mwt} A _{mwt} + U _{mbwt} A _{mbwt} + U _{sfiwt} A _{sfiwt} + U _{wt} A _{wt} + U _{vgt} A _{vgt} + U _{vgmt} A _{vgmt} + U _{vgdt} A _{vgdt} + U _{dt} A _{dt} + U _{fimt} A _{fimt} + U _{fist} A _{fist} + U _{fit} A _{fit} + F _{st} P _{st} + F _{rst} P _{rst}
UA _t	=	The target combined specific heat transfer of the gross roof/ceiling assembly, exterior wall and floor area.
Where:		
U _{radt}	=	The thermal transmittance value for roofs with the insulation entirely above deck found in Table 13-1 or 13-2.
U _{mrt}	=	The thermal transmittance value for metal building roofs found in Table 13-1 or 13-2.
U _{rst}	=	The thermal transmittance value for single rafter roofs found in Table 13-1 or 13-2.
U _{ort}	=	The thermal transmittance value for attic and other roofs found in Table 13-1 or 13-2.
U _{ogcort}	=	The thermal transmittance for overhead glazing with curb found in Table 13-1 or 13-2 which corresponds to the proposed total glazing area as a percent of gross exterior wall area.
U _{ogort}	=	The thermal transmittance for overhead glazing without curb found in Table 13-1 or 13-2 which corresponds to the proposed total glazing area as a percent of gross exterior wall area.
U _{mwt}	=	The thermal transmittance value for opaque mass walls found in Table 13-1 or 13-2.
U _{mbwt}	=	The thermal transmittance value for opaque metal building walls found in Table 13-1 or 13-2.
U _{sfiwt}	=	The thermal transmittance value for opaque steel framed walls found in Table 13-1 or 13-2.
U _{wt}	=	The thermal transmittance value for opaque wood framed and other walls found in Table 13-1 or 13-2.
U _{vgt}	=	The thermal transmittance value for vertical glazing with nonmetal framing found in Table 13-1 or 13-2 which corresponds to the proposed total glazing area as a percent of gross exterior wall area.
U _{vgmt}	=	The thermal transmittance value for vertical glazing with metal framing found in Table 13-1 or 13-2 which corresponds to the proposed total glazing area as a percent of gross exterior wall area.
U _{vgdt}	=	The thermal transmittance value for entrance doors found in Table 13-1 or 13-2 which corresponds to the proposed total glazing area as a percent of gross exterior wall area.
U _{dt}	=	The thermal transmittance value for opaque doors found in Table 13-1 or 13-2.
U _{fimt}	=	The thermal transmittance value for mass floors over unconditioned space found in Table 13-1 or 13-2.
U _{fist}	=	The thermal transmittance value for steel joist floors over unconditioned space found in Table 13-1 or 13-2.
U _{fit}	=	The thermal transmittance value for wood framed or other floors over unconditioned space found in Table 13-1 or 13-2.
F _{st}	=	The F-factor for slab-on-grade floors found in Table 13-1 or 13-2.
F _{rst}	=	The F-factor for radiant slab floors found in Table 13-1 or 13-2.
A _{dt}	=	The proposed opaque door area, A _d .
A _{fimt}	=	The proposed mass floor over unconditioned space area, A _{fm} .
A _{fist}	=	The proposed steel joist floor over unconditioned space area, A _{fs} .
A _{fit}	=	The proposed wood framed and other floor over unconditioned space area, A _f .
P _{st}	=	The proposed linear feet of slab-on-grade floor perimeter, P _s .

P_{rst} = The proposed linear feet of radiant slab floor perimeter, P_{rs} .

and;
 if the total amount of glazing area as a percent of gross exterior wall area does not exceed the maximum allowed in Table 13-1 or 13-2:

A_{radt} = The proposed roof area with insulation entirely above deck, A_{rad} .

A_{mrt} = The proposed roof area for metal building, A_{mr} .

A_{rst} = The proposed single rafter roof area, A_{ors} .

A_{ort} = The proposed attic and other roof area, A_{or} .

A_{ogcort} = The proposed overhead glazing area with curbs, A_{ogcor} .

A_{ogort} = The proposed overhead glazing area without curbs, A_{ogor} .

A_{mwt} = The proposed opaque mass wall area, A_{mw} .

A_{mbwt} = The proposed opaque metal building wall area, A_{mbw} .

A_{sfiwt} = The proposed opaque steel framed wall area, A_{sfiw} .

A_{wt} = The proposed opaque wood framed and other wall area, A_w .

A_{vgt} = The proposed vertical glazing area with nonmetal framing, A_{vg} .

A_{vgmt} = The proposed vertical glazing area with metal framing, A_{vgm} .

A_{vgdt} = The proposed entrance door area, A_{vgd} .

or;
 if the total amount of glazing area as a percent of gross exterior wall area exceeds the maximum allowed in Table 13-1 or 13-2, the area of each fenestration element shall be reduced in the base envelope design by the same percentage and the net area of each wall type adjusted proportionately by the same percentage so that the total overhead and vertical fenestration area is exactly equal to 40% of the gross wall area.

EQUATION 13-2
Proposed UA_p

$$UA_p = U_{mr}A_{mr} + U_{ad}A_{ad} + U_{rs}A_{rs} + U_{ra}A_{ra} + U_{ogc}A_{ogc} + U_{og}A_{og} + U_{mw}A_{mw} + U_{mbw}A_{mbw} + U_{sfiw}A_{sfiw} + U_{wfiw}A_{wfiw} + U_dA_d + U_{vg}A_{vg} + U_{vgm}A_{vgm} + U_{vgd}A_{vgd} + U_{fiw}A_{fiw} + U_{fis}A_{fis} + U_{fwo}A_{fwo} + F_sP_s + F_{sr}P_{sr}$$

Where:

- UA_p = The combined proposed specific heat transfer of the gross exterior wall, floor and roof/ceiling assembly area.
- U_{mr} = The thermal transmittance of the metal building roof area.
- A_{mr} = Opaque metal building roof area.
- U_{rad} = The thermal transmittance of the roof area where the insulation is entirely above roof deck.
- A_{rad} = Opaque roof area where the insulation is entirely above roof deck.
- U_{rs} = The thermal transmittance of the single rafter roof area.
- A_{rs} = Opaque single rafter roof area.
- U_{ra} = The thermal transmittance of the roof over attic and other roof area.
- A_{ra} = Opaque roof over attic and other roof area.
- U_{ogc} = The thermal transmittance for the overhead glazing with curbs.
- A_{ogc} = Overhead glazing area with curbs.
- U_{og} = The thermal transmittance for the overhead glazing without curbs.
- A_{og} = Overhead glazing area without curbs.
- U_{mw} = The thermal transmittance of the opaque mass wall area.
- A_{mw} = Opaque mass wall area (not including opaque doors).
- U_{mbw} = The thermal transmittance of the opaque metal building wall area.
- A_{mbw} = Opaque metal building wall area (not including opaque doors).

- $U_{s\text{fw}}$ = The thermal transmittance of the opaque steel framed wall area.
- $A_{s\text{fw}}$ = Opaque steel framed wall area (not including opaque doors).
- $U_{w\text{fow}}$ = The thermal transmittance of the opaque wood framed and other wall area.
- $A_{w\text{fow}}$ = Opaque wood framed and other wall area (not including opaque doors).
- $U_{v\text{g}}$ = The thermal transmittance of the vertical glazing area with nonmetal framing.
- $A_{v\text{g}}$ = Vertical glazing area with nonmetal glazing.
- $U_{v\text{gmf}}$ = The thermal transmittance of the vertical glazing area with metal framing.
- $A_{v\text{gmf}}$ = Vertical glazing area with metal framing.
- $U_{v\text{gd}}$ = The thermal transmittance of the vertical glazing area for entrance doors.
- $A_{v\text{gd}}$ = Vertical glazing area for entrance doors.
- U_{d} = The thermal transmittance value of the opaque door area.
- A_{d} = Opaque door area.
- $U_{f\text{m}}$ = The thermal transmittance of the mass floor over unconditioned space area.
- $A_{f\text{m}}$ = Mass floor area over unconditioned space.
- $U_{f\text{s}}$ = The thermal transmittance of the steel joist floor over unconditioned space area.
- $A_{f\text{s}}$ = Steel joist floor area over unconditioned space.
- $U_{f\text{wo}}$ = The thermal transmittance of the wood framed and other floor over unconditioned space area.
- $A_{f\text{wo}}$ = Wood framed and other floor area over unconditioned space.
- F_{s} = Slab-on-grade floor component F-factor.
- P_{s} = Linear feet of slab-on-grade floor perimeter.
- $F_{s\text{r}}$ = Radiant floor component F-factor.
- $P_{s\text{r}}$ = Lineal feet of radiant floor perimeter.

NOTE: Where more than one type of wall, window, roof/ceiling, door and skylight is used, the U and A terms for those items shall be expanded into sub-elements as:

$$U_{m\text{w}1}A_{m\text{w}1} + U_{m\text{w}2}A_{m\text{w}2} + U_{s\text{fw}1}A_{s\text{fw}1} + \dots\text{etc.}$$

**EQUATION 13-3
Target SHGCA_t**

$$\text{SHGCA}_t = \text{SHGC}_t \left(((A_{e\text{grat}})) \frac{A_{o\text{gcor1}}}{A_{o\text{gcor1}}} + A_{o\text{gort}} + A_{v\text{gt}} + \frac{A_{v\text{gm1}}}{A_{v\text{gm1}}} + \frac{A_{v\text{got}}}{A_{v\text{got}}} \right)$$

Where:

- SHGCA_t = The target combined specific heat gain of the target glazing area.
- SHGC_t = The solar heat gain coefficient for glazing found in Table 13-1 or 13-2 which corresponds to the proposed total glazing area as a percent of gross exterior wall area, and
 $((A_{e\text{grat}})) \frac{A_{o\text{gcor1}}}{A_{o\text{gcor1}}}$, $A_{o\text{gort}}$, $\frac{A_{v\text{gm1}}}{A_{v\text{gm1}}}$, $\frac{A_{v\text{got}}}{A_{v\text{got}}}$ and $A_{v\text{gt}}$ are defined under Equation 13-1.

**EQUATION 13-4
Proposed SHGCA_p**

$$\text{SHGCA}_p = \text{SHGC}_{o\text{g}}A_{o\text{g}} + \text{SHGC}_{v\text{g}}A_{v\text{g}}$$

Where:

- SHGCA_t = The combined proposed specific heat gain of the proposed glazing area.
- $\text{SHGC}_{o\text{g}}$ = The solar heat gain coefficient of the overhead glazing.
- $A_{o\text{g}}$ = The overhead glazing area.
- $\text{SHGC}_{v\text{g}}$ = The solar heat gain coefficient of the vertical glazing.
- $A_{v\text{g}}$ = The vertical glazing area.

TABLE 13-1
BUILDING ENVELOPE REQUIREMENTS FOR CLIMATE ZONE 1

Opaque Elements	Nonresidential		Residential, Other than Single-Family	
	Assembly Max. U-factor	Insulation Min. R-Value	Assembly Max. U-factor	Insulation Min. R-Value
Roofs				
Insulation entirely above deck	U-0.034	R-30 c.i.	U-0.031	R-38 c.i.
Metal building	U-0.031	R-25 + R-11 Ls	U-0.031	R-25 + R-11 Ls
Single-rafter	U-0.027	R-38	U-0.027	R-38
Attic and other	U-0.027	R-38 adv or R-49	U-0.027	R-38 adv or R-49
Walls, Above Grade				
Mass ¹	U-0.150	R-5.7 c.i.	U-0.090	R-11.4 c.i.
Metal building	U-0.064	R-13 + R-7.5 c.i.	U-0.057	R-19 + R-8.5 c.i.
Steel framed	U-0.064	R-13 + R-7.5 c.i.	U-0.057	R-19 + R-8.5 c.i.
Wood framed and other	U-0.057	R-21	U-0.057	R-13 + R-6 c.i.
Walls, Below Grade				
Below grade wall		Same as above grade		Same as above grade
Floors				
Mass	U-0.029	R-30 c.i.	U-0.029	R-30 c.i.
Steel joist	U-0.029	R-38 + R-4 c.i.	U-0.029	R-38 + R-4 c.i.
Wood framed and other	U-0.029	R-30	U-0.029	R-30
Slab-on-Grade Floors				
Unheated	F-0.540	R-10 for 24 in. (with thermal break)	F-0.540	R-10 for 24 in. (with thermal break)
Heated	F-0.360	R-10 c.i. (with thermal break)	F-0.360	R-10 c.i. (with thermal break)
Opaque Doors				
Swinging	U-0.600		U-0.400	
Nonswinging	U-0.600		U-0.400	
Fenestration 0-40% of Wall				
	Assembly Max. U-Factor	Assembly Max. SHGC	Assembly Max. U-Factor	Assembly Max. SHGC
Vertical Fenestration				
Nonmetal framing: All	U-0.32	SHGC-0.40 all OR	U-0.32	
Metal framing: Fixed/operable	U-0.40	SHGC-0.45 all PLUS Permanent PF>0.50 on	U-0.40	
Entrance doors	U-0.60	west, south and east	U-0.60	
Skylights				
Without curb (i.e., sloped glazing)	U-0.50	SHGC-0.35 all	U-0.50	SHGC-0.35 all
With curb (i.e., individual unit skylights)	U-0.60		U-0.60	

c.i. = continuous insulation, Ls = liner system (see definitions).

Footnote

1. Nonresidential walls may be ASTM C90 concrete block walls, ungrouted or partially grouted at 32 inches or less on center vertically and 48 inches or less on center horizontally, with ungrouted cores filled with material having a maximum thermal conductivity of 0.44 Btu·in/h·ft²·°F.

**TABLE 13-2
BUILDING ENVELOPE REQUIREMENTS
FOR CLIMATE ZONE 2**

Opaque Elements	Nonresidential		Residential, Other than Single-Family	
	Assembly Max. U-factor	Insulation Min. R-Value	Assembly Max. U-factor	Insulation Min. R-Value
Roofs				
Insulation entirely above deck	U-0.034	R-30 c.i.	U-0.031	R-38 c.i.
Metal building	U-0.031	R-25 + R-11 Ls	U-0.031	R-25 + R-11 Ls
Single-rafter	U-0.027	R-38	U-0.027	R-38
Attic and other	U-0.027	R-38 adv or R-49	U-0.027	R-38 adv or R-49
Walls, Above Grade				
Mass	U-0.123	R-7.6 c.i.	U-0.080	R-13.3 c.i.
Metal building	U-0.064	R-13 + R-7.5 c.i.	U-0.044	R-19 + R-16 c.i.
Steel framed	U-0.064	R-13 + R-7.5 c.i.	U-0.044	R-19 + R-14 c.i.
Wood framed and other	U-0.051	R-13 + R-7.5 c.i. OR R-21 + R-2.5 c.i.	U-0.044	R-21+ R-5 c.i.
Walls, Below Grade				
Below grade wall		Same as above grade		Same as above grade
Floors				
Mass	U-0.029	R-30 c.i.	U-0.029	R-30 c.i.
Steel joist	U-0.029	R-38 + R-4 c.i.	U-0.029	R-38 + R-4 c.i.
Wood framed and other	U-0.029	R-30	U-0.029	R-30
Slab-on-Grade Floors				
Unheated	F-0.540	R-10 for 24 in. (with thermal break)	F-0.540	R-10 for 24 in. (with thermal break)
Heated	F-0.360	R-10 c.i. (with thermal break)	F-0.360	R-10 c.i. (with thermal break)
Opaque Doors				
Swinging	U-0.600		U-0.400	
Nonswinging	U-0.600		U-0.400	
Fenestration 0-40% of Wall				
	Assembly Max. U-Factor	Assembly Max. SHGC	Assembly Max. U-Factor	Assembly Max. SHGC
Vertical Fenestration				
Nonmetal framing: All	U-0.32	SHGC-0.40 all OR SHGC-0.45 all PLUS Permanent PF>0.50 on west, south and east	U-0.32	
Metal framing: Fixed/operable	U-0.40		U-0.40	
Entrance doors	U-0.60		U-0.60	
Skylights				
Without curb (i.e., sloped glazing)	U-0.50	SHGC-0.35 all	U-0.50	SHGC-0.35 all
With curb (i.e., individual unit skylights)	U-0.60		U-0.60	

c.i. = continuous insulation, Ls = liner system (see definitions).

AMENDATORY SECTION (Amending WSR 10-03-115 and 10-13-113, filed 1/20/10 and 6/21/10, effective 10/29/10)

WAC 51-11-1416 Commissioning and completion requirements.

1416.1 General. Drawing notes or specifications shall require commissioning and completion requirements in accordance with this section.

1416.2 Commissioning Scope. Commissioning in compliance with this section and Section ((1513-7)) 1513.8 shall be required for new systems or modified portions of systems,

with a heating capacity of 600K Btu/h or a cooling capacity of 40 tons or more.

1416.2.1 Buildings which require commissioning shall go through a commissioning process that includes as a minimum:

1. Commissioning plan;
2. Systems testing and balancing;
3. HVAC equipment and HVAC controls functional testing;
4. Supporting documentation in the form of operation and maintenance and record documents;
5. Commissioning report.

1416.3 Commissioning Requirements.

1416.3.1 Commissioning Plan. Commissioning plan shall include:

1. A general description of the commissioning process activities including the systems to be commissioned;
2. The scope of the commissioning process including systems testing and balancing, functional testing, and supporting documentation;
3. Roles and responsibilities of the commissioning team;
4. A schedule of activities including systems testing and balancing, functional testing, and supporting documentation;
5. Functional test procedures and forms.

1416.3.2 Systems Testing and Balancing.

1416.3.2.1 General. All HVAC air and hydronic systems shall be balanced in accordance with generally accepted engineering standards.

1416.3.2.2 Air Systems Balancing. Throttling losses shall be minimized by balancing the systems or adjusting the speed of fans with motors greater than 1 hp.

1416.3.2.3 Hydronic Systems Balancing. Throttling losses shall be minimized by balancing the systems, or trimming the pump impeller or adjusting the pump speed.

EXCEPTIONS:

1. Pumps with pump motors of 10 hp or less.
2. Throttling is an acceptable method of balancing only if the power draw does not exceed that of equivalent system with the impeller trimmed by more than 5 percent.

All hydronic heating or cooling coils with design flow exceeding 20 gpm (76 L/m) shall be equipped with dedicated pressure testing ports to enable testing of pressure drop through the coil. All hydronic heating or cooling systems served by pump(s) exceeding 5 hp (3.7 kW) shall be equipped with accessible pressure testing ports to enable testing supply and return pressure near the end of each major hydronic run.

1416.3.3 Systems, Equipment, and Controls Functional Testing. All HVAC systems, equipment, and controls as well as and lighting controls as specified in Section ((4513-7)) 1513.8 shall be tested to ensure that control devices, components, equipment and systems are calibrated, adjusted and operate in accordance with sequences of operation prescribed in the construction documents. Written procedures which clearly describe the individual systematic test procedures, the expected systems' response or acceptance cri-

teria for each procedure, the actual response or findings, and any pertinent discussion. Optional examples of test methods and forms are provided in Reference Standard 34.

1416.3.4 Supporting Documentation. Supporting documentation shall include, as a minimum:

1416.3.4.1 Systems Documentation. Systems documentation shall be in accordance with industry accepted standards and shall include as a minimum:

1. Submittal data stating equipment size and selected options for each piece of equipment.
2. Operation and maintenance manuals for each piece of equipment requiring maintenance, except equipment not furnished as part of the project. Required routine maintenance actions shall be clearly identified.
3. Names and addresses of at least one HVAC service agency.
4. HVAC controls system maintenance and calibration information, including wiring diagrams, schematics, as-built drawings and control sequence descriptions. Desired or field determined set points shall be permanently recorded on control drawings at control devices, or, for digital control systems, in programming comments.
5. Complete written narrative of how each system and piece of equipment is intended to operate including interface with existing equipment or systems (where applicable). Sequence of operation is not acceptable as a narrative for this requirement.

1416.3.4.2 Record Documents. Construction documents shall be updated to convey a record of the alterations to the original design. Such updates shall include updated mechanical, electrical and control drawings red-lined, or redrawn if specified, that show all changes to size, type and location of components, equipment and assemblies.

1416.3.4.3 Systems Operation Training. Training of the maintenance staff for each equipment type and or system shall include as a minimum:

1. Review of systems documentation.
2. Hands-on demonstration of all normal maintenance procedures, normal operating modes, and all emergency shut-down and start-up procedures.
3. Training completion report.

1416.3.5 Commissioning Report. The commissioning report shall be completed and provided to the owner. The commissioning report shall include:

1. Completed Functional Test forms including measurable criteria for test acceptance.
2. Issues log of corrected and uncorrected deficiencies with the anticipated date of correction.
3. Deferred tests, which cannot be performed at the time of report preparation, with anticipated date of completion.
4. Record of progress and completion of operator training.
5. Completed Commissioning Compliance form.

1416.4 Commissioning Compliance Form. A commissioning compliance checklist shall be submitted to the building official upon substantial completion of the building. The checklist shall be completed and signed by the building

owner or owner's representative. The building official may require that the Commissioning Compliance form components be submitted to verify compliance with Sections 1416

and 1513.8 requirements. Completion of the Commissioning Compliance Checklist (Figure 14B) is deemed to satisfy this requirement.

**FIGURE 14B
COMMISSIONING COMPLIANCE CHECKLIST**

Project Information	Project Name:	
	Project Address:	
	Commissioning Authority:	
Commissioning Plan (Section 1416.3.1)	<input type="checkbox"/>	Commissioning Plan was used during construction and included items below <ul style="list-style-type: none"> • A written schedule including Systems Testing and Balancing, Functional Testing, and Supporting Documentation. • Roles and Responsibilities of the commissioning team. • Functional Test procedures and forms.
Systems Balancing (Section 1416.3.2)	<input type="checkbox"/>	Systems Balancing has been completed <ul style="list-style-type: none"> • Air and Hydronic systems are proportionately balanced in a manner to first minimize throttling losses. • Test ports are provided on each pump for measuring pressure across the pump.
Functional Testing (Section 1416.3.3)	<input type="checkbox"/>	HVAC Systems Functional Testing has been completed (Section 1416.3.3) HVAC systems have been tested to ensure that equipment, components, and subsystems are installed, calibrated, adjusted and operate in accordance with approved plans and specifications.
	<input type="checkbox"/>	HVAC Controls Functional Testing has been completed (Section 1416.3.3) HVAC controls have been tested to ensure that control devices are calibrated, adjusted and operate properly. Sequences of operation have been functionally tested to ensure they operate in accordance with approved plans and specifications.
	<input type="checkbox"/>	Lighting Controls Functional Testing has been completed (Section ((1513-7)) 1513.8) Lighting controls have been tested to ensure that control devices, components, equipment, and systems are calibrated, adjusted and operate in accordance with approved plans and specifications.
Supporting Documents (Section 1416.3.4)	<input type="checkbox"/>	Systems documentation, record documents and training have been completed or are scheduled. <ul style="list-style-type: none"> • System documentation has been provided to the owner or scheduled date: ____ • Record documents have been submitted to owner or scheduled date: _____ • Training has been completed or scheduled date: _____
Commissioning Report (Section 1416.3.5)	<input type="checkbox"/>	Commissioning Report submitted to Owner and includes items below. <ul style="list-style-type: none"> • Completed Functional Tests documentation. • Deficiencies found during testing required by this section which have not been corrected at the time of report preparation and the anticipated date of correction. • Deferred tests, which cannot be performed at the time of report preparation due to climatic conditions or other circumstances beyond control of Commissioning Authority.
Certification	<input type="checkbox"/>	I hereby certify that all requirements for commissioning have been completed in accordance with the Washington State Energy Code, including all items above. _____ Building Owner or Owner's Representative Date

AMENDATORY SECTION (Amending WSR 10-03-115 and 10-13-113, filed 1/20/10 and 6/21/10, effective 10/29/10)

WAC 51-11-1438 System criteria. For fans and pumps 7.5 horsepower and greater including custom and packaged air handlers serving variable air volume fan systems, constant volume fans, heating and cooling hydronic pumping systems, pool and service water pumping systems, domestic water pressure boosting systems, cooling tower fan, and other pumps or fans where variable flows are required, there shall be:

- a. Variable speed drives, or
- b. Other controls and devices that will result in fan and pump motor demand of no more than 30% of design wattage at 50% of design air volume for fans when static pressure set point equals 1/3 the total design static pressure, and 50% of design water flow for pumps, based on manufacturer's certified test data. Variable inlet vanes, throttling valves (dampers), scroll dampers or bypass circuits shall not be allowed.

EXCEPTION: Variable speed devices are not required for motors that serve:

1. Fans or pumps in packaged equipment where variable speed drives are not available as a factory option from the equipment manufacturer.
2. Fans or pumps that are required to operate only for emergency fire-life-safety events (e.g., stairwell pressurization fans, elevator pressurization fans, fire pumps, etc.).

1438.1 Heat rejection equipment: The requirements of this section apply to heat rejection equipment used in comfort cooling systems such as air-cooled condensers, open cooling towers, closed-circuit cooling towers, and evaporative condensers.

EXCEPTION: Heat rejection devices included as an integral part of equipment listed in Tables 14-1A through 14-1D.
(~~Heat rejection equipment shall have a minimum efficiency performance not less than values specified in Table 14-1G. These requirements apply to all propeller, axial fan and centrifugal fan cooling towers. Table 14-1G specifies requirements for air-cooled condensers that are within rating conditions specified within the table.~~)

Heat rejection equipment shall have a minimum efficiency performance not less than values specified in Table 14-1G. These requirements apply to all propeller, axial fan and centrifugal fan cooling towers. Table 14-1G specifies requirements for air-cooled condensers that are within rating conditions specified within the table.

1438.1.1 Variable flow controls: Cooling tower fans 7.5 hp and greater shall have control devices that vary flow by controlling leaving fluid temperature or condenser temperature/pressure of the heat rejection device.

1438.1.2 Limitation on centrifugal fan cooling towers: Open cooling towers with a combined rated capacity of 1,100 gpm and greater at 95°F condenser water return, 85°F condenser water supply and 75°F outdoor wet-bulb temperature shall meet the energy efficiency requirement for axial fan open circuit cooling towers.

EXCEPTION: Open circuit cooling towers that are ducted (inlet or discharge) or have external sound attenuation that requires external static pressure capability.

1438.2 Hot gas bypass limitation: Cooling equipment with direct expansion coils rated at greater than 95,000 Btu/h total cooling capacity shall have a minimum of 2 stages of cooling capacity or capacity modulation other than hot gas bypass that is capable of reducing input and output by at least 50%.

1438.3 Large volume fan systems: Single or multiple fan systems serving a zone or adjacent zones without separating walls with total air flow over 10,000 cfm (3,540 L/s) are required to reduce airflow based on space thermostat heating and cooling demand. A variable speed drive shall reduce airflow to a maximum 75% of peak airflow or minimum ventilation air requirement as required by Section 403 of the IMC, whichever is greater.

EXCEPTIONS:

1. Systems where the function of the supply air is for purposes other than temperature control, such as maintaining specific humidity levels or supplying an exhaust system.
2. Dedicated outdoor air supply unit(s) with heat recovery where airflow is equal to the minimum ventilation requirements and other fans cycle off unless heating or cooling is required.

3. An area served by multiple units where designated ventilation units have 50% or less of total area airflow and nonventilation unit fans cycle off when heating or cooling is not required.

WSR 10-16-092
EXPEDITED RULES
BUILDING CODE COUNCIL

[Filed July 30, 2010, 1:39 p.m.]

Title of Rule and Other Identifying Information: Chapter 51-54 WAC, State Building Code adoption and amendment of the 2009 Edition of the International Fire Code.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Tim Nogler, State Building Code Council, 128 10th Avenue S.W., Olympia, WA 98504-2525, AND RECEIVED BY October 5, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: To correct numerical citations.

WAC 51-54-0500, adds section title and correct[s] numerical error.

WAC 51-54-0907, corrects numerical citation.

WAC 51-54-1000, eliminates duplicate language contained in base code and renumbers several sections; reincorporates several sections incorrectly filed as separate WAC sections.

Repeals the following WAC sections (reincorporates provisions into WAC 51-54-1000), WAC 51-54-1007, 51-54-1008, 51-54-1009, 51-54-1010, 51-54-1014, 51-54-1015, 51-54-1017, 51-54-1018, and 51-54-1019.

Reasons Supporting Proposal: Full public hearings were held on these issues during the rule adoption process; these editorial changes will clarify the rules, resulting in consistent enforcement.

Statutory Authority for Adoption: Chapter 19.27 RCW.

Statute Being Implemented: Chapter 19.27A RCW.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: State building code council, governmental.

Name of Agency Personnel Responsible for Drafting and Implementation: Joanne T. McCaughan, 128 10th Avenue S.W., Olympia, WA 98504-1014, (360) 725-2970; and Enforcement: Local jurisdictions.

Agency Comments or Recommendations, if any, as to Statutory Language, Implementation, Enforcement, and Fis-

cal Matters: These changes will provide consistent enforcement and reduce confusion at the local level.

July 19, 2010
John C. Cochran
Chair

AMENDATORY SECTION (Amending WSR 10-03-100, filed 1/20/10, effective 7/1/10)

WAC 51-54-0500 Chapter 5—Fire service features.

SECTION 503 FIRE APPARATUS ACCESS ROADS.

503.1 Where required. Fire apparatus access roads shall be provided and maintained in accordance with locally adopted street, road, and access standards.

503.1.1 Buildings and facilities, is not adopted.

503.1.2 Additional access, is not adopted.

503.1.3 High-piled storage, is not adopted.

503.2 Specifications. This section is not adopted.

503.3 Marking. This section is not adopted.

503.4 Obstruction of fire apparatus access roads. This section is not adopted.

SECTION 507 FIRE PROTECTION WATER SUPPLIES

507.3 Fire flow. Fire flow requirements for buildings or portions of buildings and facilities shall be determined by an approved method.

EXCEPTION: Fire flow is not required for structures under 500 square feet with a B, U or R-1 occupancy where structures are at least 30 feet from any other structure and are used only for recreation.

SECTION 508 FIRE COMMAND CENTER

508.1.2 Separation. The fire command center shall be separated from the remainder of the building by not less than a 2-hour fire barrier constructed in accordance with Section 707 of the International Building Code or horizontal assembly constructed in accordance with Section 712 of the International Building Code, or both.

AMENDATORY SECTION (Amending WSR 10-03-100, filed 1/20/10, effective 7/1/10)

WAC 51-54-0900 Chapter 9—Fire protection systems.

902.1 Definitions.

ALERT SIGNAL. See Section 402.1.

ALERTING SYSTEM. See Section 402.1.

PORTABLE SCHOOL CLASSROOM. A structure, transportable in one or more sections, which requires a chassis to be transported, and is designed to be used as an educational space with or without a permanent foundation. The structure shall be trailerable and capable of being demounted and relocated to other locations as needs arise.

903.2.3 Group E. An automatic sprinkler system shall be provided for Group E Occupancies.

EXCEPTIONS:

1. Portable school classrooms, provided aggregate area of any cluster or portion of a cluster of portable school classrooms does not exceed 5,000 square feet (1465 m²); and clusters of portable school classrooms shall be separated as required by the building code.
2. Group E Occupancies with an occupant load of 50 or less, calculated in accordance with Table 1004.1.1.

903.2.7 Group M. An automatic sprinkler system shall be provided throughout buildings containing a Group M occupancy, where one of the following conditions exists:

1. A Group M fire area exceeds 12,000 square feet (1115 m²).
2. A group M fire area is located more than three stories above grade plane.
3. The combined area of all Group M fire areas on all floors, including any mezzanines, exceeds 24,000 square feet (2230 m²).
4. Where a Group M occupancy that is used for the display and sale of upholstered furniture or mattresses exceeds 5000 square feet (464 m²).

903.2.8 Group R. An automatic sprinkler system installed in accordance with Section 903.3 shall be provided throughout all buildings with a Group R fire area.

EXCEPTION: Group R-1 if all of the following conditions apply:

1. The Group R fire area is no more than 500 square feet and is used for recreational use only.
2. The Group R fire area is on only one story.
3. The Group R fire area does not include a basement.
4. The Group R fire area is no closer than 30 feet from another structure.
5. Cooking is not allowed within the Group R fire area.
6. The Group R fire area has an occupant load of no more than 8.
7. A hand held (portable) fire extinguisher is in every Group R fire area.

903.6.3 Nightclub. Existing nightclubs constructed prior to July 1, 2006, shall be provided with automatic sprinklers not later than December 1, 2009.

SECTION 906—PORTABLE FIRE EXTINGUISHERS

906.1 Where required. Portable fire extinguishers shall be installed in the following locations:

1. In new and existing Group A, B, E, F, H, I, M, R-1, R-2, R-4 and S occupancies.
2. Within 30 feet (9144 mm) of commercial cooking equipment.
3. In areas where flammable or combustible liquids are stored, used or dispensed.
4. On each floor of structures under construction, except Group R-3 occupancies, in accordance with Section 1415.1.
5. Where required by the sections indicated in Table 906.1.
6. Special-hazard areas, including, but not limited to, laboratories, computer rooms and generator rooms, where required by the fire code official.

SECTION 907—FIRE ALARM AND DETECTION SYSTEMS

[F] 907.2.8 Group R-1. Fire alarm systems, smoke alarms and carbon monoxide alarms shall be installed in Group R-1 occupancies as required in this section and Section 907.2.8.4.

[F] 907.2.8.4. Carbon monoxide alarms. For new construction, an approved carbon monoxide alarm shall be installed by January 1, 2011, outside of each separate sleeping area in the immediate vicinity of the bedroom in sleeping units. In a building where a tenancy exists, the tenant shall maintain the CO alarm as specified by the manufacturer including replacement of the batteries.

[F] 907.2.8.4.1 Existing sleeping units. Existing sleeping units shall be equipped with carbon monoxide alarms by July 1, 2011.

[F] 907.2.8.4.2 Alarm requirements. Single station carbon monoxide alarms shall be listed as complying with UL 2034 and shall be installed in accordance with this code and the manufacturer's installation instructions.

[F] 907.2.9 Group R-2. Fire alarm systems, smoke alarms and carbon monoxide alarms shall be installed in Group R-2 occupancies as required in Sections 907.2.9.1 through 907.2.9.3.

(907.2.9.1) [F] 907.2.9.1.1 Group R-2 boarding homes. A manual fire alarm system shall be installed in Group R-2 occupancies where the building contains a boarding home licensed by the state of Washington.

EXCEPTION: In boarding homes licensed by the state of Washington, manual fire alarm boxes in resident sleeping areas shall not be required at exits if located at all constantly attended staff locations, provided such staff locations are visible, continuously accessible, located on each floor, and positioned so no portion of the story exceeds a horizontal travel distance of 200 feet to a manual fire alarm box.

[F] 907.2.9.3 Carbon monoxide alarms. For new construction, an approved carbon monoxide alarm shall be installed by January 1, 2011, outside of each separate sleeping area in the immediate vicinity of the bedroom in dwelling units. In a building where a tenancy exists, the tenant shall maintain the CO alarm as specified by the manufacturer including replacement of the batteries.

[F] 907.2.9.3.1 Existing dwelling units. Existing dwelling units shall be equipped with carbon monoxide alarms by July 1, 2011.

[F] 907.2.10 Group R-3. Carbon monoxide alarms shall be installed in Group R-3 occupancies as required in Sections 907.2.10.1 through 907.2.10.3.

[F] 907.2.10.1 Carbon monoxide alarms. For new construction, an approved carbon monoxide alarm shall be installed by January 1, 2011, outside of each separate sleeping area in the immediate vicinity of the bedroom in dwelling units. In a building where a tenancy exists, the tenant shall maintain the CO alarm as specified by the manufacturer including replacement of the batteries.

[F] 907.2.10.2 Existing dwelling units. Existing dwelling units shall be equipped with carbon monoxide alarms by July 1, 2011.

EXCEPTION: Owner-occupied Group R-3 residences legally occupied prior to July 1, 2010.

[F] 907.2.10.3 Alarm requirements. Single station carbon monoxide alarms shall be listed as complying with UL 2034 and shall be installed in accordance with this code and the manufacturer's installation instructions.

909.6.3 Elevator shaft pressurization. Where elevator shaft pressurization is required to comply with Exception 6 of IBC Section 708.14.1, the pressurization system shall comply with and be maintained in accordance with IBC 708.14.2.

909.6.3.1 Activation. The elevator shaft pressurization system shall be activated by a fire alarm system which shall include smoke detectors or other approved detectors located near the elevator shaft on each floor as approved by the building official and fire code official. If the building has a fire alarm panel, detectors shall be connected to, with power supplied by, the fire alarm panel.

909.6.3.2 Power system. The power source for the fire alarm system and the elevator shaft pressurization system shall be in accordance with Section 909.11.

SECTION 915 ALERTING SYSTEMS

915.1 General. An approved alerting system shall be provided in buildings and structures as required in chapter 4 and this section, unless other requirements are provided by another section of this code.

EXCEPTION: Approved alerting systems in existing buildings, structures or occupancies.

915.2 Power source. Alerting systems shall be provided with power supplies in accordance with Section 4.4.1 of NFPA 72 and circuit disconnecting means identified as "EMERGENCY ALERTING SYSTEM."

EXCEPTION: Systems which do not require electrical power to operate.

915.3 Duration of Operation. The alerting system shall be capable of operating under nonalarm condition (quiescent load) for a minimum of 24 hours and then shall be capable of operating during an emergency condition for a period of 15 minutes at maximum connected load.

915.4 Combination system. Alerting system components and equipment shall be allowed to be used for other purposes.

915.4.1 System priority. The alerting system use shall take precedence over any other use.

915.4.2 Fire alarm system. Fire alarm systems sharing components and equipment with alerting systems must be in accordance with Section 6.8.4 of NFPA 72.

915.4.2.1 Signal priority. Recorded or live alert signals generated by an alerting system that shares components with a fire alarm system shall, when actuated, take priority over fire alarm messages and signals.

915.4.2.2 Temporary deactivation. Should the fire alarm system be in the alarm mode when such an alerting system is actuated, it shall temporarily cause deactivation of all fire alarm-initiated audible messages or signals during the time period required to transmit the alert signal.

915.4.2.3 Supervisory signal. Deactivation of fire alarm audible and visual notification signals shall cause a supervisory signal for each notification zone affected in the fire alarm system.

915.5 Audibility. Audible characteristics of the alert signal shall be in accordance with Section 7.4.1 of NFPA 72 throughout the area served by the alerting system.

EXCEPTION: Areas served by approved visual or textual notification, where the visible notification appliances are not also used as a fire alarm signal, are not required to be provided with audibility complying with Section 915.6.

915.6 Visibility. Visible and textual notification appliances shall be permitted in addition to alert signal audibility.

Reviser's note: The brackets and enclosed material in the text of the above section occurred in the copy filed by the agency and appear in the Register pursuant to the requirements of RCW 34.08.040.

AMENDATORY SECTION (Amending WSR 09-04-027, filed 1/28/09, effective 7/1/10)

WAC 51-54-1000 Chapter 10—Means of egress.

~~(1008.1.2 Door swing.~~ Egress doors shall be side-hinged swinging.

EXCEPTIONS:

1. Private garages, office areas, factory and storage areas with an occupant load of 10 or less.
2. Group I-3 Occupancies used as a place of detention.
3. Critical or intensive care patient rooms within suites of health care facilities.
4. Doors within or serving a single dwelling unit in Groups R-2 and R-3 as applicable in Section 101.2.
5. In other than Group H Occupancies, revolving doors complying with Section 1008.1.3.1.
6. In other than Group H Occupancies, horizontal sliding doors complying with Section 1008.1.3.3 are permitted in a means of egress.
7. Power-operated doors in accordance with Section 1008.1.3.2.
8. Doors serving a bathroom within an individual sleeping unit in Group R-1.
9. In other than Group H Occupancies, manually operated horizontal sliding doors are permitted in a means of egress from spaces with an occupant load of 10 or less.

Doors shall swing in the direction of egress travel where serving an occupant load of 50 or more persons or a Group H Occupancy.

The opening force for interior side-swinging doors without closers shall not exceed a 5-pound (22 N) force. For other side-swinging, sliding, and folding doors, the door latch shall release when subjected to a 15-pound (67 N) force. The door shall be set in motion when subjected to a 30-pound (133 N) force. The door shall swing to a full-open position when subjected to a 15-pound (67 N) force. Forces shall be applied to the latch side.

~~1008.1.8.3 Locks and latches.~~ Locks and latches shall be permitted to prevent operation of doors where any of the following exists:

1. Places of detention or restraint.
2. In buildings in occupancy Group A having an occupant load of 300 or less, Group B, F, M and S, and in places of religious worship, the main exterior door or doors are permitted to be equipped with key-operated locking devices from the egress side provided:

- 2.1 The locking device is readily distinguishable as locked.

- 2.2 A readily visible durable sign is posted on the egress side on or adjacent to the door stating: THIS DOOR TO REMAIN UNLOCKED WHEN BUILDING IS OCCUPIED. The sign shall be in letters 1-inch (25 mm) high on a contrasting background; and

- 2.3 The use of the key-operated locking device is revocable by the fire code official for due cause.

3. Where egress doors are used in pairs, approved automatic flush bolts shall be permitted to be used, provided that the door leaf having the automatic flush bolts has no door-knob or surface-mounted hardware.

4. Doors from individual dwelling or sleeping units of Group R occupancies having an occupant load of 10 or less are permitted to be equipped with a night latch, dead bolt or security chain, provided such devices are openable from the inside without the use of a key or tool.

5. Approved, listed locks without delayed egress shall be permitted in nursing homes or portions of nursing homes, and boarding homes licensed by the state of Washington, provided that:

- 5.1 The clinical needs of one or more patients require specialized security measures for their safety;

- 5.2 The doors unlock upon actuation of the automatic sprinkler systems or automatic fire detection system;

- 5.3 The doors unlock upon loss of electrical power controlling the lock or lock mechanism;

- 5.4 The lock shall be capable of being deactivated by a signal from a switch located in an approved location; and

- 5.5 There is a system, such as a keypad and code, in place that allows visitors, staff persons and appropriate residents to exit. Instructions for exiting shall be posted within six feet of the door.

1009.12 Stairways in individual dwelling units. Stairs or ladders within an individual dwelling unit used for access to areas of 200 square feet (18.6 m²) or less, and not containing the primary bathroom or kitchen, are exempt from the requirements of Section 1009.

1014.2.2 Group I-2. Habitable rooms or suites in Group I-2 Occupancies shall have an exit access door leading directly to a corridor.

EXCEPTION: Rooms with exit doors opening directly to the outside at ground level.

1014.2.2.1 Definition. For the purposes of this section, a suite is defined as a cluster of rooms or spaces sharing common circulation. Partitions within a suite are not required to have smoke or fire-resistance-rated construction unless required by another section of this Code.

1014.2.3 Suites in patient sleeping areas. Patient sleeping areas in Group I-2 Occupancies shall be permitted to be divided into suites if one of the following conditions is met:

1. The intervening room within the suite is not used as an exit access for more than eight patient beds.
2. The arrangement of the suite allows for direct and constant visual supervision by nursing personnel.

1014.2.3.1 Area. Suites of sleeping rooms shall not exceed 5,000 square feet (465 m²).

1014.2.3.2 Exit access. Any patient sleeping room, or any suite that includes patient sleeping rooms, of more than 1,000 square feet (93 m²) shall have at least two exit access doors remotely located from each other.

1014.2.3.3 Travel distance. The travel distance between any point in a suite of sleeping rooms and an exit access door of that suite shall not exceed 100 feet (30,480 mm).

1014.2.4 Suites in areas other than patient sleeping areas. Areas other than patient sleeping areas in Group I-2 Occupancies shall be permitted to be divided into suites:

1014.2.4.1 Area. Suites of rooms, other than patient rooms, shall not exceed 10,000 square feet (929 m²).

1014.2.4.2 Exit access. Any rooms or suite of rooms, other than patient sleeping rooms, of more than 2,500 square feet (232 m²) shall have at least two exit access doors remotely located from each other.

1014.2.4.3 One intervening room. For rooms other than patient sleeping rooms, suites of rooms are permitted to have one intervening room if the travel distance within the suite is not greater than 100 feet (30,480 mm).

1014.2.4.4 Two intervening rooms. For rooms other than patient sleeping rooms located within a suite, exit access travel from within the suite shall be permitted through two intervening rooms where the travel distance to the exit access door is not greater than 50 feet (15,240 mm).

1014.2.5 Travel distance. The travel distance between any point in a Group I-2 Occupancy patient room and an exit access door in that room shall not exceed 50 feet (15,240 mm).

1014.2.6 Separation. Suites in Group I-2 Occupancies shall be separated from other portions of the building by a smoke partition complying with Section 710.

1015.1 Exits or exit access doorways from spaces. Two exits or exit access doorways from any space shall be provided where one of the following conditions exists:

1. The occupant load of the space exceeds one of the values in Table 1015.1.

EXCEPTION: One means of egress is permitted within and from dwelling units with a maximum occupant load of 20 where the dwelling unit is equipped throughout with an automatic sprinkler system in accordance with Section 903.3.1.1.

2. The common path of egress travel exceeds one of the limitations of Section 1014.3.

3. Where required by Sections 1015.3, 1015.4, 1015.5, 1015.6 or 1015.6.1.

EXCEPTION: Group I-2 Occupancies shall comply with Section 1014.2.2.

**TABLE 1015.1
SPACES WITH ONE MEANS OF EGRESS**

OCCUPANCY	MAXIMUM OCCUPANT LOAD
A, B, E*, F, M, U	49
H 1, H 2, H 3	3
H 4, H 5, I 1, I 3, I 4, R	10
S	29

a. Day care maximum occupant load is 10.

1015.1.1 Three or more exits or exit access doorways.

Three exits or exit access doorways shall be provided from any space with an occupant load of 501-1,000. Four exits or exit access doorways shall be provided from any space with an occupant load greater than 1,000.

1019.1 Exits from stories. All spaces within each story shall have access to the minimum number of exits as specified in Table 1019.1 based on the occupant load of the story, except as modified in Section 1019.2. For the purposes of this chapter, occupied roofs shall be provided with exits as required for stories. The required number of exits from any story, including basements, shall be maintained until arrival at grade or the public way.

EXCEPTION: One means of egress is permitted within and from dwelling units with a maximum occupant load of 20 where the dwelling unit is equipped throughout with an automatic sprinkler system in accordance with Section 903.3.1.1.

**TABLE 1019.1
MINIMUM NUMBER OF EXITS FOR OCCUPANT LOAD**

OCCUPANT LOAD (persons per story)	MINIMUM NUMBER OF EXITS (per story)
1-500	2
501-1,000	3
More than 1,000	4

1019.2 Buildings with one exit. Only one exit shall be required in buildings as specified below:

1. Buildings meeting the limitations of Table 1019.2, provided the building has not more than one level below the first story above grade plane.
2. Buildings of Group R-3 Occupancy.
3. Single-level buildings with occupied spaces at the level of exit discharge provided each space complies with Section 1015.1 as a space with one exit or exit access doorway.

**TABLE 1019.2
BUILDINGS WITH ONE EXIT**

OCCUPANCY	MAXIMUM HEIGHT OF BUILDING ABOVE GRADE PLANE	MAXIMUM OCCUPANTS (OR DWELLING UNITS) PER FLOOR AND TRAVEL DISTANCE
A, B ^d , E ^e , F, M, U	1 Story	49 occupants and 75-foot travel distance
H 2, H 3	1 Story	3 occupants and 25-foot travel distance
H 4, H 5, I, R	1 Story	10 occupants and 75-foot travel distance
S ^a	1 Story	29 occupants and 100-foot travel distance
B ^b , F, M, S ^a	2 Stories	30 occupants and 75-foot travel distance
R-2	2 Stories ^c	4 dwelling units and 50-foot travel distance

For SI: 1 foot = 304.8 mm.

a. For the required number of exits for open parking structures, see Section 1019.1.1.

b. For the required number of exits for air traffic control towers, see Section 412.1.

c. Buildings classified as Group R-2 equipped throughout with an automatic sprinkler system in accordance with Section 903.3.1.1 or 903.3.1.2 and provided with emergency escape and rescue openings in accordance with Section 1026 shall have a maximum height of three stories above grade plane.

d. Buildings equipped throughout with an automatic sprinkler system in accordance with Section 903.3.1.1 with an occupancy in Group B shall have a maximum travel distance of 100 feet.

e. Day care maximum occupant load is 10.)

SECTION 1007 ACCESSIBLE MEANS OF EGRESS

1007.1 Accessible means of egress required. Accessible means of egress shall comply with this section. Accessible spaces shall be provided with not less than one accessible means of egress. Where more than one means of egress are required by Section 1015.1 or 1021.1 from any accessible space, each accessible portion of the space shall be served by not less than two accessible means of egress.

EXCEPTIONS:

1. Accessible means of egress are not required in alterations to existing buildings.
2. One accessible means of egress is required from an accessible mezzanine level in accordance with Section 1007.3, 1007.4 or 1007.5.
3. In assembly areas with sloped or stepped aisles, one accessible means of egress is permitted where the common path of travel is accessible and meets the requirements in Section 1028.8.
4. In parking garages, accessible means of egress are not required to serve parking areas that do not contain accessible parking spaces.

1007.8 Two-way communication. A two-way communication system shall be provided at the elevator landing on each accessible floor that is one or more stories above or below the story of exit discharge complying with Sections 1007.8.1 and 1007.8.2.

EXCEPTIONS:

1. Two-way communication systems are not required at the elevator landing where two-way communication is provided within the areas of refuge in accordance with Section 1007.6.3.
2. Two-way communication systems are not required on floors provided with exit ramps conforming to provisions of Section 1010.

1007.8.1 System requirements. Two-way communication systems shall provide communication between each required location and the fire command center or a central control point location approved by the fire department. Where the central control point is not constantly attended, a two-way communication system shall have a timed automatic telephone dial-out capability to a monitoring location. The two-way communication system shall include both audible and visible signals. The two-way communication system shall have a battery backup or an approved alternate source of power that is capable of 90 minutes use upon failure of the normal power source.

SECTION 1008 DOORS, GATES AND TURNSTILES

1008.1.9.3 Locks and latches. Locks and latches shall be permitted to prevent operation of doors where any of the following exists:

1. Places of detention or restraint.
2. In buildings in occupancy Group A having an occupant load of 300 or less, Groups B, F, M and S, and in places of religious worship, the main exterior door or doors are permitted to be equipped with key-operated locking devices from the egress side provided:
 - 2.1 The locking device is readily distinguishable as locked;
 - 2.2 A readily visible sign is posted on the egress side on or adjacent to the door stating: **THIS DOOR TO REMAIN UNLOCKED WHEN BUILDING IS OCCUPIED.** The sign shall be in letters 1 inch (25 mm) high on a contrasting background; and
 - 2.3 The use of the key-operated locking device is revocable by the building official for due cause.
3. Where egress doors are used in pairs, approved automatic flush bolts shall be permitted to be used, provided that the door leaf having the automatic flush bolts has no door-knob or surface-mounted hardware.
4. Doors from individual dwelling or sleeping units of Group R occupancies having an occupant load of 10 or less are permitted to be equipped with a night latch, dead bolt, or security chain, provided such devices are operable from the inside without the use of a key or a tool.
5. Fire doors after the minimum elevated temperature has disabled the unlatching mechanism in accordance with listed fire door test procedures.
6. Approved, listed locks without delayed egress shall be permitted in Group R-2 boarding homes licensed by Washington state, provided that:
 - 6.1. The clinical needs of one or more patients require specialized security measures for their safety.

6.2. The doors unlock upon actuation of the automatic sprinkler system or automatic fire detection system.

6.3. The doors unlock upon loss of electrical power controlling the lock or lock mechanism.

6.4. The lock shall be capable of being deactivated by a signal from a switch located in an approved location.

6.5. There is a system, such as a keypad and code, in place that allows visitors, staff persons and appropriate residents to exit. Instructions for exiting shall be posted within six feet of the door.

1008.1.9.6 Special locking arrangements in Group I-2.

Approved locks shall be permitted in a Group I-2 Occupancy where the clinical needs of persons receiving care require such locking. Locks shall be permitted in such occupancies where the building is equipped throughout with an automatic sprinkler system in accordance with Section 903.3.1.1 or an approved automatic smoke or heat detection system installed in accordance with Section 907, provided that the doors unlock in accordance with Items 1 through 6 below.

1. The doors unlock upon actuation of the automatic sprinkler system or automatic fire detection system.

2. The doors unlock upon loss of power controlling the lock or lock mechanism.

3. The door locks shall have the capability of being unlocked by a signal from the fire command center, a nursing station or other approved location.

4. The procedures for the operation(s) of the unlocking system shall be described and approved as part of the emergency planning and preparedness required by Chapter 4 of the International Fire Code.

5. There is a system, such as a keypad and code, in place that allows visitors, staff persons and appropriate residents to exit. Instructions for exiting shall be posted within six feet of the door.

6. Emergency lighting shall be provided at the door.

EXCEPTION: Items 1, 2, 3, and 5 shall not apply to doors to areas where persons which because of clinical needs require restraint or containment as part of the function of a Group I-2 mental hospital provided that all clinical staff shall have the keys, codes or other means necessary to operate the locking devices.

SECTION 1009 STAIRWAYS

1009.15 Stairways in individual dwelling units. Stairs or ladders within an individual dwelling unit used for access to areas of 200 square feet (18.6 m²) or less, and not containing the primary bathroom or kitchen, are exempt from the requirements of Section 1009.

SECTION 1010 RAMPS

1010.1 Scope. The provisions of this section shall apply to ramps used as a component of a means of egress.

EXCEPTIONS:

1. Other than ramps that are part of the accessible routes providing access in accordance with Sections 1108.2 through 1108.2.4 and 1108.2.6, ramped aisles within assembly rooms or spaces shall conform with the provisions in Section 1028.11.
2. Curb ramps shall comply with ICC A117.1.
3. Vehicle ramps in parking garages for pedestrian exit access shall not be required to comply with Sections 1010.3 through 1010.9 when they are not an

accessible route serving accessible parking spaces or other required accessible elements.

4. In a parking garage where one accessible means of egress serving accessible parking spaces or other accessible elements is provided, a second accessible means of egress serving that area may include a vehicle ramp that does not comply with Sections 1010.4 through 1010.8.

SECTION 1014 EXIT ACCESS

1014.2.2 Group I-2. General. Habitable spaces and suites in Group I-2 Occupancies are permitted to comply with this Section 1014.2.2.

1014.2.2.1 Exit access doors. Habitable spaces and suites in Group I-2 Occupancies shall have an exit access door leading directly to a corridor.

EXCEPTION: Rooms with exit doors opening directly to the outside at ground level.

1014.2.2.2 Exit access through suites. Exit access from areas not classified as a Group I-2 Occupancy suite shall not pass through a suite. In a suite required to have more than one exit, one exit access may pass through an adjacent suite if all other requirements of Section 1014.2 are satisfied.

1014.2.2.3 Separation. Suites in Group I-2 Occupancies shall be separated from other portions of the building by a smoke partition complying with Section 711. Partitions within suites are not required to be smoke-resistant or fire-resistance-rated unless required by another section of this Code.

1014.2.2.4 Suites containing patient sleeping areas. Patient sleeping areas in Group I-2 Occupancies shall be permitted to be divided into suites with one intervening room if one of the following conditions is met:

1. The intervening room within the suite is not used as an exit access for more than eight patient beds.

2. The arrangement of the suite allows for direct and constant visual supervision by nursing personnel.

1014.2.2.4.1 Area. Suites of sleeping rooms shall not exceed 5,000 square feet (465 m²).

1014.2.2.4.2 Exit access. Any patient sleeping room, or any suite that includes patient sleeping rooms, of more than 1,000 square feet (93 m²) shall have at least two exit access doors located in accordance with Section 1015.2.

1014.2.2.4.3 Travel distance. The travel distance between any point in a suite of sleeping rooms and an exit access door of that suite shall not exceed 100 feet (30,480 mm). The travel distance between any point in a Group I-2 Occupancy patient sleeping room and an exit access door in that room shall not exceed 50 feet (15,240 mm).

1014.2.2.5 Suites not containing patient sleeping areas. Areas other than patient sleeping areas in Group I-2 Occupancies shall be permitted to be divided into suites that comply with Sections 1014.2.2.5.1 through 1014.2.2.5.4.

1014.2.2.5.1 Area. Suites of rooms, other than patient sleeping rooms, shall not exceed 10,000 square feet (929 m²).

1014.2.2.5.2 Exit access. Any room or suite of rooms, other than patient sleeping rooms, of more than 2,500 square feet (232 m²) shall have at least two exit access doors located in accordance with Section 1015.2.

1014.2.2.5.3 One intervening room. For rooms other than patient sleeping rooms, suites of rooms are permitted to have one intervening room if the travel distance within the suite to the exit access door is not greater than 100 feet (30,480 mm).

1014.2.2.5.4 Two intervening rooms. For rooms other than patient sleeping rooms located within a suite, exit access travel from within the suite shall be permitted through two intervening rooms where the travel distance to the exit access door is not greater than 50 feet (15,240 mm).

SECTION 1018 CORRIDORS

1018.5 Air movement in corridors. Corridors shall not serve as supply, return, exhaust, relief or ventilation air ducts.

EXCEPTIONS:

1. Use of a corridor as a source of makeup air for exhaust systems in rooms that open directly onto such corridors, including toilet rooms, bathrooms, dressing rooms, smoking lounges and janitor closets, shall be permitted, provided that each such corridor is directly supplied with outdoor air at a rate greater than the rate of makeup air taken from the corridor.
2. Where located within a dwelling unit, the use of corridors for conveying return air shall not be prohibited.
3. Where located within tenant spaces of one thousand square feet (93 m²) or less in area, utilization of corridors for conveying return air is permitted.
4. Incidental air movement from pressurized rooms within health care facilities, provided that a corridor is not the primary source of supply or return to the room.
5. Where such air is part of an engineered smoke control system.
6. Air supplied to corridors serving residential occupancies shall not be considered as providing ventilation air to the dwelling units subject to the following:
 - 6.1 The air supplied to the corridor is one hundred percent outside air; and
 - 6.2 The units served by the corridor have conforming ventilation air independent of the air supplied to the corridor; and
 - 6.3 For other than high-rise buildings, the supply fan will automatically shut off upon activation of corridor smoke detectors which shall be spaced at no more than thirty feet (9,144 mm) on center along the corridor; or
 - 6.4 For high-rise buildings, corridor smoke detector activation will close required smoke/fire dampers at the supply inlet to the corridor at the floor receiving the alarm.

1018.6 Corridor continuity. Fire-resistance-rated corridors shall be continuous from the point of entry to an exit, and shall not be interrupted by intervening rooms.

EXCEPTIONS:

1. Foyers, lobbies or reception rooms constructed as required for corridors shall not be construed as intervening rooms.
2. In Group R-2 boarding homes and residential treatment facilities licensed by Washington state, seating areas shall be allowed to be open to the corridor provided:
 - 2.1 The seating area is constructed as required for the corridor;
 - 2.2 The floor is separated into at least two compartments complying with Section 407.4;
 - 2.3 Each individual seating area does not exceed 150 square feet, excluding the corridor width;

2.4 The combined total space of seating areas per compartment does not exceed 300 square feet, excluding the corridor width;

2.5 Combustible furnishings located within the seating area shall be in accordance with the International Fire Code Section 805; and

2.6 Emergency means of egress lighting is provided as required by Section 1006 to illuminate the area.

REPEALER

The following sections of the Washington Administrative Code are repealed:

WAC 51-54-1007	Section 1007—Accessible means of egress.
WAC 51-54-1008	Section 1008—Doors, gates and turnstiles.
WAC 51-54-1009	Section 1009—Stairways and handrails.
WAC 51-54-1010	Section 1010—Ramps.
WAC 51-54-1014	Exit access.
WAC 51-54-1015	Reserved.
WAC 51-54-1017	Reserved.
WAC 51-54-1018	Section 1018—Corridors.
WAC 51-54-1019	Reserved.

**WSR 10-16-111
EXPEDITED RULES
DEPARTMENT OF HEALTH**

(Board of Pharmacy)

[Filed August 2, 2010, 4:29 p.m.]

Title of Rule and Other Identifying Information: WAC 246-887-280 Approved controlled substances, the board of pharmacy (BOP) is considering approving Butorphanol, Midazolam, and Fentanyl for use by authorized individuals of the Washington department of fish and wildlife (WDFW) for wildlife management chemical capture programs.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Doreen E. Beebe, Department of Health, Washington State Board of Pharmacy, P.O. Box 47863, Olympia, WA 98504-7863, AND RECEIVED BY November 1, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: The proposed rule

will add Butorphanol, Midazolam, and Fentanyl to the list of approved controlled substances authorized for use by WDFW wildlife management programs. The BOP, in consultation with WDFW, has determined that these drugs are appropriate to add to the list of drugs that may be used when individual animals must be immobilized or captured to be moved, treated, examined or other legitimate purpose. Additional housekeeping changes are proposed to increase readability.

Reasons Supporting Proposal: Chemical capture methods should be performed using drugs that provide adequate sedation for the safety of the WDFW authorized agent and the welfare of the animal. RCW 69.40.320 authorizes the BOP to add controlled substances to the approved list as needed. The proposed rule makes available new drug combinations and pharmaceuticals that have demonstrated through wildlife research to be more effective in certain circumstances and with certain species, such as marine mammals.

The expedited rule-making process is appropriate for rules that apply only to internal governmental operations that are not subject to violation by a nongovernment party under RCW 34.05.353 (1)(a).

Statutory Authority for Adoption: RCW 69.50.320 and 18.64.005.

Statute Being Implemented: RCW 69.50.320.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: Washington department of fish and wildlife, Washington state board of pharmacy, governmental.

Name of Agency Personnel Responsible for Drafting, Implementation and Enforcement: Doreen E. Beebe, 310 Israel Road S.E., Tumwater, WA 98501, (360) 236-4834.

July 30, 2010
Gary G. Harris, Chair
Board of Pharmacy

AMENDATORY SECTION (Amending WSR 05-20-106, filed 10/5/05, effective 11/8/05)

WAC 246-887-280 Approved controlled substances. ~~((H))~~ The following controlled substances are ~~((hereby designated as))~~ approved ~~((controlled substances))~~ for use by officers and biologists of the department of fish and wildlife for chemical capture programs:

- ~~((a))~~ (1) Butorphanol;
- (2) Diazepam (Valium);
- (3) Diprenorphine;
- (4) Carfentanil (Wildnil);
- (5) Fentanyl;
- (6) Ketamine;
- ~~((b))~~ (7) Midazolam; and
- (8) Tiletamine and zolazepam (Telazol);
- ~~(c) Diazepam (Valium)~~;
- ~~(d) Carfentanil (Wildnil)~~; and
- ~~(e) Diprenorphine.~~

~~(2) Other controlled substances as approved by rule of the board after consultation with the department of fish and wildlife).~~

WSR 10-16-112
EXPEDITED RULES
DEPARTMENT OF HEALTH
(Board of Psychology)
[Filed August 2, 2010, 4:36 p.m.]

Title of Rule and Other Identifying Information: WAC 246-924-485, repeal delegation of authority to initiate investigations.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Betty J. Moe, Program Manager, Department of Health, Examining Board of Psychology, P.O. Box 47852, Olympia, WA 9804-7852 [98504-7852], AND RECEIVED BY November 1, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: The examining board of psychology (board) intends to repeal WAC 246-924-485 as these rules are not necessary because the board has statutory authority to delegate the decision to initiate investigations to a panel.

Reasons Supporting Proposal: RCW 18.130.050(18) authorizes the disciplining authority to establish panels with three or more members to perform any duty or authority within its jurisdiction. The board delegates authority to initiate investigations to a panel based upon this statute. For this reason, these rules are not required. The board believes the expedited rule-making process is appropriate because the rules only pertain to internal governmental actions.

Statutory Authority for Adoption: RCW 18.130.050 and 18.83.050.

Statute Being Implemented: RCW 18.130.080 and 18.130.050.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: Department of health, examining board of psychology, governmental.

Name of Agency Personnel Responsible for Drafting, Implementation and Enforcement: Betty Moe, Program Manager, 310 Israel Road S.E., Tumwater, WA 98501, (360) 236-4912.

September [July] 21, 2010
Raymond L. Harry, Chair
Examining Board of Psychology

REPEALER

The following section of the Washington Administrative Code is repealed:

- WAC 246-924-485 Delegation of authority to initiate investigations.

WSR 10-16-122
EXPEDITED RULES
DEPARTMENT OF
LABOR AND INDUSTRIES

[Filed August 3, 2010, 9:26 a.m.]

Title of Rule and Other Identifying Information: Chapter 296-155 WAC, Safety standards for construction work, Part P, steel erection.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Naomi Goodman, Department of Labor and Industries, P.O. Box 44001, Olympia, WA 98504-4001, AND RECEIVED BY October 5, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: On May 17, 2010, the Occupational Safety and Health Administration (OSHA) published in the Federal Register a final rule adding a non-mandatory note to the steel erection standard. The note provides information regarding existing Federal Highway Administration regulations that may apply to employers engaged in activities covered by the standards. The division of occupational safety and health (DOSH) believes that knowledge of these requirements will enhance the safety of employees operating on or near structural steel elements used in highway construction. Although this proposal does not impose any additional or more stringent requirements, it provides information that will enhance employee safety. References are also being corrected.

WAC 296-155-704 Hoisting and rigging.

- Subsection (1): Change the reference from "WAC 296-155-525 and 296-155-526" to "applicable parts of Part L."
- Subsection (3)(d): Change the reference from "WAC 296-155-525 through 296-155-528" to "applicable parts of Part L."

WAC 296-155-706 Structural steel assembly.

- Subsection (1): Add a note that reads, "Federal Highway Administration (FHWA) regulations incorporate by reference a number of standards, policies, and standard specifications published by the American Association of State Highway and Transportation Officials (AASHTO) and other organizations. (See C.F.R. 625.4.) Many of these incorporated provisions may be relevant to maintaining structural stability during the erection process. For instance, as of May 17, 2010, in many cases FHWA requires a registered engineer to prepare and seal working drawings for falsework used in highway bridge construction. (See AASHTO Specifications

for Highway Bridges, Div. II, Sec. 3.2.1, 15th edition, 1992, which FHWA incorporates by reference in 23 C.F.R. 625.4.) FHWA also encourages compliance with AASHTO Specifications that the FHWA regulations do not currently incorporate by reference. (See <http://www.fhwa.dot.gov/bridge/lrfd/index.htm>.)

- Subsection (2)(b): Remove the word "reserved."
- Subsection (2)(c): Delete this subdivision.

Reasons Supporting Proposal: The department is required by statute to remain at least as-effective-as OSHA. Adopting these proposed changes will keep the department in compliance with the law.

Statutory Authority for Adoption: RCW 49.17.010, 49.17.040, 49.17.050, 49.17.060.

Statute Being Implemented: Chapter 49.17 RCW.

Rule is necessary because of federal law, 29 C.F.R. 1926.754.

Name of Proponent: Department of labor and industries, governmental.

Name of Agency Personnel Responsible for Drafting: Tracy Spencer, Tumwater, (306) 902-5530; Implementation and Enforcement: Michael Silverstein, Tumwater, (360) 902-4805.

August 3, 2010

Judy Schurke

Director

AMENDATORY SECTION (Amending WSR 06-05-027, filed 2/7/06, effective 4/1/06)

WAC 296-155-704 Hoisting and rigging. (1) All the applicable provisions of (~~WAC 296-155-525 and 296-155-526~~) Part L of this chapter apply to hoisting and rigging.

(2) In addition, subsections (3) through (5) of this section apply regarding the hazards associated with hoisting and rigging.

(3) General.

(a) Crane preshift visual inspection.

(i) Cranes being used in steel erection activities must be visually inspected prior to each shift by a competent person. The inspection must include observation for deficiencies during operation and, as a minimum, must include:

- All control mechanisms for maladjustments;
- Control and drive mechanism for excessive wear of components and contamination by lubricants, water or other foreign matter;
- Safety devices, including boom angle indicators, boom stops, boom kick out devices, anti-two block devices, and load moment indicators where required;
- Air, hydraulic, and other pressurized lines for deterioration or leakage, particularly those which flex in normal operation;
- Hooks and latches for deformation, chemical damage, cracks, or wear;
- Wire rope reeving for compliance with hoisting equipment manufacturer's specifications;
- Electrical apparatus for malfunctioning, signs of excessive deterioration, dirt, or moisture accumulation;
- Hydraulic system for proper fluid level;

- Tires for proper inflation and condition;
- Ground conditions around the hoisting equipment for proper support, including ground settling under and around outriggers, ground water accumulation, or similar conditions;
- The hoisting equipment for level position; and
- The hoisting equipment for level position after each move and setup.

(ii) If any deficiency is identified, an immediate determination must be made by the competent person if the deficiency constitutes a hazard.

(iii) If the deficiency constitutes a hazard, the hoisting equipment must be removed from service until the deficiency has been corrected.

(iv) The operator is responsible for those operations under their direct control. Whenever there is any doubt as to safety, the operator must have the authority to stop and refuse to handle loads until safety has been assured.

(b) A qualified rigger (a rigger who is also a qualified person) must inspect the rigging prior to each shift in accordance with WAC 296-155-330.

(c) The headache ball, hook or load must not be used to transport personnel, except as provided in (d) of this subsection.

(d) Cranes or derricks may be used to hoist employees on a personnel platform when work under this part is being conducted if all the applicable provisions of (~~WAC 296-155-525 through 296-155-528~~) Part L of this chapter are met.

(e) Safety latches on hooks must not be deactivated or made inoperable except:

(i) When a qualified rigger has determined that the hoisting and placing of purlins and single joists can be performed more safely by doing so; or

(ii) When equivalent protection is provided in a site-specific erection plan.

(4) Working under loads.

(a) Routes for suspended loads must be preplanned to ensure that no employee works directly below a suspended load except when:

- (i) Engaged in the initial connection of the steel; or
- (ii) Necessary for the hooking or unhooking of the load.

(b) When working under suspended loads, the following criteria must be met:

(i) Materials being hoisted must be rigged to prevent unintentional displacement;

(ii) Hooks with self-closing safety latches or their equivalent must be used to prevent components from slipping out of the hook; and

(iii) All loads must be rigged by a qualified rigger.

(5) Multiple lift rigging procedure.

(a) A multiple lift must only be performed if the following criteria are met:

- A multiple lift rigging assembly is used;
- A multiple lift is only permitted when specifically within the manufacturer's specifications and limitations;
- A maximum of five members are hoisted per lift;

Exception: Bundles of decking must not be lifted using the multiple lift rigging procedure, even though they meet the definition of structural members in WAC 296-155-702.

• Only beams and similar structural members are lifted; and

• All employees engaged in the multiple lift have been trained in these procedures in accordance with WAC 296-155-717 (3)(a).

(b) Components of the multiple lift rigging assembly must be specifically designed and assembled with a maximum capacity for total assembly and for each individual attachment point. This capacity, certified by the manufacturer or a qualified rigger, must be based on the manufacturer's specifications with a five to one safety factor for all components.

(c) The total load must not exceed:

- The rated capacity of the hoisting equipment specified in the hoisting equipment load charts; and
- The rigging capacity specified in the rigging-rating chart.

(d) The multiple lift rigging assembly must be rigged with members:

- Attached at their center of gravity and maintained reasonably level;
- Rigged from top down; and
- Rigged at least seven feet (2.1 m) apart.

(e) The members on the multiple lift rigging assembly must be set from the bottom up.

(f) Controlled load lowering must be used whenever the load is over the connectors.

AMENDATORY SECTION (Amending WSR 07-03-163, filed 1/24/07, effective 4/1/07)

WAC 296-155-706 Structural steel assembly. (1) Structural stability must be maintained at all times during the erection process.

Note: Federal Highway Administration (FHWA) regulations incorporate by reference a number of standards, policies, and standard specifications published by the American Association of State Highway and Transportation Officials (AASHTO) and other organizations. (See 23 C.F.R. 625.4.) Many of these incorporated provisions may be relevant to maintaining structural stability during the erection process. For instance, as of May 17, 2010, in many cases FHWA requires a registered engineer to prepare and seal working drawings for falsework used in highway bridge construction. (See *AASHTO Specifications for Highway Bridges, Div. II, Sec. 3.2.1, 15th edition, 1992*, which FHWA incorporates by reference in 23 C.F.R. 625.4.) FHWA also encourages compliance with AASHTO Specifications that the FHWA regulations do not currently incorporate by reference. (See <http://www.fhwa.dot.gov/bridge/lrfd/index.htm>.)

• Make sure that multistory structures have the following:

- Permanent floors installed as the erection of structural members progress;
- No more than eight stories between the erection floor and the upper-most permanent floor; and
- No more than four floors or forty-eight feet (14.6 m), whichever is less, of unfinished bolting or welding above the foundation or uppermost permanent secured floor.

Exception: The above applies except where the structural integrity is maintained as a result of design.

(2) Walking/working surfaces.

(a) Shear connectors and other similar devices.

(i) Shear connectors, reinforcing bars, deformed anchors or threaded studs must not be attached to the top flanges of beams, joists or beam attachments so they project vertically from or horizontally across the top flange of the member until after the metal decking, or other walking/working surface has been installed. This becomes a tripping hazard. Examples of shear connectors are headed steel studs, steel bars or steel lugs.

(ii) Installation of shear connectors on composite floors. When shear connectors are used in construction of composite floors, roofs and bridge decks, employees must lay out and install the shear connectors after the metal decking has been installed, using the metal decking as a working platform.

(b) Slip resistance of metal decking. ~~((Reserved))~~

(c) ~~((Reserved~~

~~ed))~~ Safe access must be provided to the working level. Employees must not slide down ropes, columns, or ladders.

(3) Plumbing-up.

(a) When deemed necessary by a competent person, plumbing-up equipment must be installed in conjunction with the steel erection process to ensure the stability of the structure.

(b) When used, plumbing-up equipment must be in place and properly installed before the structure is loaded with construction material such as loads of joists, bundles of decking or bundles of bridging.

(c) Plumbing-up equipment must be removed only with the approval of a competent person.

(4) Metal decking.

(a) Hoisting, landing and placing of metal decking bundles.

(i) Bundle packaging and strapping must not be used for hoisting unless specifically designed for that purpose.

(ii) If loose items such as dunnage, flashing, or other materials are placed on the top of metal decking bundles to be hoisted, such items must be secured to the bundles.

(iii) Bundles of metal decking on joists must be landed in accordance with WAC 296-155-709 (5)(d).

(iv) Metal decking bundles must be landed on framing members so that enough support is provided to allow the bundles to be unbanded without dislodging the bundles from the supports.

(v) At the end of the shift or when environmental or job site conditions require, metal decking must be secured against displacement.

(b) Roof and floor holes and openings. Metal decking at roof and floor holes and openings must be installed as follows:

(i) Framed metal deck openings must have structural members turned down to allow continuous deck installation except where not allowed by structural design constraints or constructibility.

(ii) Roof and floor holes and openings must be decked over. Where large size, configuration or other structural design does not allow openings to be decked over (such as elevator shafts, stair wells, etc.) employees must be protected in accordance with chapter 296-155 WAC, Part C-1 or Part K.

(ii) Metal decking holes and openings must not be cut until immediately prior to being permanently filled with the equipment or structure needed or intended to fulfill its specific use and which meets the strength requirements of (c) of this subsection, or must be immediately covered.

(c) **Covering roof and floor openings.** Smoke dome or skylight fixtures that have been installed are not considered covers for the purpose of this section unless they meet the strength requirements of WAC 296-155-505 (4)(g) (Part K).

(d) **Decking gaps around columns.** Wire mesh, exterior plywood, or equivalent, must be installed around columns where planks or metal decking do not fit tightly. The materials used must be of sufficient strength to provide fall protection for personnel and prevent objects from falling through.

(e) Installation of metal decking.

(i) Metal decking must be laid tightly and immediately secured upon placement to prevent accidental movement or displacement.

(ii) During initial placement, metal decking panels must be placed to ensure full support by structural members.

(f) Derrick floors.

(i) A derrick floor must be fully decked and or planked and the steel member connections completed to support the intended floor loading.

(ii) Temporary loads placed on a derrick floor must be distributed over the underlying support members so as to prevent local overloading of the deck material.

WSR 10-16-138**EXPEDITED RULES****DEPARTMENT OF REVENUE**

[Filed August 4, 2010, 8:25 a.m.]

Title of Rule and Other Identifying Information: WAC 458-20-24001 Sales and use tax deferral—Manufacturing and research/development activities in high unemployment counties—Applications filed after June 30, 2010, and 458-20-24001A Sales and use tax deferral—Manufacturing and research/development activities in rural counties—Applications filed prior to July 1, 2010.

Chapter 82.60 RCW establishes a sales and use tax deferral program. These rules explain this program's eligible area criteria, hiring requirements, reporting and monitoring procedures, and tax repayment requirements. They also explain the application procedure and review process, how the deferral certificate is to be used, and the record-keeping requirements of the deferral program.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING

AND THEY MUST BE SENT TO Bridget N. McBryde, Department of Revenue, P.O. Box 47453, Olympia, WA 98504-7453, e-mail BridgetM@dor.wa.gov, AND RECEIVED BY October 4, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: The department proposes to amend these rules to recognize HB 3014 (chapter 16, Laws of 2010 1st sp. sess.). This legislation clarified the definition of manufacturing for application filed prior to July 1, 2010, and changed the definition for those applications filed after June 30, 2010. The legislation also amended the definition of a qualifying county.

Copies of draft rules are available for viewing and printing on our web site at <http://dor.wa.gov/content/FindALawOrRule/RuleMaking/agenda.aspx>.

Reasons Supporting Proposal: To recognize 2010 legislation affecting this tax deferral program.

Statutory Authority for Adoption: RCW 82.32.300 and 82.01.060(2).

Statute Being Implemented: Chapter 82.60 RCW.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: Department of revenue, governmental.

Name of Agency Personnel Responsible for Drafting: Bridget N. McBryde, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6117; Implementation: Alan R. Lynn, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6125; and Enforcement: Gilbert Brewer, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6147.

August 4, 2010

Alan R. Lynn
Rules Coordinator

AMENDATORY SECTION (Amending WSR 10-06-070, filed 2/25/10, effective 3/28/10)

WAC 458-20-24001 Sales and use tax deferral—Manufacturing and research/development activities in ~~((rural))~~ high unemployment counties—Applications filed after ~~((March 31, 2004))~~ June 30, 2010. (1) **Introduction.** Chapter 82.60 RCW establishes a sales and use tax deferral program. The purpose of the program is to promote economic stimulation, create employment opportunities, and reduce poverty in certain areas of the state. The legislature established this program to be effective solely in those areas and under circumstances where the deferral is for investments that result in the creation of a specified minimum number of jobs or investment for a qualifying project.

(a) This deferral program applies to taxes imposed on the construction of qualified buildings or acquisition of qualified machinery and equipment and requires the recipient of the deferral to maintain the manufacturing or research and development activity for an eight-year period. This section does not address RCW 82.08.02565 and 82.12.02565, which provide a statewide sales and use tax exemption for machinery and equipment used directly in a manufacturing operation. Refer to WAC 458-20-13601 for more information regarding the statewide exemption.

(b) This program was first enacted in 1985. The legislature made major revisions to program criteria in 1993, 1994, 1995, 1996, 1999, ~~((and))~~ 2004, 2009, and 2010, specifically to the definitions of "eligible area," "eligible investment project," and "qualified building." Each revision created additional criteria for prospective applicants. ~~((This section sets forth the requirements for applications made after March 31, 2004.))~~ For applications made prior to ~~((April 1, 2004))~~ June 30, 2010, see WAC 458-20-24001A.

(c) The employment security department and the department of community, trade, and economic development administer programs for ~~((rural))~~ high unemployment counties and job training and should be contacted directly for information concerning these programs.

(2) **Who is eligible for the sales and use tax deferral program?** A person engaged in manufacturing or research and development activity is eligible for this deferral program for its eligible investment project.

(a) **What does the term "person" mean for purposes of this section?** "Person" has the meaning given in RCW 82.04.030. "Person" does not include the state of Washington or its institutions. "Person" can be either a lessee or a lessor, who can apply separately for individual investment projects at the same site, if they comply with the other requirements of chapter 82.60 RCW.

(i) The lessor or owner of the qualified building is not eligible for deferral unless:

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

(B) ~~((All of the following conditions are met:~~

~~((H)))~~ The lessor has by written contract agreed to pass the economic benefit of the deferral to the lessee;

~~((H)))~~ (C) The lessee that receives the economic benefit of the deferral agrees in writing with the department to complete the annual survey required under RCW 82.60.070;

~~((H)))~~ (D) The economic benefit of the deferral passed to the lessee is no less than the amount of tax deferred by the lessor; and

~~((IV))~~ ~~Upon request, the lessor must provide the department with written documentation to support the eligibility of the deferral, including))~~ (E) The economic benefit of the deferral being passed to the lessee 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.

For example, economic benefit of the deferral is passed through to the lessee when evidenced by written documentation that the amounts paid to the lessor for construction of tenant improvements are reduced by the amount of the sales tax deferred, or that the lessee receives more tenant improvements through a credit for tenant improvements or other mechanism in the lease equal to the amount of the sales tax deferred.

(ii) The lessor of the qualified building who receives a letter of intent from a qualifying lessee may be eligible for deferral, assuming that all other requirements of chapter 82.60 RCW are met. At the time of application, the lessor, or another qualifying lessee must provide to the department a letter of intent by the lessee to lease the qualified building and any other information to prove that the lessee will engage in

qualified research and development or pilot scale manufacturing once the building construction is complete. After the investment project is certified as operationally complete, the lessee must actually occupy the building as a lessee and engage in qualified research and development or pilot scale manufacturing. Otherwise, deferred taxes will be immediately due to the lessor, and interest will be assessed retroactively from the date of deferral.

(b) What is "manufacturing" for purposes of this section? "Manufacturing" has the meaning given in RCW 82.04.120. Manufacturing, in addition, includes ~~((computer programming, the production of computer software, and other computer-related services, and))~~ the activities performed by research and development laboratories and commercial testing laboratories ~~((— Effective July 1, 2006, manufacturing also includes)),~~ and the conditioning of vegetable seeds.

For purposes of this section, both manufacturers and processors for hire may qualify for the deferral program as being engaged in manufacturing activities. Refer to WAC 458-20-136 (Manufacturing, processing for hire, fabricating) for more information on processors for hire.

~~((For purposes of this section, "computer-related services" means activities such as programming for the manufactured product. It includes creating operating systems, software, and other similar goods that will be copied and sold as canned software. "Computer-related services" does not include information services, such as data or information processing. The activities performed by the manufacturer to test, correct, revise, or upgrade software or hardware before they are approved for sale to the consumer are considered computer-related services.))~~

For purposes of this section, "vegetable seeds" includes the seeds of those crops that are grown in gardens and on truck farms and are generally known and sold under the name of vegetable or herb seeds in this state. "Vegetable seeds" includes, but is not limited to, cabbage seeds, carrot seeds, onion seeds, tomato seeds, and spinach seeds. Vegetable seeds do not include grain seeds, cereal seeds, fruit seeds, flower seeds, tree seeds, and other similar properties.

(c) What is "research and development" for purposes of this section? "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. For purposes of this section, "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 one million dollars.

(3) What is eligible for the sales and use tax deferral program? This deferral program applies to an eligible investment project for sales and use taxes imposed on the construction, expansion, or renovation of qualified buildings and acquisition of qualified machinery and equipment.

(a) What is an "eligible investment project" for purposes of this section? "Eligible investment project" means an investment project in an eligible area. Refer to (g) of this subsection for more information on eligible area. "Eligible

investment project" does not include an investment project undertaken by a light and power business as defined in RCW 82.16.010, 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. It also does not include an investment project that has already received a deferral under chapter 82.60 RCW.

(b) What is an "investment project" for purposes of this section? "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.

(c) What is "qualified buildings" for purposes of this section? "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.

(i) "Qualified buildings" is limited to structures used for manufacturing and research and development activities. "Qualified buildings" includes plant offices and warehouses if such facilities are essential to or an integral part of a factory, mill, plant, or laboratory used for manufacturing or research and development.

(A) "Office" means space used by professional, clerical, or administrative staff. For plant office space to be a qualified building its use must be essential or integral to the manufacturing or research and development operation. Office space that is used by supervisors and their staff, by technicians, by payroll staff, by the safety officer, and by the training staff are examples of qualifying office space. An office may be located in a separate building from the building used for manufacturing or research and development activities, but the office must be located at the same site as the qualified building in order to qualify. Each individual office may only qualify or disqualify in its entirety.

(B) "Warehouse" means buildings or facilities used for the storage of raw materials or finished goods. A warehouse may be located in a separate building from the building used for manufacturing or research and development activities, but the warehouse must be located at the same site as the qualified building in order to qualify. Warehouse space may be apportioned based upon its qualifying use.

(C) A site is one or more immediately adjacent parcels of real property. Adjacent parcels of real property separated only by a public road comprise a single site.

(ii) "Qualified buildings" does not include construction of landscaping or most other work outside the building itself, even though the landscaping or other work outside the building may be required by the city or county government in order for the city or county to issue a permit for the construction of a building.

However, "qualified buildings" includes construction of specialized sewerage pipes connected to a qualified building that are specifically designed and used exclusively for manufacturing or research and development.

Also, "qualified buildings" includes construction of parking lots connected to or adjacent to the building if the parking lots are for the use of workers performing manufac-

turing or research and development in the building. Parking lots may be apportioned based upon its qualifying use.

(d) **When is apportionment of qualified buildings appropriate?** The deferral is allowable only in respect to investment in the construction of a new building or the expansion or renovation of an existing building used in manufacturing or research and development. Where a building(s) is used partly for manufacturing or research and development and partly for purposes that do not qualify for deferral under this section, apportionment is necessary.

(e) **What are the apportionment methods?** The deferral is determined by one of the following two apportionment methods. The first method of apportionment is based on square footage and does not require tracking the costs of materials for the qualifying/nonqualifying areas of a building. The second method of apportionment tracks the costs of materials used in the qualifying/nonqualifying areas, and it is primarily used by those industries with specialized building requirements.

(i) **First method.** The applicable tax deferral can be determined by apportionment according to the ratio of the square footage of that portion of the building(s) directly used for manufacturing or research and development purposes bears to the square footage of the total building(s).

Apportionment formula:

$$\frac{\text{Eligible square feet of building(s)}}{\text{Total square feet of building(s)}} = \text{Percent Eligible}$$

$$\text{Percent Eligible} \times \text{Total Project Costs} = \text{Eligible Costs.}$$

"Total Project Costs" means cost of multipurpose buildings and other improvement costs associated with the deferral project. Machinery and equipment are not included in this calculation. Common areas, such as hallways, bathrooms, and conference rooms, are not included in the square feet figure for either the numerator or the denominator. The cost of the common areas is multiplied by the percent eligible to determine the portion of the common area that is eligible for deferral.

$$\text{Eligible Costs} \times \text{Tax Rate} = \text{Eligible Tax Deferred.}$$

(ii) **Second method.** If the applicable tax deferral is not determined by the first method, it will be determined by tracking the cost of construction of qualifying/nonqualifying areas as follows:

(A) Tax on the cost of construction of areas devoted solely to manufacturing or research and development may be deferred.

(B) Tax on the cost of construction of areas not used at all for manufacturing or research and development may not be deferred.

(C) Tax on the cost of construction of areas used in common for manufacturing or research and development and for other purposes, such as hallways, bathrooms, and conference rooms, may be deferred by apportioning the costs of construction on a square footage basis. The apportioned costs of construction eligible for deferral are established by using the ratio, expressed as a percentage, of the square feet of the construction, expansion, or renovation devoted to manufacturing

or research and development, excluding areas used in common, to the total square feet of the construction, expansion, or renovation, excluding areas used in common. That percentage is applied to the cost of construction of the common areas to determine the costs of construction eligible for tax deferral. Expressed as a formula, apportionment of the cost of the common areas is determined by:

$$\frac{\text{Square feet devoted to manufacturing or research and development, excluding square feet of common areas}}{\text{Total square feet, excluding square feet of common areas}} = \text{Percentage of total cost of construction of common areas eligible for deferral}$$

(f) **What is "qualified machinery and equipment" for purposes of this section?** "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, desks, filing cabinets, photocopiers, printers, 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 machinery. It also includes machinery and equipment acquired under the terms of a lease by the recipient. "New" as used in this subsection means either new to the taxing jurisdiction of the state or new to the certificate holder.

For purposes of this section, "industrial fixture" means an item attached to a building or to land. Examples of "industrial fixtures" are fuel oil lines, boilers, craneways, and improvements to land such as concrete slabs.

(i) **Are qualified machinery and equipment subject to apportionment?** Qualified machinery and equipment are not subject to apportionment.

(ii) **To what extent is leased equipment eligible for the deferral?** The amount of tax deferral allowable for leased equipment is the amount of the consideration paid by the recipient to the lessor over the initial term of the lease, excluding any period of extension or option to renew, up to the last date for repayment of the deferred taxes. After that date, the recipient must pay the appropriate sales taxes to the lessor for the remaining term of the lease.

(g) **What is an "eligible area" for purposes of this section?** "Eligible area" means:

(i) **(Rural) Qualifying county.** A ~~((rural))~~ qualifying county is a county ((with fewer than one hundred persons per square mile or a county smaller than two hundred twenty-five square miles as determined annually by the office of financial management and published by the department of revenue effective for the period July 1st through June 30th)) that has an unemployment rate, as determined by the employment security department, which is at least twenty percent above the state average for the three calendar years immediately preceding the year in which the list of qualifying counties is established or updated, as the case may be.

The department, with the assistance of the employment security department, must establish a list of qualifying counties effective July 1, 2010. The list of qualifying counties is effective for a twenty-four-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; or

(ii) **Community empowerment zone (CEZ).** A "community empowerment zone" means an area meeting the requirements of RCW 43.31C.020 and officially designated as a CEZ by the director of the department of community, trade, and economic development ~~((, or a county containing a CEZ)).~~

(h) **What if an investment project is located in an area that qualifies both as a ~~((rural))~~ high unemployment county and as a CEZ?** If an investment project is located in an area that qualifies under more than one type of eligible area, the department will automatically assign the project to the eligible area that imposes the least burden on the taxpayer and with the greatest benefit to the taxpayer. If the applicant elects to be bound by the requirements of the other potential eligible area, the applicant must make a written statement to that effect. For example, on October 1, ~~((2004))~~ 2010, ~~((the))~~ a city ~~((of Yakima qualifies))~~ in a high unemployment county qualifies as a CEZ, and the ~~((entire))~~ high unemployment county ~~((of Yakima has fewer than one hundred persons per square mile))~~ is on the list as a qualifying county. The CEZ requirements are more restrictive than qualifying counties ~~((containing fewer than one hundred persons per square mile)).~~ The department will assign the project to the ~~(("fewer than one hundred persons per square mile designation"))~~ qualifying county designation unless the applicant elects to be bound by the CEZ requirements. Refer to subsection (4) of this section for more information on the application process.

(i) **Are there any hiring requirements for an investment project?** There may or may not be a hiring requirement, depending on the location of the project.

(i) ~~((Rural))~~ **High unemployment county.** There are no hiring requirements for qualifying projects located in ~~((rural))~~ high unemployment counties.

(ii) **Community empowerment zone (CEZ).** There are hiring requirements for qualifying projects located in CEZs or in counties containing CEZs. The applicant applies for a deferral of investment that correlates to the estimated number of persons to be hired based on the following formula:

Number of qualified employment positions to be hired x \$750,000 = amount of investment eligible for deferral

Applicants must make good faith estimates of anticipated hiring. Refer to subsection (4) of this section for more information on the application process. The recipient must fill the positions by persons who at the time of hire are residents of the CEZ, as defined in (i)(ii)(B) of this subsection. The department has instituted a geographic information system (GIS) to assist taxpayers in determining taxing jurisdiction boundaries, local tax rates, and a mapping and address lookup system to determine whether a specific address is within a CEZ. The system is available on the department's internet web site at <http://www.dor.wa.gov>. A recipient must fill the qualified employment positions by the end of the calendar year following the year in which the project is certified as operationally complete and retain the position during the entire tax year. Refer to subsection (7) of this section for more information on certification of an investment project as operationally complete. If the recipient does not fill the qualified employment positions by the end of the second calendar

year following the year in which the project is certified as operationally complete, all deferred taxes are immediately due.

(A) **What is a "qualified employment position" for purposes of this section?** "Qualified employment position" means a permanent full-time employee employed in the eligible investment project during the entire tax year. The "entire tax year" means the full-time position is filled for a period of twelve consecutive months. "Full-time" means at least thirty-five hours a week, four hundred fifty-five hours a quarter, or one thousand eight hundred twenty hours a year.

(B) **Who are residents of the CEZ?** "Resident" means the person who fills the qualified employment position makes his or her home in the CEZ or the county in which the zone is located. A mailing address alone is insufficient to establish that a person is a resident.

(4) **What are the application and review processes?** An application for sales and use tax deferral under this program must be made prior to the initiation of construction, prior to the acquisition of machinery and equipment, and prior to the filling of qualified employment positions. Persons who apply after construction is initiated or finished or after acquisition of machinery and equipment are not eligible for the program. When an application for sales and use tax deferral is timely submitted, costs incurred before the application date are allowable, if they otherwise qualify. Applications for persons subject to hiring requirements must include information regarding the estimated total project cost and the qualified employment positions.

(a) **What is "initiation of construction" for purposes of this section?** "Initiation of construction," in regards to the construction, expansion, or renovation of buildings, means the commencement of on-site construction work. Neither planning nor land clearing prior to excavation of the building site constitutes the commencement of on-site construction work.

(b) **What is "acquisition of machinery and equipment" for purposes of this section?** "Acquisition of machinery and equipment" means the machinery and equipment is under the dominion and control of the recipient or its agent.

(c) **How may a taxpayer obtain an application form?** Application forms may be obtained at department of revenue district offices, by downloading from the department's web site (dor.wa.gov), by telephoning the telephone information center (800-647-7706), or by contacting the department's special programs division at:

Department of Revenue
Special Programs Division
Post Office Box 47477
Olympia, WA 98504-7477
Fax 360-586-2163

Applicants must mail or fax applications to the special programs division at the address or fax number given above. Only those applications received by the department under chapter 82.60 RCW, which are approved, are not confidential and are subject to disclosure. RCW 82.60.100.

For purposes of this section, "applicant" means a person applying for a tax deferral under chapter 82.60 RCW, and "department" means the department of revenue.

(d) **Will the department approve the deferral application?** In considering whether to approve or deny an application for a deferral, the department will not approve an application for a project involving construction unless:

(i) The construction will begin within one year from the date of the application; or

(ii) The applicant shows proof that, if the construction will not begin within one year of construction, there is a specific and active program to begin construction of the project within two years from the date of application. Proof may include, but is not limited to:

(A) Affirmative action by the board of directors, governing body, or other responsible authority of the applicant toward an active program of construction;

(B) Itemized reasons for the proposed construction;

(C) Clearly established plans for financing the construction; or

(D) Building permits.

Similarly, after an application has been granted, a deferral certificate is no longer valid and should not be used if construction has not begun within one year from the date of application or there is not a specific and active program to begin construction within two years from the date of application. However, the department will grant requests to extend the period for which the certificate is valid if the holder of the certificate can demonstrate that the delay in starting construction is due to circumstances beyond the certificate holder's control such as the acquisition of building permit(s). Refer to subsection (6) of this section for more information on the use of tax deferral certificate.

(e) **What is the date of application?** "Date of application" means the date of the U.S. Post Office postmark, fax, or electronic transmittal, or when the application is hand delivered to the department. The statute in effect on the "date of application" will determine the program criteria the applicant must satisfy.

(f) **When will the department notify approval or disapproval of the deferral application?** The department will verify the information contained in the application and approve or disapprove the application within sixty days. If approved, the department will issue a tax deferral certificate. If disapproved, the department will notify the applicant as to the reason(s) for disapproval.

(g) **May an applicant request a review of department disapproval of the deferral application?** The applicant may seek administrative review of the department's disapproval of an application within thirty days from the date of notice of the disallowance pursuant to the provisions of WAC 458-20-100 (Appeals). The filing of a petition for review with the department starts a review of departmental action.

(5) **What happens after the department approves the deferral application?** The department will 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 for an eligible investment project. The department will state on the certificate the amount of tax deferral for which the recipient

is eligible. Recipients must keep track of how much tax is deferred.

For purposes of this section, "recipient" means a person receiving a tax deferral under this program.

(6) **How should a tax deferral certificate be used?** A tax deferral certificate issued under this program is for the use of the recipient for deferral of sales and use taxes due on each eligible investment project. Deferral is limited only to investment in qualified buildings or qualified machinery and equipment as defined in this section. Thus, sales and use taxes cannot be deferred on items that do not become part of the qualified buildings, machinery, or equipment. In addition, the deferral is not to be used to defer the taxes of the persons with whom the recipient does business, persons the recipient hires, or employees of the recipient.

The certificate holder must provide a copy of the tax deferral certificate to the seller at the time goods or services are purchased. The seller will be relieved of the responsibility for collection of the sales or use tax upon presentation of the certificate. The seller must retain a copy of the certificate as part of its permanent records for a period of at least five years. A blanket certificate may be provided by the certificate holder and accepted by the seller covering all such purchases relative to the eligible project. The seller is liable for business and occupation tax on all tax deferral sales.

For purposes of this section, "certificate holder" means an applicant to whom a tax deferral certificate has been issued.

(7) **What are the processes of an investment project that is certified by the department as operationally complete?** An applicant must provide the department with the estimated cost of the investment project at the time the application is made. Following approval of the application and issuance of a tax deferral certificate, a certificate holder must notify the department, in writing, when the value of the investment project reaches the estimated cost as stated on the tax deferral certificate.

For purposes of this section, "operationally complete" means the project is capable of being used for its intended purpose as described in the application.

(a) **What should a certificate holder do if its investment project reaches the estimated costs but the project is not yet operationally complete?** If a certificate holder has an investment project that has reached its level of estimated costs and the project is not operationally complete, the certificate holder may request an amended certificate stating a revised amount upon which the deferral taxes are requested. Requests must be mailed or faxed to the department.

(b) **What should a certificate holder do when its investment project is operationally complete?** The certificate holder must notify the department in writing when the ~~((construction))~~ investment project is operationally complete. The department will certify the date on which the project is operationally complete. The certificate holder of the deferral must maintain the manufacturing or research and development activity for eight years from this date.

(8) **Is a recipient of tax deferral required to submit annual surveys?** Each recipient of a tax deferral granted ~~((under chapter 82.60 RCW after June 30, 1994,))~~ must complete an annual survey. If the economic benefits of the deferral

ral are passed to a lessee as provided in RCW 82.60.020(4), the lessee must agree to complete the annual survey and the applicant is not required to complete the annual survey. Refer to WAC 458-20-268 (Annual surveys for certain tax adjustments) for more information on the requirements to file annual surveys.

(9) Is a recipient of tax deferral required to repay deferred taxes? Repayment of tax deferred under chapter 82.60 RCW is excused, except as otherwise provided in RCW 82.60.070 and this subsection and subsection (10) of this section.

(a) Is repayment required for machinery and equipment exempt under RCW 82.08.02565 or 82.12.02565? Repayment of tax deferred under chapter 82.60 RCW is not required, and interest and penalties under RCW 82.60.070 will not be imposed, on machinery and equipment that qualifies for exemption under RCW 82.08.02565 or 82.12.02565.

(b) When is repayment required? The following subsections describe the various circumstances under which repayment of the deferral may occur. Outstanding taxes are determined by reference to the following table. ~~((The table presumes the taxpayer maintained eligibility for the entire year.))~~

Repayment Year	Percentage of Deferred Tax Waived
1 (Year operationally complete)	0%
2	0%
3	0%
4	10%
5	15%
6	20%
7	25%
8	30%

Any action taken by the department to disqualify a recipient for tax deferral or assess interest will be subject to administrative review pursuant to the provisions of WAC 458-20-100 (Appeals). The filing of a petition for review with the department starts a review of departmental action.

(i) Failure of investment project to satisfy general conditions. If, on the basis of the recipient's annual survey or other information, including that submitted by the employment security department, the department of revenue finds that an investment project is not eligible for tax deferral for reasons other than failure to create the required number of qualified employment positions, the department will declare the amount of deferred taxes outstanding to be immediately due. ~~((An example of a disqualification under this section is a facility not being used for a manufacturing or research and development operation.))~~ No penalties or interest will be assessed on the deferred sales/use tax; however, all other penalties and interest applicable to excise tax assessments may be assessed and imposed. See subsection (10) of this section.

(ii) Failure of investment project to satisfy required employment positions conditions. If, on the basis of the recipient's annual survey or other information, the department finds that an investment project has been operationally complete and has failed to create the required number of

qualified employment positions under subsection (3)(i) of this section, the amount of taxes deferred will be immediately due. There is no proration of the amount owed under this subsection. No penalties or interest will be assessed on the deferred sales/use tax; however, all other penalties and interest applicable to excise tax assessments may be assessed and imposed.

(10) When manufacturing or research and development activities are temporarily ceased. A person is not liable for the amount of deferred taxes outstanding for an investment project when the person temporarily ceases to use its qualified buildings and qualified machinery and equipment for manufacturing or research and development activities in a county with a population of less than twenty thousand persons for a period not to exceed twenty-four months from the date that the department sent its assessment for the amount of outstanding deferred taxes to the taxpayer.

(a) The relief from repayment of deferred taxes does not apply unless the number of qualified employment positions maintained at the investment project after manufacturing or research and development activities are temporarily ceased is at least ten percent of the number of qualified employment positions employed at the investment project at the time the deferral was approved by the department. If a person has been approved for more than one deferral under this chapter, relief from repayment of deferred taxes under this section does not apply unless the number of qualified employment positions maintained at the investment project after manufacturing or research and development activities are temporarily ceased is at least ten percent of the highest number of qualified employment positions at the investment project at the time any of the deferrals were approved by the department.

(b) If, at any time during the twenty-four-month period after the department has sent the taxpayer an assessment for outstanding deferred taxes resulting from the person temporarily ceasing to use its qualified buildings and qualified machinery and equipment for manufacturing or research and development activities, the number of qualified employment positions falls below the ten percent threshold in this subsection, the amount of deferred taxes outstanding for the project is immediately due.

(c) The lessor of an investment project for which a deferral has been granted who has passed the economic benefits of the deferral to the lessee is not eligible for relief from the payment of deferred taxes under this section.

(d) A person seeking relief from the payment of deferred taxes must apply to the department in a form and manner prescribed by the department. The application required must be received by the department within thirty days of the date that the department sent its assessment for outstanding deferred taxes resulting from the person temporarily ceasing to use its qualified buildings and qualified machinery and equipment for manufacturing or research and development activities. The department must approve applications that meet the requirements for relief from the payment of deferred taxes.

(e) A person is entitled to relief under this section only once.

(f) A person whose application for relief from the payment of deferred taxes has been approved must continue to file an annual survey as required under RCW 82.60.070(1) or

any successor statute. In addition, the person must file, in a form and manner prescribed by the department, a report on the status of the business and the outlook for commencing manufacturing or research and development activities.

(11) When will the tax deferral program expire? No applications for deferral of taxes will be accepted after June 30, ~~((2010))~~ 2020.

~~((11))~~ **(12) Is debt extinguishable because of insolvency or sale?** Insolvency or other failure of the recipient does not extinguish the debt for deferred taxes nor will the sale, exchange, or other disposition of the recipient's business extinguish the debt for the deferred taxes.

~~((12))~~ **(13) Does transfer of ownership terminate tax deferral?** Transfer of ownership does not terminate the deferral. The deferral is transferred, subject to the successor meeting the eligibility requirements of chapter 82.60 RCW, for the remaining periods of the deferral. Any person who becomes a successor (see WAC 458-20-216) to such investment project is liable for the full amount of any unpaid, deferred taxes under the same terms and conditions as the original recipient of the deferral.

Any questions regarding the potential eligibility of deferrals to be transferred on the sale of a business, contact special programs as provided for in subsection (4)(c) of this section.

AMENDATORY SECTION (Amending WSR 06-17-007, filed 8/3/06, effective 9/3/06)

WAC 458-20-24001A Sales and use tax deferral—Manufacturing and research/development activities in rural counties—Applications filed prior to ~~((April 1, 2004))~~ July 1, 2010. **(1) Introduction.** Chapter 82.60 RCW establishes a sales and use tax deferral program. The purpose of the program is to promote economic stimulation, create employment opportunities, and reduce poverty in certain areas of the state. The legislature established this program to be effective solely in those areas and for those circumstances where the deferral is for investments that result in the creation of a specified minimum number of jobs or investment for a qualifying project.

The program applies to sales and use taxes on materials and labor and services rendered in the construction of qualified buildings or acquisition of qualified machinery and equipment and requires the recipient of the deferral to maintain the manufacturing or research and development activity for an eight-year period. This rule does not address RCW 82.08.02565 and 82.12.02565, which provide a statewide sales and use tax exemption for machinery and equipment used directly in a manufacturing operation. Refer to WAC 458-20-13601 for more information regarding the statewide exemption.

(2) Program background. This program was enacted in 1985. The legislature made major revisions to program criteria in 1993, 1994, 1995, 1996, 1999, ~~((and))~~ 2004, 2009, and 2010, specifically to the definitions of "eligible area," "eligible investment project," ~~((and))~~ "qualified building~~((-))~~," and "qualifying county." Each revision created additional criteria for prospective applicants. This rule is written in ~~((four))~~ five parts and covers applications made

prior to ~~((April 1, 2004))~~ July 1, 2010. Each part sets forth the requirements on the basis of the period of time in which application is made. Refer to the year during which application was made for information on an individual application. For applications made after ~~((March 31, 2004))~~ June 30, 2010, see WAC 458-20-24001.

The employment security department and the department of community, trade, and economic development administer additional programs for distressed areas and job training and should be contacted directly for information concerning these programs.

PART I

Applications from March 31, 2004, to June 30, 2010

(101) Who is eligible for the sales and use tax deferral program? A person engaged in manufacturing or research and development activity is eligible for this deferral program for its eligible investment project.

(a) What does the term "person" mean for purposes of this section? "Person" has the meaning given in RCW 82.04.030. "Person" does not include the state of Washington or its institutions. "Person" can be either a lessee or a lessor, who can apply separately for individual investment projects at the same site, if they comply with the other requirements of chapter 82.60 RCW.

(i) The lessor or owner of the qualified building is not eligible for deferral unless:

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

(B) All of the following conditions are met:

(I) The lessor has by written contract agreed to pass the economic benefit of the deferral to the lessee;

(II) The lessee that receives the economic benefit of the deferral agrees in writing with the department to complete the annual survey required under RCW 82.60.070;

(III) The economic benefit of the deferral passed to the lessee is no less than the amount of tax deferred by the lessor; and

(IV) Upon request, the lessor must provide the department with written documentation to support the eligibility of the deferral, including any type of payment, credit, or other financial arrangement between the lessor or owner of the qualified building and the lessee.

For example, economic benefit of the deferral is passed through to the lessee when evidenced by written documentation that the amounts paid to the lessor for construction of tenant improvements are reduced by the amount of the sales tax deferred, or that the lessee receives more tenant improvements through a credit for tenant improvements or other mechanism in the lease equal to the amount of the sales tax deferred.

(ii) The lessor of the qualified building who receives a letter of intent from a qualifying lessee may be eligible for deferral, assuming that all other requirements of chapter 82.60 RCW are met. At the time of application, the lessor must provide to the department a letter of intent by the lessee to lease the qualified building and any other information to prove that the lessee will engage in qualified research and development or pilot scale manufacturing once the building construction is complete. After the investment project is cer-

tified as operationally complete, the lessee must actually occupy the building as a lessee and engage in qualified research and development or pilot scale manufacturing. Otherwise, deferred taxes will be immediately due to the lessor, and interest will be assessed retroactively from the date of deferral.

(b) What is "manufacturing" for purposes of this section? "Manufacturing" has the meaning given in RCW 82.04.120. Manufacturing, in addition, includes:

(i) Computer programming, the production of computer software, and other computer-related services, but only when the computer programming, production of computer software, or other computer-related services are performed by a manufacturer as defined in RCW 82.04.110 and contribute to the production of a new, different, or useful substance or article or tangible personal property for sale (chapter 16, Laws of 2010);

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

(iii) Effective July 1, 2006, manufacturing also includes the conditioning of vegetable seeds.

For purposes of this section, both manufacturers and processors for hire may qualify for the deferral program as being engaged in manufacturing activities. Refer to WAC 458-20-136 (Manufacturing, processing for hire, fabricating) for more information on processors for hire.

For purposes of this section, "computer-related services" means activities such as programming for the manufactured product. It includes creating operating systems, software, and other similar goods that will be copied and sold as canned software. "Computer-related services" does not include information services, such as data or information processing. The activities performed by the manufacturer to test, correct, revise, or upgrade software or hardware before they are approved for sale to the consumer are considered computer-related services.

For purposes of this section, "vegetable seeds" includes the seeds of those crops that are grown in gardens and on truck farms and are generally known and sold under the name of vegetable or herb seeds in this state. "Vegetable seeds" includes, but is not limited to, cabbage seeds, carrot seeds, onion seeds, tomato seeds, and spinach seeds. Vegetable seeds do not include grain seeds, cereal seeds, fruit seeds, flower seeds, tree seeds, and other similar properties.

(c) What is "research and development" for purposes of this section? "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. (Chapter 16, Laws of 2010.) For purposes of this section, "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 one million dollars.

(102) What is eligible for the sales and use tax deferral program? This deferral program applies to an eligible investment project for sales and use taxes imposed on the

construction, expansion, or renovation of qualified buildings and acquisition of qualified machinery and equipment.

(a) What is an "eligible investment project" for purposes of this section? "Eligible investment project" means an investment project in an eligible area. Refer to (g) of this subsection for more information on eligible area. "Eligible investment project" does not include an investment project undertaken by a light and power business as defined in RCW 82.16.010, 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. It also does not include an investment project that has already received a deferral under chapter 82.60 RCW.

(b) What is an "investment project" for purposes of this section? "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.

(c) What is "qualified buildings" for purposes of this section? "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.

(i) "Qualified buildings" is limited to structures used for manufacturing and research and development activities. "Qualified buildings" includes plant offices and warehouses if such facilities are essential to or an integral part of a factory, mill, plant, or laboratory used for manufacturing or research and development.

(A) "Office" means space used by professional, clerical, or administrative staff. For plant office space to be a qualified building its use must be essential or integral to the manufacturing or research and development operation. Office space that is used by supervisors and their staff, by technicians, by payroll staff, by the safety officer, and by the training staff are examples of qualifying office space. An office may be located in a separate building from the building used for manufacturing or research and development activities, but the office must be located at the same site as the qualified building in order to qualify. Each individual office may only qualify or disqualify in its entirety.

(B) "Warehouse" means buildings or facilities used for the storage of raw materials or finished goods. A warehouse may be located in a separate building from the building used for manufacturing or research and development activities, but the warehouse must be located at the same site as the qualified building in order to qualify. Warehouse space may be apportioned based upon its qualifying use.

(C) A site is one or more immediately adjacent parcels of real property. Adjacent parcels of real property separated only by a public road comprise a single site.

(ii) "Qualified buildings" does not include construction of landscaping or most other work outside the building itself even though the landscaping or other work outside the building may be required by the city or county government in order for the city or county to issue a permit for the construction of a building.

However, "qualified buildings" includes construction of specialized sewerage pipes connected to a qualified building that are specifically designed and used exclusively for manufacturing or research and development.

Also, "qualified buildings" includes construction of parking lots connected to or adjacent to the building if the parking lots are for the use of workers performing manufacturing or research and development in the building. Parking lots may be apportioned based upon its qualifying use.

(d) When is apportionment of qualified buildings appropriate? The deferral is allowable only in respect to investment in the construction of a new building or the expansion or renovation of an existing building used in manufacturing or research and development. Where a building(s) is used partly for manufacturing or research and development and partly for purposes that do not qualify for deferral under this section, apportionment is necessary.

(e) What are the apportionment methods? The deferral is determined by one of the following two apportionment methods. The first method of apportionment is based on square footage and does not require tracking the costs of materials for the qualifying/nonqualifying areas of a building. The second method of apportionment tracks the costs of materials used in the qualifying/nonqualifying areas, and it is primarily used by those industries with specialized building requirements.

(i) First method. The applicable tax deferral can be determined by apportionment according to the ratio of the square footage of that portion of the building(s) directly used for manufacturing or research and development purposes bears to the square footage of the total building(s).

Apportionment formula:

$$\frac{\text{Eligible square feet of building(s)}}{\text{Total square feet of building(s)}} = \text{Percent Eligible}$$

$$\text{Percent Eligible} \times \text{Total Project Costs} = \text{Eligible Costs.}$$

"Total Project Costs" means cost of multipurpose buildings and other improvement costs associated with the deferral project. Machinery and equipment are not included in this calculation. Common areas, such as hallways, bathrooms, and conference rooms, are not included in the square feet figure for either the numerator or the denominator. The cost of the common areas is multiplied by the percent eligible to determine the portion of the common area that is eligible for deferral.

$$\text{Eligible Costs} \times \text{Tax Rate} = \text{Eligible Tax Deferred.}$$

(ii) Second method. If the applicable tax deferral is not determined by the first method, it will be determined by tracking the cost of construction of qualifying/nonqualifying areas as follows:

(A) Tax on the cost of construction of areas devoted solely to manufacturing or research and development may be deferred.

(B) Tax on the cost of construction of areas not used at all for manufacturing or research and development may not be deferred.

(C) Tax on the cost of construction of areas used in common for manufacturing or research and development and for other purposes, such as hallways, bathrooms, and conference rooms, may be deferred by apportioning the costs of construction on a square footage basis. The apportioned costs of construction eligible for deferral are established by using the ratio, expressed as a percentage, of the square feet of the construction, expansion, or renovation devoted to manufacturing or research and development, excluding areas used in common, to the total square feet of the construction, expansion, or renovation, excluding areas used in common. That percentage is applied to the cost of construction of the common areas to determine the costs of construction eligible for tax deferral. Expressed as a formula, apportionment of the cost of the common areas is determined by:

$\frac{\text{Square feet devoted to manufacturing or research and development, excluding square feet of common areas}}{\text{Total square feet, excluding square feet of common areas}}$	=	$\frac{\text{Percentage of total cost of construction of common areas eligible for deferral}}$
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(f) What is "qualified machinery and equipment" for purposes of this section? "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, desks, filing cabinets, photocopiers, printers, 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 machinery. It also includes machinery and equipment acquired under the terms of a lease by the recipient. "New" as used in this subsection means either new to the taxing jurisdiction of the state or new to the certificate holder.

For purposes of this section, "industrial fixture" means an item attached to a building or to land. Examples of "industrial fixtures" are fuel oil lines, boilers, craneways, and improvements to land such as concrete slabs.

(i) Are qualified machinery and equipment subject to apportionment? Qualified machinery and equipment are not subject to apportionment.

(ii) To what extent is leased equipment eligible for the deferral? The amount of tax deferral allowable for leased equipment is the amount of the consideration paid by the recipient to the lessor over the initial term of the lease, excluding any period of extension or option to renew, up to the last date for repayment of the deferred taxes. After that date, the recipient must pay the appropriate sales taxes to the lessor for the remaining term of the lease.

(g) What is an "eligible area" for purposes of this section? "Eligible area" means:

(i) Rural county. A rural county is a county with fewer than one hundred persons per square mile or a county smaller than two hundred twenty-five square miles as determined annually by the office of financial management and published by the department of revenue effective for the period July 1st through June 30th; or

(ii) **Community empowerment zone (CEZ).** A "community empowerment zone" means an area meeting the requirements of RCW 43.31C.020 and officially designated as a CEZ by the director of the department of commerce, or a county containing a CEZ.

(h) **What if an investment project is located in an area that qualifies both as a rural county and as a CEZ?** If an investment project is located in an area that qualifies under more than one type of eligible area, the department will automatically assign the project to the eligible area that imposes the least burden on the taxpayer and with the greatest benefit to the taxpayer. If the applicant elects to be bound by the requirements of the other potential eligible area, the applicant must make a written statement to that effect. For example, on October 1, 2004, the city of Yakima qualifies as a CEZ, and the entire county of Yakima has fewer than one hundred persons per square mile. The CEZ requirements are more restrictive than counties containing fewer than one hundred persons per square mile. The department will assign the project to the "fewer than one hundred persons per square mile designation" unless the applicant elects to be bound by the CEZ requirements. Refer to subsection (104) of this section for more information on the application process.

(i) **Are there any hiring requirements for an investment project?** There may or may not be a hiring requirement, depending on the location of the project.

(i) **Rural county.** There are no hiring requirements for qualifying projects located in rural counties.

(ii) **Community empowerment zone (CEZ).** There are hiring requirements for qualifying projects located in CEZs or in counties containing CEZs. The applicant applies for a deferral of investment that correlates to the estimated number of persons to be hired based on the following formula:

$$\text{Number of qualified employment positions to be hired} \times \$750,000 = \text{amount of investment eligible for deferral}$$

Applicants must make good faith estimates of anticipated hiring. Refer to subsection (104) of this section for more information on the application process. The recipient must fill the positions by persons who at the time of hire are residents of the CEZ. The department has instituted a geographic information system (GIS) to assist taxpayers in determining taxing jurisdiction boundaries, local tax rates, and a mapping and address lookup system to determine whether a specific address is within a CEZ. The system is available on the department's internet web site at <http://www.dor.wa.gov>. A recipient must fill the qualified employment positions by the end of the calendar year following the year in which the project is certified as operationally complete and retain the position during the entire tax year. Refer to subsection (107) of this section for more information on certification of an investment project as operationally complete. If the recipient does not fill the qualified employment positions by the end of the second calendar year following the year in which the project is certified as operationally complete, all deferred taxes are immediately due.

(A) **What is a "qualified employment position" for purposes of this section?** "Qualified employment position" means a permanent full-time employee employed in the eligible investment project during the entire tax year. The "entire

tax year" means the full-time position is filled for a period of twelve consecutive months. "Full-time" means at least thirty-five hours a week, four hundred fifty-five hours a quarter, or one thousand eight hundred twenty hours a year.

(B) **Who are residents of the CEZ?** "Resident" means the person who fills the qualified employment position makes his or her home in the CEZ. A mailing address alone is insufficient to establish that a person is a resident.

(103) **What are the application and review processes?** An application for sales and use tax deferral under this program must be made prior to the initiation of construction, prior to the acquisition of machinery and equipment, and prior to the filling of qualified employment positions. Persons who apply after construction is initiated or finished or after acquisition of machinery and equipment are not eligible for the program. When an application for sales and use tax deferral is timely submitted, costs incurred before the application date are allowable, if they otherwise qualify. Applications for persons subject to hiring requirements must include information regarding the estimated total project cost and the qualified employment positions.

(a) **What is "initiation of construction" for purposes of this section?** "Initiation of construction," in regards to the construction, expansion, or renovation of buildings, means the commencement of on-site construction work. Neither planning nor land clearing prior to excavation of the building site constitutes the commencement of on-site construction work.

(b) **What is "acquisition of machinery and equipment" for purposes of this section?** "Acquisition of machinery and equipment" means the machinery and equipment is under the dominion and control of the recipient or its agent.

(c) **How may a taxpayer obtain an application form?** Application forms may be obtained at department of revenue district offices, by downloading from the department's web site (dor.wa.gov), by telephoning the telephone information center at 1-800-647-7706, or by contacting the department's special programs division at:

Department of Revenue
Special Programs Division
Post Office Box 47477
Olympia, WA 98504-7477
Fax 360-586-2163

Applicants must mail or fax applications to the special programs division at the address or fax number given above. Applications received by the department under chapter 82.60 RCW are not confidential and are subject to disclosure. RCW 82.60.100.

For purposes of this section, "applicant" means a person applying for a tax deferral under chapter 82.60 RCW, and "department" means the department of revenue.

(d) **Will the department approve the deferral application?** In considering whether to approve or deny an application for a deferral, the department will not approve an application for a project involving construction unless:

(i) The construction will begin within one year from the date of the application; or

(ii) The applicant shows proof that, if the construction will not begin within one year of construction, there is a specific and active program to begin construction of the project within two years from the date of application. Proof may include, but is not limited to:

(A) Affirmative action by the board of directors, governing body, or other responsible authority of the applicant toward an active program of construction;

(B) Itemized reasons for the proposed construction;

(C) Clearly established plans for financing the construction; or

(D) Building permits.

Similarly, after an application has been granted, a deferral certificate is no longer valid and should not be used if construction has not begun within one year from the date of application or there is not a specific and active program to begin construction within two years from the date of application. However, the department will grant requests to extend the period for which the certificate is valid if the holder of the certificate can demonstrate that the delay in starting construction is due to circumstances beyond the certificate holder's control such as the acquisition of building permit(s). Refer to subsection (106) of this section for more information on the use of tax deferral certificate.

(e) **What is the date of application?** "Date of application" means the date of the U.S. Post Office postmark, fax, or electronic transmittal, or when the application is hand delivered to the department. The statute in effect on the "date of application" will determine the program criteria the applicant must satisfy.

(f) **When will the department notify approval or disapproval of the deferral application?** The department will verify the information contained in the application and approve or disapprove the application within sixty days. If approved, the department will issue a tax deferral certificate. If disapproved, the department will notify the applicant as to the reason(s) for disapproval.

(g) **May an applicant request a review of department disapproval of the deferral application?** The applicant may seek administrative review of the department's disapproval of an application within thirty days from the date of notice of the disallowance pursuant to the provisions of WAC 458-20-10001 (Appeals). The filing of a petition for review with the department starts a review of departmental action.

(104) **What happens after the department approves the deferral application?** The department will 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 for an eligible investment project. The department will state on the certificate the amount of tax deferral for which the recipient is eligible. Recipients must keep track of how much tax is deferred.

For purposes of this section, "recipient" means a person receiving a tax deferral under this program.

(105) **How should a tax deferral certificate be used?** A tax deferral certificate issued under this program is for the use of the recipient for deferral of sales and use taxes due on each eligible investment project. Deferral is limited only to investment in qualified buildings or qualified machinery and equipment as defined in this section. Thus, sales and use

taxes cannot be deferred on items that do not become part of the qualified buildings, machinery, or equipment. In addition, the deferral is not to be used to defer the taxes of the persons with whom the recipient does business, persons the recipient hires, or employees of the recipient.

The certificate holder must provide a copy of the tax deferral certificate to the seller at the time goods or services are purchased. The seller will be relieved of the responsibility for collection of the sales or use tax upon presentation of the certificate. The seller must retain a copy of the certificate as part of its permanent records for a period of at least five years. A blanket certificate may be provided by the certificate holder and accepted by the seller covering all such purchases relative to the eligible project. The seller is liable for business and occupation tax on all tax deferral sales.

For purposes of this section, "certificate holder" means an applicant to whom a tax deferral certificate has been issued.

(106) **What are the processes of an investment project that is certified by the department as operationally complete?** An applicant must provide the department with the estimated cost of the investment project at the time the application is made. Following approval of the application and issuance of a tax deferral certificate, a certificate holder must notify the department, in writing, when the value of the investment project reaches the estimated cost as stated on the tax deferral certificate.

For purposes of this section, "operationally complete" means the project is capable of being used for its intended purpose as described in the application.

(a) **What should a certificate holder do if its investment project reaches the estimated costs but the project is not yet operationally complete?** If a certificate holder has an investment project that has reached its level of estimated costs and the project is not operationally complete, the certificate holder may request an amended certificate stating a revised amount upon which the deferral taxes are requested. Requests must be mailed or faxed to the department.

(b) **What should a certificate holder do when its investment project is operationally complete?** The certificate holder must notify the department in writing when the construction project is operationally complete. The department will certify the date on which the project is operationally complete. The certificate holder of the deferral must maintain the manufacturing or research and development activity for eight years from this date.

(107) **Is a recipient of tax deferral required to submit annual surveys?** Each recipient of a tax deferral granted under chapter 82.60 RCW after June 30, 1994, must complete an annual survey. If the economic benefits of the deferral are passed to a lessee as provided in RCW 82.60.020(4), the lessee must agree to complete the annual survey and the applicant is not required to complete the annual survey. Refer to WAC 458-20-268 (Annual surveys for certain tax adjustments) for more information on the requirements to file annual surveys.

(108) **Is a recipient of tax deferral required to repay deferred taxes?** Repayment of tax deferred under chapter 82.60 RCW is excused, except as otherwise provided in RCW 82.60.070 and this subsection.

(a) Is repayment required for machinery and equipment exempt under RCW 82.08.02565 or 82.12.02565? Repayment of tax deferred under chapter 82.60 RCW is not required, and interest and penalties under RCW 82.60.070 will not be imposed, on machinery and equipment that qualifies for exemption under RCW 82.08.02565 or 82.12.02565.

(b) When is repayment required? The following subsections describe the various circumstances under which repayment of the deferral may occur. Outstanding taxes are determined by reference to the following table. The table presumes the taxpayer maintained eligibility for the entire year.

Repayment Year	Percentage of Deferred Tax Waived
1 (Year operationally complete)	0%
2	0%
3	0%
4	10%
5	15%
6	20%
7	25%
8	30%

Any action taken by the department to disqualify a recipient for tax deferral or assess interest will be subject to administrative review pursuant to the provisions of WAC 458-20-10001 (Appeals). The filing of a petition for review with the department starts a review of departmental action.

(i) Failure of investment project to satisfy general conditions. If, on the basis of the recipient's annual survey or other information, including that submitted by the employment security department, the department of revenue finds that an investment project is not eligible for tax deferral for reasons other than failure to create the required number of qualified employment positions, the department will declare the amount of deferred taxes outstanding to be immediately due. An example of a disqualification under this section is a facility not being used for a manufacturing or research and development operation. No penalties or interest will be assessed on the deferred sales/use tax; however, all other penalties and interest applicable to excise tax assessments may be assessed and imposed.

(ii) Failure of investment project to satisfy required employment positions conditions. If, on the basis of the recipient's annual survey or other information, the department finds that an investment project has been operationally complete and has failed to create the required number of qualified employment positions under subsection (102)(i) of this section, the amount of taxes deferred will be immediately due. There is no proration of the amount owed under this subsection. No penalties or interest will be assessed on the deferred sales/use tax; however, all other penalties and interest applicable to excise tax assessments may be assessed and imposed.

(109) When will the tax deferral program expire? No applications for deferral of taxes will be accepted after June 30, 2010.

(110) Is debt extinguishable because of insolvency or sale? Insolvency or other failure of the recipient does not extinguish the debt for deferred taxes nor will the sale, exchange, or other disposition of the recipient's business extinguish the debt for the deferred taxes.

(111) Does transfer of ownership terminate tax deferral? Transfer of ownership does not terminate the deferral. The deferral is transferred, subject to the successor meeting the eligibility requirements of chapter 82.60 RCW, for the remaining periods of the deferral. Any person who becomes a successor (see WAC 458-20-216) to such investment project is liable for the full amount of any unpaid, deferred taxes under the same terms and conditions as the original recipient of the deferral.

PART ((H)) II

Applications from August 1, 1999, to March 31, 2004

((H)) (201) Definitions. The following definitions apply to applications made on and after August 1, 1999, and before April 1, 2004:

(a) "Acquisition of equipment or machinery" means the equipment and machinery is under the dominion and control of the recipient.

(b) "Applicant" means a person applying for a tax deferral under chapter 82.60 RCW.

(c) "Certificate holder" means an applicant to whom a tax deferral certificate has been issued.

(d) "Computer-related services" means activities such as programming for the manufactured product. It includes creating operating systems, software, and other similar goods that will be copied and sold as canned software. "Computer-related services" does not include information services, such as data or information processing. The activities performed by the manufacturer to test, correct, revise, or upgrade software or hardware before they are approved for sale to the consumer are considered computer-related services.

(e) "Date of application" means the date of the U.S. Post Office postmark, fax, or electronic transmittal, or when the application is hand delivered to the department. The statute in effect on the "date of application" will determine the program criteria the applicant must satisfy.

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

(g) "Eligible area" means:

(i) Rural county. A rural county is a county with fewer than one hundred persons per square mile as determined annually by the office of financial management and published by the department of revenue effective for the period July 1st through June 30th; or

(ii) Community empowerment zone (CEZ). A "community empowerment zone" means an area meeting the requirements of RCW 43.31C.020 and officially designated as a CEZ by the director of the department of community, trade, and economic development or a county containing a CEZ.

(h) "Eligible investment project" means an investment project in an eligible area. "Eligible investment project" does not include an investment project undertaken by a light and power business as defined in RCW 82.16.010, 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. It also does not include an investment project that has already received a deferral under chapter 82.60 RCW.

(i) "Industrial fixture" means an item attached to a building or to land. Examples of "industrial fixtures" are fuel oil lines, boilers, cranes, and improvements to land such as concrete slabs.

(j) "Initiation of construction," in regards to the construction, expansion, or renovation of buildings, means the commencement of on-site construction work. Neither planning nor land clearing prior to excavation of the building site constitutes the commencement of on-site construction work.

(k) "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. When an application for sales and use tax deferral is timely submitted, costs incurred before the application date are allowable, if they otherwise qualify.

(l) "Manufacturing" has the meaning given in RCW 82.04.120. Manufacturing also includes computer programming, the production of computer software, and other computer-related services, but only when the computer programming, production of computer software, or other computer-related services are performed by a manufacturer as defined in RCW 82.04.110 and contribute to the production of a new, different, or useful substance or article of tangible personal property for sale; and the activities performed by research and development laboratories and commercial testing laboratories. (Chapter 16, Laws of 2010.)

(m) "Operationally complete" means the project is capable of being used for its intended purpose as described in the application.

(n) "Person" has the meaning given in RCW 82.04.030. "Person" does not include the state of Washington or its institutions. "Person" can be either a lessee or a lessor, who can apply separately for individual investment projects at the same site, if they comply with the other requirements of chapter 82.60 RCW. The lessor/owner of the structure is not eligible for deferral unless the underlying ownership of the buildings, machinery, or equipment vests in the lessor/owner, or unless the lessor has by written contract agreed to pass the economic benefit of the deferral to the lessee in the form of reduced rent payments.

(o) "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 and research and development activities.

"Qualified buildings" are limited to structures used for manufacturing and research and development activities. "Qualified buildings" include plant offices and warehouses if such facilities are essential to or an integral part of a factory, mill, plant, or laboratory. "Office" means space used by professional, clerical, or administrative staff. For plant office space to be a qualified building its use must be essential or integral to the manufacturing or research and development operation. Office space that is used by supervisors and their staff, by technicians, by payroll staff, by the safety officer, and by the training staff are examples of qualifying office

space. "Warehouse" means buildings or facilities used for the storage of raw materials or finished goods.

(p) "Qualified employment position" means a permanent full-time employee employed in the eligible investment project during the entire tax year. The "entire tax year" means the full-time position is filled for a period of twelve consecutive months. Full-time means at least thirty-five hours a week, four hundred fifty-five hours a quarter, or one thousand eight hundred twenty hours a year.

(q) "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, desks, filing cabinets, photocopiers, printers, 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 machinery. It also includes machinery and equipment acquired under the terms of a lease by the recipient. "New" as used in this subsection means either new to the taxing jurisdiction of the state or new to the certificate holder.

(r) "Recipient" means a person receiving a tax deferral under this program.

(s) "Research and development" means the development, refinement, testing, marketing, and commercialization of a product, service, or process before commercial sales have begun. 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 one million dollars.

(t) "Resident" means the person who fills the qualified employment position makes his or her home in the CEZ. A mailing address alone is insufficient to establish that a person is a resident.

~~((2))~~ (202) **Issuance of deferral certificate.** The department will 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 for an eligible investment project. The department will state on the certificate the amount of tax deferral for which the recipient is eligible. Recipients must keep track of how much tax is deferred.

~~((3))~~ (203) **Eligible investment amount.** There may or may not be a hiring requirement, depending on the location of the project.

(a) **No hiring requirements.** There are no hiring requirements for qualifying projects located in counties with fewer than one hundred persons per square mile. Monitoring and reporting procedures are explained in subsection ~~((4))~~ (210) of this section. Buildings that will be used partly for manufacturing or research and development and partly for other purposes are eligible for a deferral on a proportionate basis. Subsection ~~((4))~~ (204) of this section explains the procedure for apportionment.

(b) **Hiring requirements.** There are hiring requirements for qualifying projects located in CEZs or in counties containing CEZs. The applicant applies for a deferral of investment that correlates to the estimated number of persons to be hired based on the following formula:

Number of qualified employment positions to be hired x \$750,000 = amount of investment eligible for deferral

Applicants must make good faith estimates of anticipated hiring. The recipient must fill the positions by persons who at the time of hire are residents of the CEZ. The department has instituted a geographic information system (GIS) to assist taxpayers in determining taxing jurisdiction boundaries, local tax rates, and a mapping and address lookup system to determine whether a specific address is within a CEZ. The system is available on the department's internet web site at <http://www.dor.wa.gov>. A recipient must fill the qualified employment positions by the end of the calendar year following the year in which the project is certified as operationally complete and retain the position during the entire tax year. If the recipient does not fill the qualified employment positions by the end of the second calendar year following the year in which the project is certified as operationally complete, all deferred taxes are immediately due.

~~((4))~~ **(204) Apportionment of costs between qualifying and nonqualifying investments.** The deferral is allowable only in respect to investment in the construction of a new building or the expansion or renovation of existing buildings used in manufacturing, research and development, or commercial testing laboratories.

(a) Where a building(s) is used partly for manufacturing or research and development and partly for purposes that do not qualify for deferral under this rule, the deferral will be determined by one of the following apportionment methods. The first method of apportionment is based on square footage and does not require tracking the costs of materials for the qualifying/nonqualifying areas of a building. The second method of apportionment tracks the costs of materials used in the qualifying/nonqualifying areas and is primarily used by those industries with specialized building requirements.

(i) The applicable tax deferral will be determined by apportionment according to the ratio of the square footage of that portion of the building(s) directly used for manufacturing or research and development purposes bears to the square footage of the total building(s).

Apportionment formula:

$$\frac{\text{Eligible square feet of building(s)}}{\text{Total square feet of building(s)}} = \text{Percent Eligible}$$

Percent Eligible x Total Project Costs = Eligible Costs.

"Total Project Costs" means cost of multipurpose buildings and other improvement costs associated with the deferral project. Machinery and equipment are not included in this calculation. Common areas, such as hallways and bathrooms, are not included in the square feet figure for either the numerator or the denominator. The cost of the common areas is multiplied by the percent eligible to determine the portion of the common area that is eligible for deferral.

Eligible Tax Deferred = Eligible Cost x Tax Rate.

(ii) If a building is used partly for manufacturing, research and development, or commercial testing and partly

for other purposes, the applicable tax deferral shall be determined as follows:

(A) Tax on the cost of construction of areas devoted solely to manufacturing, research and development, or commercial testing may be deferred.

(B) Tax on the cost of construction of areas not used at all for manufacturing, research and development, or commercial testing may not be deferred.

(C) Tax on the cost of construction of areas used in common for manufacturing, research and development, or commercial testing and for other purposes, such as hallways, bathrooms, and conference rooms, may be deferred by apportioning the costs of construction on a square footage basis. The apportioned costs of construction eligible for deferral are established by using the ratio, expressed as a percentage, of the square feet of the construction, expansion, or renovation devoted to manufacturing, research and development, or commercial testing, excluding areas used in common to the total square feet of the construction, expansion, or renovation, excluding areas used in common. That percentage is applied to the cost of construction of the common areas to determine the costs of construction eligible for tax deferral. Expressed as a formula, apportionment of the cost of the common areas is determined by:

Square feet devoted to manufacturing, research and development, or commercial testing, excluding square feet of common areas	=	Percentage of total cost of construction of common areas eligible for deferral
<hr style="width: 100%;"/> Total square feet, excluding square feet of common areas		

(b) Qualified machinery and equipment is not subject to apportionment.

~~((5))~~ **(205) Leased equipment.** The amount of tax deferral allowable for leased equipment is the amount of the consideration paid by the recipient to the lessor over the initial term of the lease, excluding any period of extension or option to renew, up to the last date for repayment of the deferred taxes. After that date the recipient must pay the appropriate sales taxes to the lessor for the remaining term of the lease.

~~((6))~~ **(206) Application procedure and review process.** An application for sales and use tax deferral under this program must be made prior to the initiation of construction, prior to the acquisition of machinery and equipment, and prior to the filling of qualified employment positions. Persons who apply after construction is initiated or finished or after acquisition of machinery and equipment are not eligible for the program. Applications for persons subject to hiring requirements must include information regarding the estimated total project cost and the qualified employment positions.

(a) Application forms will be supplied to the applicant by the department upon request. The completed application may be sent by fax to 360-586-2163 or mailed to the following address:

State of Washington
 Department of Revenue
 Special Programs
 P.O. Box 47477
 Olympia, WA 98504-7477

Applications and reports received by the department under chapter 82.60 RCW are not confidential and are subject to disclosure. (RCW 82.60.100.)

(b) In considering whether to approve or deny an application for a deferral, the department will not approve an application for a project involving construction unless:

(i) The construction will begin within one year from the date of the application; or

(ii) If the construction will not begin within one year of application, the applicant shows proof that there is a specific and active program to begin construction of the project within two years from the date of application. Proof may include, but is not limited to:

(A) Affirmative action by the board of directors, governing body, or other responsible authority of the applicant toward an active program of construction;

(B) Itemized reasons for the proposed construction;

(C) Clearly established plans for financing the construction; or

(D) Building permits.

Similarly, after an application has been granted, a deferral certificate is no longer valid and should not be used if construction has not begun within one year from the date of application or there is not a specific and active program to begin construction within two years from the date of application. However, the department will grant requests to extend the period for which the certificate is valid if the holder of the certificate can demonstrate that the delay in starting construction is due to circumstances beyond the certificate holder's control such as the acquisition of building permit(s).

(c) The department will verify the information contained in the application and approve or disapprove the application within sixty days. If approved, the department will issue a tax deferral certificate. If disapproved, the department will notify the applicant as to the reason(s) for disapproval.

(d) The applicant may seek administrative review of the department's disapproval of an application within thirty days from the date of notice of the disallowance pursuant to the provisions of WAC 458-20-100, appeals, small claims and settlements. The filing of a petition for review with the department starts a review of departmental action.

~~((7))~~ **(207) Eligible area criteria.** The office of financial management will determine annually the counties with fewer than one hundred persons per square mile. The department will update and distribute the list each year. The list will be effective on July 1 of each year.

If an investment project is located in an area that qualifies under more than one type of eligible area, the department will automatically assign the project to the eligible area that imposes the least burden on the taxpayer and with the greatest benefit to the taxpayer. If the applicant elects to be bound by the requirements of the other potential eligible area, the applicant must make a written statement to that effect. For example, on October 1, 1999, the city of Yakima qualifies as a CEZ, and the entire county of Yakima has fewer than one hundred persons per square mile. The CEZ requirements are more restrictive than counties containing fewer than one hundred persons per square mile. The department will assign the project to the "fewer than one hundred persons per square

mile designation" unless the applicant elects to be bound by the CEZ requirements.

~~((8))~~ **(208) Use of the certificate.** A tax deferral certificate issued under this program is for the use of the recipient for deferral of sales and use taxes due on each eligible investment project. Deferral is limited only to investment in qualified building or qualified machinery and equipment as defined in Part I. Thus, sales and use taxes cannot be deferred on items that do not become part of the qualified buildings, machinery, or equipment. In addition, the deferral is not to be used to defer the taxes of the persons with whom the recipient does business, persons the recipient hires, or employees of the recipient.

The tax deferral certificate is to be used in a manner similar to that of a resale certificate as set forth in WAC 458-20-102, Resale certificates. The certificate holder must provide a copy of the tax deferral certificate to the seller at the time goods or services are purchased. The seller will be relieved of the responsibility for collection of the sales or use tax upon presentation of the certificate. The seller must retain a copy of the certificate as part of its permanent records for a period of at least five years. A blanket certificate may be provided by the certificate holder and accepted by the seller covering all such purchases relative to the eligible project. The seller is liable for business and occupation tax on all tax deferral sales.

~~((9))~~ **(209) Project operationally complete.** An applicant must provide the department with the estimated cost of the investment project at the time the application is made. Following approval of the application and issuance of a tax deferral certificate, a certificate holder must notify the department, in writing, when the value of the investment project reaches the estimated cost as stated on the tax deferral certificate.

(a) If a certificate holder has reached its level of estimated costs and the project is not operationally complete, the certificate holder may request an amended certificate stating a revised amount upon which the deferral taxes are requested. Requests must be mailed or faxed to the department.

(b) The certificate holder must notify the department in writing when the construction project is operationally complete. The department will certify the date on which the project is operationally complete. The recipient of the deferral must maintain the manufacturing or research and development activity for eight years from this date.

~~((10))~~ **(210) Reporting and monitoring procedure.**

(a) **Requirement to submit annual reports.** Each recipient of a tax deferral under chapter 82.60 RCW must submit a report on December 31st of the year in which the investment project is certified by the department as having been operationally completed and on December 31st of each of the seven succeeding calendar years. The report must be made to the department in a form and manner prescribed by the department. If the recipient fails to submit a report or submits an inadequate or falsified report, the department may declare the amount of deferred taxes outstanding to be immediately due and payable. An inadequate or falsified report is one that contains material omissions or contains knowingly false statements and information.

(b) **Requirement to submit annual surveys.** Effective April 1, 2004, each recipient of a tax deferral granted under chapter 82.60 RCW after June 30, 1994, must complete an annual survey **instead of an annual report**. If the economic benefits of the deferral are passed to a lessee as provided in RCW 82.60.020(4), the lessee must agree to complete the annual survey and the applicant is not required to complete the annual survey. Refer to WAC 458-20-268 (Annual surveys for certain tax adjustments) for more information on the requirements to file annual surveys.

~~((H))~~ **(211) Repayment of deferred taxes.** Repayment of tax deferred under chapter 82.60 RCW is excused, except as otherwise provided in RCW 82.60.070 and this subsection.

(a) Repayment of tax deferred under chapter 82.60 RCW is not required, and interest and penalties under RCW 82.60.070 will not be imposed, on machinery and equipment that qualifies for exemption under RCW 82.08.02565 or 82.12.02565.

(b) The following subsections describe the various circumstances under which repayment of the deferral may occur. Outstanding taxes are determined by reference to the following table. The table presumes the taxpayer maintained eligibility for the entire year.

Repayment Year	Percentage of Deferred Tax Waived
1 (Year operationally complete)	0%
2	0%
3	0%
4	10%
5	15%
6	20%
7	25%
8	30%

Any action taken by the department to disqualify a recipient for tax deferral or assess interest will be subject to administrative review pursuant to the provisions of WAC 458-20-100, appeals, small claims and settlements. The filing of a petition for review with the department starts a review of departmental action.

(c) **Failure of investment project to satisfy general conditions.** If, on the basis of the recipient's annual report or other information, including that submitted by the employment security department, the department of revenue finds that an investment project is not eligible for tax deferral for reasons other than failure to create the required number of qualified employment positions, the department will declare the amount of deferred taxes outstanding to be immediately due. An example of a disqualification under this section is a facility not being used for a manufacturing or research and development operation.

(d) **Failure of investment project to satisfy required employment positions conditions.** If, on the basis of the recipient's annual report or other information, the department finds that an investment project has been operationally complete and has failed to create the required number of qualified employment positions, the amount of taxes deferred will be

immediately due. There is no proration of the amount owed under this subsection. No penalties or interest will be assessed on the deferred sales/use tax; however, all other penalties and interest applicable to excise tax assessments may be assessed and imposed.

~~((H2))~~ **(212) Debt not extinguished because of insolvency or sale.** Insolvency or other failure of the recipient does not extinguish the debt for deferred taxes nor will the sale, exchange, or other disposition of the recipient's business extinguish the debt for the deferred taxes. Transfer of ownership does not terminate the deferral. The deferral is transferred, subject to the successor meeting the eligibility requirements of chapter 82.60 RCW, for the remaining periods of the deferral. Any person who becomes a successor (see WAC 458-20-216) to such investment project is liable for the full amount of any unpaid, deferred taxes under the same terms and conditions as the original recipient of the deferral.

~~((H3))~~ **(213) Disclosure of information.** Applications and reports received by the department under chapter 82.60 RCW are not confidential and are subject to disclosure. (RCW 82.60.100.) Effective April 1, 2004, all information collected in annual surveys, except the amount of tax deferral taken, is confidential and not subject to disclosure. Information on the amount of tax deferral taken in annual surveys is not confidential and may be disclosed to the public upon request.

PART ~~(H)~~ III

Applications from July 1, 1995, to July 31, 1999

~~((H4))~~ **(301) Definitions.** For the purposes of this part, the following definitions apply for applications made on and after July 1, 1995, and before August 1, 1999:

(a) "Acquisition of equipment or machinery" means the equipment and machinery is under the dominion and control of the recipient.

(b) "Applicant" means a person applying for a tax deferral under chapter 82.60 RCW.

(c) "Certificate holder" means an applicant to whom a tax deferral certificate has been issued.

(d) "Computer-related services" means services that are connected or interact directly in the manufacture of computer hardware or software or the programming of the manufactured hardware. This includes the manufacture of hardware such as chips, keyboards, monitors, any other hardware, and the components of these items. It includes creating operating systems and software that will be copied and sold as canned software. "Computer-related services" does not include information services. The activities performed by the manufacturer to test, correct, revise, or upgrade software or hardware before they are approved for sale to the consumer are considered computer-related services.

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

(f) "Eligible area" means one of the areas designated according to the following classifications:

(i) Unemployment county. A county in which the average level of unemployment for the three calendar years preceding the year in which an application is filed exceeds the average state unemployment for those years by twenty percent. In making this calculation, the department will compare

the county's average unemployment rate in the prior three years to one hundred twenty percent of the state's average unemployment rate based on official unemployment figures published by the department of employment security;

(ii) Median income county. On and after June 6, 1996, a county that has a median household income that is less than seventy-five percent of the state median income for the previous three years;

(iii) MSA. A metropolitan statistical area, as defined by the Office of Federal Statistical Policy and Standards, United States Department of Commerce, in which the average level of unemployment for the calendar year immediately preceding the year in which an application is filed under chapter 82.60 RCW exceeds the average state unemployment for such calendar year by twenty percent;

(iv) CEZ and county containing a CEZ. A designated community empowerment zone (CEZ) approved under RCW 43.63A.700 or a county containing such a community empowerment zone;

(v) Timber impact area towns. A town with a population of less than twelve hundred persons that is located in a county that is a timber impact area, as defined in RCW 43.31.601, but that is not an unemployment county as defined in Part I;

(vi) Governor's designation county. A county designated by the governor as an eligible area under RCW 82.60.047; or

(vii) Contiguous county. A county that is contiguous to an unemployment county or a governor's designation county.

(g)(i) "Eligible investment project" means:

(A) An investment project in an unemployment county, a median income county, an MSA, a timber impact area town, or a governor's designation county; or

(B) That portion of an investment project in a CEZ, a county containing a CEZ, or a contiguous county, that is directly utilized to create at least one new full-time qualified employment position for each seven hundred fifty thousand dollars of investment.

(ii) "Eligible investment project" does not include an investment project undertaken by a light and power business as defined in RCW 82.16.010, 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. It also does not include an investment project that has already received a deferral under chapter 82.60 RCW.

(h) "Industrial fixture" means an item attached to a building or to land. Fixtures become part of the real estate to which they are attached and upon attachment are classified as real property, not personal property. Examples of "industrial fixtures" are fuel oil lines, boilers, craneways, and certain concrete slabs.

(i) "Initiation of construction," in regards to the construction, expansion, or renovation of buildings, means the commencement of on-site construction work. Land clearing prior to excavation of the building site does not commence construction nor does planning commence construction.

(j) "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. When an application for sales

and use tax deferral is timely submitted, costs incurred before the application date are allowable, if they otherwise qualify.

(k) "Manufacturing" has the meaning given in RCW 82.04.120. Manufacturing, for purposes of the distressed area deferral program, also includes computer programming, the production of computer software, and other computer-related services, but only when the computer programming, production of computer software, or other computer-related services are performed by a manufacturer as defined under RCW 82.04.110 and contribute to the production of a new, different, or useful substance or article of tangible personal property for sale; and the activities performed by research and development laboratories and commercial testing laboratories. (Chapter 16, Laws of 2010.)

(l) "Operationally complete" means the project is capable of being used for its intended purpose as described in the application.

(m) "Person" has the meaning given in RCW 82.04.030. "Person" does not include the state of Washington or its institutions. "Person" can be either a lessee or a lessor, who can apply separately for individual investment projects at the same site, if they comply with the other requirements of chapter 82.60 RCW. The lessor/owner of the structure is not eligible for deferral unless the underlying ownership of the buildings, machinery, or equipment vests exclusively in the lessor/owner, or unless the lessor has by written contract agreed to pass the economic benefit of the deferral to the lessee in the form of reduced rent payments.

(n) "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 and research and development activities.

"Qualified buildings" are limited to structures used for manufacturing and research and development activities. "Qualified buildings" include plant offices and warehouses if such facilities are essential or an integral part of a factory, mill, plant, or laboratory. "Office" means space used by professional, clerical, or administrative staff. For plant office space to be a qualified building its use must be essential or integral to the manufacturing or research and development operation. Office space that is used by supervisors and their staff, by technicians, by payroll staff, by the safety officer, and by the training staff are examples of qualifying office space. "Warehouse" means facilities used for the storage of raw materials or finished goods.

(o) "Qualified employment position" means a permanent full-time employee employed in the eligible investment project during the entire tax year. The "entire tax year" means the full-time position is filled for a period of twelve consecutive months. "Full time" means at least 35 hours a week, 455 hours a quarter, or 1,820 hours a year.

(p) "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, desks, filing cabinets, photocopiers, printers, 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 machinery. It also includes machinery and equipment acquired under the terms of a lease by the recipient. "New" as used in this subsection means either new to the taxing jurisdiction of the state or new to the certificate holder.

(q) "Recipient" means a person receiving a tax deferral under this program.

(r) "Research and development" means the development, refinement, testing, marketing, and commercialization of a product, service, or process before commercial sales have begun. 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 one million dollars.

~~((15))~~ **(302) Issuance of deferral certificate.** The department will 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 for an eligible investment project. The department will state on the certificate the amount of tax deferral for which the recipient is eligible. Recipients must keep track of how much tax is deferred.

~~((16))~~ **(303) Eligible investment amount.** There may or may not be a hiring requirement, depending on the location of the project.

(a) **No hiring requirements.** There are no hiring requirements for qualifying projects located in distressed counties, MSAs, median income counties, governor-designated counties, or timber impact towns. Monitoring and reporting procedures are explained in subsection ~~((23))~~ **(310)** of this section. Buildings that will be used partly for manufacturing or research and development and partly for other purposes are eligible for a deferral on a proportionate basis. Subsection ~~((17))~~ **(304)** of this section explains the procedure for apportionment.

(b) **Hiring requirements.** There are hiring requirements for qualifying projects located in CEZs, in counties containing CEZs, or in contiguous counties. Total qualifying project costs, including any part of the project that would qualify under RCW 82.08.02565 and 82.12.02565, must be examined to determine the number of positions associated with the project. An applicant who knows at the time of application that he or she will not fill the required qualified employment positions is not eligible for the deferral. Applicants must make good faith estimates of anticipated hiring. The applicant applies for a deferral of investment that correlates to the estimated number of persons to be hired. The investment must include the sales price of machinery and equipment eligible for the sales and use tax exemption under RCW 82.08.02565 and 82.12.02565. An applicant can amend the number of persons hired until completion of the project. The qualified employment positions filled by December 31 of the year of completion are the benchmark to be used during the next seven years in determining hiring compliance.

(i) Total qualifying project costs are divided by seven hundred fifty thousand, the result being the qualified employment positions.

(ii) In addition, the number of qualified employment positions created by an investment project will be reduced by the number of full-time employment positions maintained by the recipient in any other community in this state that are dis-

placed as a result of the investment project. This reduction requires a reexamination of whether the seventy-five percent hiring requirement (as explained below) is met.

(iii) This number, which is the result of (i) and (ii) of this subsection, is the number of positions used as the benchmark over the life of the deferral. For recipients locating in a CEZ or a county containing a CEZ, seventy-five percent of the new positions must be filled by residents of a CEZ located in the county where the project is located. The department has instituted a geographic information system (GIS) to assist taxpayers in determining taxing jurisdiction boundaries, local tax rates, and a mapping and address lookup system to determine whether a specific address is within a CEZ. The system is available on the department's internet web site at <http://www.dor.wa.gov>. For recipients located in a contiguous county, residents of an adjacent unemployment or governor-designated county must fill seventy-five percent of the new positions.

(iv) The qualified employment positions are reviewed each year, beginning December 31st of the year the project is operationally complete and each year for seven years. If the recipient has failed to create the requisite number of positions, the department will issue an assessment as explained under subsection ~~((24))~~ **(311)** of this section.

(v) In addition to the hiring requirements for new positions under (b) of this subsection, the recipient of a deferral for an expansion or diversification of an existing facility must ensure that he or she maintains the same percentage of employment positions filled by residents of the contiguous county or the CEZ that existed prior to the application being made. This percentage must be maintained for seven years.

(vi) Qualified employment positions do not include those positions filled by persons hired in excess of the ratio of one employee per required dollar of investment for which a deferral is granted. In the event an employee is either voluntarily or involuntarily separated from employment, the employment position will be considered filled if the employer is either training or actively recruiting a replacement employee, so long as the position is not actually vacant for any period in excess of thirty consecutive days.

~~((17))~~ **(304) Apportionment of costs between qualifying and nonqualifying investments.** The deferral is allowable only in respect to investment in the construction of a new building or the expansion or renovation of existing buildings used in manufacturing, research and development, or commercial testing.

(a) Where a building(s) is used partly for manufacturing, research and development, or commercial testing and partly for purposes that do not qualify for deferral under this rule, the deferral will be determined by apportionment of the total project costs. The applicable tax deferral will be determined by apportionment according to the ratio of the square footage of that portion of the building(s) directly used for manufacturing, research and development, or commercial testing purposes bears to the square footage of the total building(s).

Apportionment formula:

$$\frac{\text{Eligible square feet of building(s)}}{\text{Total square feet of building(s)}} = \text{Percent Eligible}$$

Percent Eligible x Total Project Costs = Eligible Costs.

"Total Project Costs" means cost of multipurpose buildings and other improvement costs associated with the deferral project. Machinery and equipment are not included in this calculation. Common areas, such as hallways and bathrooms, are not included in the square feet figure for either the numerator or the denominator. The cost of the common areas is multiplied by the percent eligible to determine the portion of the common area that is eligible for deferral.

Eligible Tax Deferred = Eligible Cost x Tax Rate.

(b) Qualified machinery and equipment is not subject to apportionment.

~~((18))~~ **(305) Leased equipment.** The amount of tax deferral allowable for leased equipment is the amount of the consideration paid by the recipient to the lessor over the initial term of the lease, excluding any period of extension or option to renew, up to the last date for repayment of the deferred taxes. After that date the recipient must pay the appropriate sales taxes to the lessor for the remaining term of the lease.

~~((19))~~ **(306) Application procedure and review process.** An application for sales and use tax deferral under this program must be made prior to the initiation of construction and the acquisition of machinery and equipment. Persons who apply after construction is initiated or after acquisition of machinery and equipment are not eligible for the program. Applications for persons subject to hiring requirements must include information regarding the estimated total project cost and the qualified employment positions.

(a) Application forms will be supplied to the applicant by the department upon request. The completed application may be sent by fax to 360-586-2163 or mailed to the following address:

State of Washington
Department of Revenue
Special Programs
P.O. Box 47477
Olympia, WA 98504-7477

(b) The department will verify the information contained in the application and approve or disapprove the application within sixty days. If approved, the department will issue a tax deferral certificate. If disapproved, the department will notify the applicant as to the reason(s) for disapproval. The U.S. Post Office postmark or fax date will be used as the date of application.

(c) The applicant may seek administrative review of the department's disapproval of an application within thirty days from the date of notice of disallowance pursuant to the provisions of WAC 458-20-100, appeals, small claims and settlements. The filing of a petition for review with the department starts a review of departmental action.

~~((20))~~ **(307) Eligible area criteria.** The statewide and county unemployment statistics last published by the department will be used to determine eligible areas based on unemployment. Median income county designation is based on data produced by the office of financial management and made available to the department on November 1 of each

year. The timber impact town designation is based on information provided by the department of employment security.

If an investment project is located in an area that qualifies under more than one type of eligible area, the department will automatically assign the project to the eligible area that imposes the least burden on the taxpayer and with the greatest benefit to the taxpayer. If the applicant elects to be bound by the requirements of the other potential eligible area, the applicant must make a written statement to that effect. For example, on May 1, 1998, the city of Yakima qualifies as a CEZ, and the entire county of Yakima qualifies as an unemployment county. The CEZ requirements are more restrictive than the unemployment county requirements. The department will assign the project to the distressed area eligible area unless the applicant elected to be bound by the CEZ requirements.

~~((21))~~ **(308) Use of the certificate.** A tax deferral certificate issued under this program is for the use of the recipient for deferral of sales and use taxes due on each eligible investment project. Deferral is limited only to investment in qualified building or qualified machinery and equipment as defined in ~~(this Part H)~~ subsection (301) of this section. Thus, sales and use taxes cannot be deferred on items that do not become part of the qualified buildings, machinery, or equipment. In addition, the deferral is not to be used to defer the taxes of the persons with whom the recipient does business, persons the recipient hires, or employees of the recipient.

The tax deferral certificate is used in a manner similar to that of a resale certificate as set forth in WAC 458-20-102, Resale certificates. The certificate holder must provide a copy of the tax deferral certificate to the seller at the time goods or services are purchased. The seller is relieved of the responsibility for collection of the sales or use tax upon presentation of the certificate. The seller must retain a copy of the certificate as part of its permanent records for a period of at least five years. A blanket certificate may be provided by the certificate holder and accepted by the seller covering all such purchases relative to the eligible project. The seller is liable for business and occupation tax on all tax deferral sales.

~~((22))~~ **(309) Project operationally complete.** An applicant must provide the department with the estimated cost of the investment project at the time the application is made. Following approval of the application and issuance of a deferral certificate, a certificate holder must notify the department, in writing, when the value of the investment project reaches the estimated cost as stated on the tax deferral certificate.

(a) If a certificate holder has reached its level of estimated costs and the project is not operationally complete, the certificate holder may request an amended certificate stating a revised amount upon which the deferral is requested. Requests must be mailed or faxed to the department.

(b) The certificate holder must notify the department in writing when the construction project is operationally complete. The department will certify the date on which the project was operationally complete. The recipient of the deferral must maintain the manufacturing or research and development activity for eight years from this date.

~~((23))~~ **(310) Reporting and monitoring procedure.**

(a) Requirement to submit annual reports. Each recipient of a deferral granted after July 1, 1995, must submit a report to the department on December 31st of the year in which the investment project is certified by the department as having been operationally completed, and on December 31st of each of the seven succeeding calendar years. The report must be made to the department in a form and manner prescribed by the department. The report must contain information regarding the actual employment related to the project and any other information required by the department. If the recipient fails to submit a report or submits an inadequate or falsified report, the department may declare the amount of deferred taxes outstanding to be immediately due and payable. An inadequate or falsified report is one that contains material omissions or contains knowingly false statements and information.

(b) **Requirement to submit annual surveys.** Effective April 1, 2004, each recipient of a tax deferral granted under chapter 82.60 RCW after June 30, 1994, must complete an annual survey **instead of an annual report**. If the economic benefits of the deferral are passed to a lessee as provided in RCW 82.60.020(4), the lessee must agree to complete the annual survey and the applicant is not required to complete the annual survey. Refer to WAC 458-20-268 (Annual surveys for certain tax adjustments) for more information on the requirements to file annual surveys.

~~((24))~~ **(311) Repayment of deferred taxes.** Repayment of tax deferred under chapter 82.60 RCW is excused, except as otherwise provided in RCW 82.60.070 and this subsection, on an investment project for which a deferral has been granted under chapter 82.60 RCW after June 30, 1994.

(a) Taxes deferred under this chapter need not be repaid on machinery and equipment for lumber and wood product industries, and sales of or charges made for labor and services, of the type which qualified for exemption under RCW 82.08.02565 or 82.12.02565.

(b) The following describes the various circumstances under which repayment of the deferral may be required. Outstanding taxes are determined by reference to the following table. The table presumes the taxpayer maintained eligibility for the entire year.

Repayment Year	Percentage of Deferred Tax Waived
1 (Year operationally complete)	0%
2	0%
3	0%
4	10%
5	15%
6	20%
7	25%
8	30%

Any action taken by the department to disqualify a recipient for tax deferral or require payment of all or part of deferred taxes is subject to administrative review pursuant to the provisions of WAC 458-20-100, appeals, small claims and settlements. The filing of a petition for review with the department starts a review of departmental action. See sub-

section (24)(d) of this section for repayment and waiver for deferrals with hiring requirements.

(c) **Failure of investment project to satisfy general conditions.** If, on the basis of the recipient's annual report or other information, including that submitted by the department of employment security, the department finds that an investment project is not eligible for tax deferral for reasons other than failure to create the required number of qualified employment positions, the department will declare the amount of deferred taxes outstanding to be immediately due. For example, a reason for disqualification would be that the facilities are not used for a manufacturing or research and development operation.

(d) **Failure of investment project to satisfy required employment positions conditions.** If, on the basis of the recipient's annual report or other information, the department finds that an investment project has been operationally complete for three years and has failed to create the required number of qualified employment positions, the amount of taxes deferred will be immediately due. The department will assess interest at the rate and as provided for delinquent excise taxes under RCW 82.32.050 (retroactively to the date the application was filed). There is no proration of the amount owed under this subsection. No penalties will be assessed.

(e) **Failure of investment project to satisfy employee residency requirements.** If, on the basis of the recipient's annual report or other information, the department finds that an investment project under RCW 82.60.040 (1)(b) or (c) has failed to comply with any requirement of RCW 82.60.045 for any calendar year for which reports are required under this subsection, twelve and one-half percent of the amount of deferred taxes will be immediately due. For each year a deferral's requirements are met twelve and one-half percent of the amount of deferred taxes will be waived. The department will assess interest at the rate provided for delinquent excise taxes under RCW 82.32.050, retroactively to the date the application was filed. Each year the employment requirement is met, twelve and one-half percent of the deferred tax will be waived, if all other program requirements are met. No penalties will be assessed.

(f) The department of employment security makes and certifies to the department all determinations of employment and wages required under this subsection.

~~((25))~~ **(312) Debt not extinguished because of insolvency or sale.** Insolvency or other failure of the recipient does not extinguish the debt for deferred taxes nor will the sale, exchange, or other disposition of the recipient's business extinguish the debt for the deferred taxes. 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. Any person who becomes a successor (see WAC 458-20-216) to such investment project is liable for the full amount of any unpaid, deferred taxes under the same terms and conditions as the original recipient.

~~((26))~~ **(313) Disclosure of information.** Applications and reports received by the department under chapter 82.60 RCW are not confidential and are subject to disclosure. (RCW 82.60.100.) Effective April 1, 2004, all information collected in annual surveys, except the amount of tax deferral

taken, is confidential and not subject to disclosure. Information on the amount of tax deferral taken in annual surveys is not confidential and may be disclosed to the public upon request.

PART ~~(H)~~ IV

Applications from July 1, 1994, to June 30, 1995

~~((27))~~ (401) **Definitions.** For the purposes of this part, the following definitions apply for applications made on and after July 1, 1994, and before July 1, 1995.

(a) "Acquisition of equipment or machinery" means the date the equipment and machinery is under the dominion and control of the recipient.

(b) "Applicant" means a person applying for a tax deferral under chapter 82.60 RCW.

(c) "Certificate holder" means an applicant to whom a tax deferral certificate has been issued.

(d) "Computer-related services" means services that are connected or interact directly in the manufacture of computer hardware or software or the programming of the manufactured hardware. This includes the manufacture of hardware such as chips, keyboards, monitors, any other hardware, and the components of these items. It includes creating operating systems and software that will be copied and sold as canned software. "Computer-related services" does not include information services. The activities performed by the manufacturer to test, correct, revise, and upgrade software or hardware before they are approved for sale to the consumer are considered computer-related services in this instance.

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

(f) "Eligible area" means:

(i) Unemployment county. A county in which the average level of unemployment for the three calendar years preceding the year in which an application is filed exceeds the average state unemployment for those years by twenty percent. The department may compare the county's average unemployment rate in the prior three years to one hundred twenty percent of the state's average unemployment rate based on official unemployment figures published by the department of employment security;

(ii) MSA. A metropolitan statistical area, as defined by the Office of Federal Statistical Policy and Standards, United States Department of Commerce, in which the average level of unemployment for the calendar year immediately preceding the year in which an application is filed under chapter 82.60 RCW exceeds the average state unemployment for such calendar year by twenty percent;

(iii) CEZ. A designated community empowerment zone approved under RCW 43.63A.700;

(iv) Timber impact area towns. A town with a population of less than twelve hundred persons that is located in a county that is a timber impact area, as defined in RCW 43.31.601, but that is not an unemployment county as defined in this subsection;

(v) Contiguous county. A county that is contiguous to an unemployment county or a governor's designation county; or

(vi) Governor's designation county. A county designated by the governor as an eligible area under RCW 82.60.047.

(g)(i) "Eligible investment project" means that portion of an investment project which:

(A) Is directly utilized to create at least one new full-time qualified employment position for each seven hundred fifty thousand dollars of investment on which a deferral is requested; and

(B) Either initiates a new operation, or expands or diversifies a current operation by expanding, equipping, or renovating an existing facility with costs in excess of twenty-five percent of the true and fair value of the facility prior to improvement. "Improvement" means the physical alteration by significant expansion, modernization, or renovation of an existing facility, excluding land, where the cost of such expansion, etc., exceeds twenty-five percent of the true and fair value of the existing facility prior to the initiation of the expansion or renovation. The term "improvement" is further defined to include those portions of an existing facility which do not increase the usable floor space, but is limited to the renovation, modernization, or any other form of alteration or addition and the equipment and machinery installed therein during the course of construction. The twenty-five percent test may be satisfied by considering the value of both the building and machinery and equipment; however, at least forty percent of the total renovation costs must be attributable to the physical renovation of the building structure alone. "True and fair value" means the value listed on the assessment rolls as determined by the county assessor for the buildings or equipment for ad valorem property tax purposes at the time of application.

(ii) "Eligible investment project" does not include either an investment project undertaken by a light and power business as defined in RCW 82.16.010, other than cogeneration projects that are both an integral part of a manufacturing facility and owned at least fifty percent by the manufacturer, or investment projects that have already received deferrals under chapter 82.60 RCW.

(h) "Industrial fixture" means an item attached to a building or to land. Fixtures become part of the real estate to which they are attached and upon attachment are classified as real property, not personal property. Examples of "industrial fixtures" are fuel oil lines, boilers, craneways, and certain concrete slabs.

(i) "Initiation of construction," in regards to the construction of new buildings, means the commencement of on-site construction work.

(j) "Initiation of construction," in regards to the construction of expanding or renovating existing structures for the purpose of increasing floor space or production capacity used for manufacturing and research and development, means the commencement of the new construction by renovation, modernization, or expansion, by physical alteration.

(k) "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. A person who does not build or remodel his or her own building, but leases from a third party, is eligible for sales and use tax deferral on the machinery and equipment provided that an investment in qualified machinery and equipment is made by such person and a new structure used to house the manufacturing activities is constructed.

(l) "Manufacturing" has the meaning given in RCW 82.04.120. Manufacturing, for purposes of the distressed area deferral program, also includes computer programming, the production of computer software, and other computer-related services, but only when the computer programming, production of computer software, or other computer-related services are performed by a manufacturer as defined in RCW 82.04.110 and contribute to the production of a new, different, or useful substance or article of tangible personal property for sale; and the activities performed by research and development laboratories and commercial testing laboratories. (Chapter 16, Laws of 2010.)

(m) "Operationally complete" means the project is capable of being used for its intended purpose as described in the application.

(n) "Person" has the meaning given in RCW 82.04.030. "Person" does not include the state of Washington or its institutions. "Person" can be either a lessee or a lessor, who can apply separately for individual investment projects at the same site, if they comply with the other requirements of chapter 82.60 RCW. The lessor/owner of the structure is not eligible for deferral unless the underlying ownership of the buildings, machinery, or equipment vests exclusively in the lessor/owner, or unless the lessor has by written contract agreed to pass the economic benefit of the deferral to the lessee in the form of reduced rent payments.

(o) "Qualified buildings" are limited to structures used for manufacturing and research and development activities. "Qualified buildings" include plant offices and warehouses if such facilities are essential or an integral part of a factory, mill, plant, or laboratory. "Office" means space used by professional, clerical, or administrative staff. For plant office space to be a qualified building its use must be essential or integral to the manufacturing or research and development operation. Office space that is used by supervisors and their staff, by technicians, by payroll staff, by the safety officer, and by the training staff are examples of qualifying office space. "Warehouse" means facilities used for the storage of raw materials or finished goods.

(p) "Qualified employment position" means a permanent full-time employee employed in the eligible investment project during the entire tax year. The "entire tax year" means the full-time position is filled for a period of twelve consecutive months. "Full time" means at least 35 hours per week, 455 hours a quarter, or 1,820 hours a year.

(q) "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 operation 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 machinery. It also includes machinery and equipment acquired under the terms of a lease by the recipient. "New" as used in this subsection means either new to the taxing jurisdiction of the state or new to the certificate holder.

(r) "Research and development" means the development, refinement, testing, marketing, and commercialization of a

product, service, or process before commercial sales have begun. 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 one million dollars.

(s) "Recipient" means a person receiving a tax deferral under this program.

~~((28))~~ (402) **Issuance of deferral certificate.** The department will 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 for an eligible investment project. The department will state on the certificate the amount of tax deferral for which the recipient is eligible. Recipients must keep track of how much tax is deferred.

~~((29))~~ (403) **Eligible investment amount.**

(a) Projects located in unemployment counties, MSAs, governor-designated counties, or timber impact towns are eligible for a deferral on the portion of the investment project that represents one new qualified employment position for each seven hundred fifty thousand dollars of investment. The eligible amount is computed by dividing the total qualifying project costs by seven hundred fifty thousand, the result being the qualified employment positions. In addition, the number of qualified employment positions created by an investment project will be reduced by the number of full-time employment positions maintained by the recipient in any other community in this state that are displaced as a result of the investment project. This is the number of positions used as the hiring benchmark. The qualified employment positions must be filled by the end of year three. Monitoring and reporting procedures are set forth in subsection ~~((36))~~ (410) of this section. In addition, buildings that will be used partly for manufacturing or research and development and partly for other purposes are eligible for a deferral on a proportionate basis. Subsection ~~((30))~~ (404) of this section explains the procedure for apportionment.

(b) Projects located in CEZs, counties containing CEZs, or counties contiguous to an eligible county, are eligible for a deferral if the project meets specific hiring requirements. The recipient is eligible for a deferral on the portion of the investment project that represents one new qualified employment position for each seven hundred fifty thousand dollars of investment. The eligible amount is computed by dividing the total qualifying project costs by seven hundred fifty thousand, the result being the qualified employment positions. This is the number of positions used as the hiring benchmark over the life of the deferral. The qualified employment positions are reviewed each year, beginning December 31st of the year the project is operationally complete and each year for seven years. Monitoring and reporting procedures are set forth in subsection ~~((36))~~ (410) of this section. In addition, buildings that will be used partly for manufacturing or research and development and partly for other purposes are eligible for a deferral on a proportionate basis. Subsection ~~((30))~~ (404) of this section explains the procedure for apportionment.

(c) In addition to the hiring requirements for new positions under (b) of this subsection, the recipient of a deferral for an expansion or diversification of an existing facility must ensure that he or she maintains the same percentage of

employment positions filled by residents of the contiguous county or the CEZ that existed prior to the application being made. This percentage must be maintained for seven years. The department has instituted a geographic information system (GIS) to assist taxpayers in determining taxing jurisdiction boundaries, local tax rates, and a mapping and address lookup system to determine whether a specific address is within a CEZ. The system is available on the department's internet web site at <http://www.dor.wa.gov>.

(d) Qualified employment positions does not include those persons hired in excess of the ratio of one employee per required dollar of investment for which a deferral is granted. In the event an employee is either voluntarily or involuntarily separated from employment, the employment position will be considered filled if the employer is either training or actively recruiting a replacement employee so long as the position is not actually vacant for any period in excess of thirty consecutive days.

~~((30))~~ **(404) Apportionment of costs between qualifying and nonqualifying investments.** The deferral is allowable only in respect to investment in the construction of a new building or the expansion or renovation of existing buildings used in manufacturing, research and development.

(a) Where a building(s) is used partly for manufacturing or research and development and partly for purposes which do not qualify for deferral under this rule, the deferral will be determined by apportionment of the total project costs. The applicable tax deferral will be determined by apportionment according to the ratio of the square footage of that portion of the building(s) directly used for manufacturing or research and development purposes bears to the square footage of the total building(s).

Apportionment formula:

$$\frac{\text{Eligible square feet of building(s)}}{\text{Total square feet of building(s)}} = \text{Percent Eligible}$$

$$\text{Percent Eligible} \times \text{Total Project Costs} = \text{Eligible Costs.}$$

"Total Project Costs" means cost of multipurpose buildings and other improvement costs associated with the deferral project. Machinery and equipment are not included in this calculation. Common areas, such as hallways and bathrooms, are not included in the square feet figure for either the numerator or the denominator. The cost of the common areas is multiplied by the percent eligible to determine the portion of the common area that is eligible for deferral.

$$\text{Eligible Tax Deferred} = \text{Eligible Cost} \times \text{Tax Rate.}$$

(b) Qualified machinery and equipment is not subject to apportionment.

~~((34))~~ **(405) Leased equipment.** The amount of tax deferral allowable for leased equipment is the amount of the consideration paid by the recipient to the lessor over the initial term of the lease, excluding any period of extension or option to renew, up to the last date for repayment of the deferred taxes. After that date the recipient must pay the appropriate sales taxes to the lessor for the remaining term of the lease.

~~((32))~~ **(406) Application procedure and review process.** An application for sales and use tax deferral under this program must be made prior to the initiation of construction and the acquisition of machinery and equipment. Persons who apply after construction is initiated or after acquisition of machinery and equipment are not eligible for the program.

(a) Application forms will be supplied to the applicant by the department upon request. The completed application may be sent by fax to 360-586-2163 or mailed to the following address:

State of Washington
 Department of Revenue
 Special Programs
 P.O. Box 47477
 Olympia, WA 98504-7477

(b) The department will verify the information contained in the application and approve or disapprove the application within sixty days. If approved, the department will issue a tax deferral certificate. If disapproved, the department will notify the applicant as to the reason(s) for disapproval. The U.S. Post Office postmark or fax date will be used as the date of application.

(c) The applicant may seek administrative review of the department's disapproval of an application within thirty days from the date of notice of disallowance pursuant to the provisions of WAC 458-20-100, appeals, small claims and settlements. The filing of a petition for review with the department starts a review of departmental action.

~~((33))~~ **(407) Eligible area criteria.** The department will use the statewide and county unemployment statistics as last published by the department. Timber impact town designation is based on information provided by the department of employment security. The department will update the list of eligible areas by county, annually.

~~((34))~~ **(408) Use of the certificate.** A tax deferral certificate issued under this program will be for the use of the recipient for deferral of sales and use taxes due on each eligible investment project. Deferral is limited only to investment in qualified buildings or qualified machinery and equipment as defined in ~~(this Part III)~~ subsection (401) of this section. Thus, sales and use taxes cannot be deferred on items that do not become part of the qualified buildings, machinery, or equipment. In addition, the deferral is not to be used to defer the taxes of the persons with whom the recipient does business, persons the recipient hires, or employees of the recipient. The tax deferral certificate is be used in a manner similar to that of a resale certificate as set forth in WAC 458-20-102, Resale certificates. The certificate holder must provide a copy of the tax deferral certificate to the seller at the time goods or services are purchased. The seller will be relieved of the responsibility for collection of the sales or use tax upon presentation of the certificate. The seller must retain a copy of the certificate as part of its permanent records for a period of at least five years. A blanket certificate may be provided by the certificate holder and accepted by the seller covering all such purchases relative to the eligible project. The seller is liable for business and occupation tax on all tax deferral sales.

~~((35))~~ **(409) Project operationally complete.** An applicant must provide the department with the estimated cost of the investment project at the time the application is made. Following approval of the application and issuance of a tax deferral certificate, a certificate holder must notify the department, in writing, when the value of the investment project reaches the estimated cost as stated on the tax deferral certificate.

(a) If a certificate holder has reached its level of estimated costs and the project is not operationally complete, the certificate holder may request an amended certificate stating a revised amount upon which the deferral of sales and use taxes is requested. Requests must be mailed or faxed to the department.

(b) The certificate holder must notify the department in writing when the construction project is operationally complete. The department will certify the date on which the project was operationally complete. The recipient of the deferral must maintain the manufacturing or research and development activity for eight years from this date.

(c) The recipient will be notified in writing of the total amount of deferred taxes, the date(s) upon which the deferred taxes must be paid, and any reports required to be submitted in the subsequent years. If the department disallows any portion of the amount of sales and use taxes requested for deferral, the recipient may seek administrative review of the department's action within thirty days from the date of the notice of disallowance pursuant to the provisions of WAC 458-20-100, appeals, small claims and settlements. The filing of a petition for review with the department starts a review of departmental action.

~~((36))~~ **(410) Reporting and monitoring procedure.**

(a) Requirement to submit annual reports. Each recipient of a sales and use tax deferral must submit a report to the department on December 31st of the year in which the investment project is certified by the department as having been operationally completed, and on December 31st of each of the seven succeeding calendar years. The report must be made to the department in a form and manner prescribed by the department. The report must contain information regarding the actual employment related to the project and any other information required by the department. If the recipient fails to submit a report or submits an inadequate or falsified report, the department may declare the amount of deferred taxes outstanding to be immediately due and payable. An inadequate or falsified report is one that contains material omissions or contains knowingly false statements and information.

(b) Requirement to submit annual surveys. Effective April 1, 2004, each recipient of a tax deferral granted under chapter 82.60 RCW after June 30, 1994, must complete an annual survey **instead of an annual report**. If the economic benefits of the deferral are passed to a lessee as provided in RCW 82.60.020(4), the lessee must agree to complete the annual survey and the applicant is not required to complete the annual survey. Refer to WAC 458-20-268 (Annual surveys for certain tax adjustments) for more information on the requirements to file annual surveys.

~~((37))~~ **(411) Repayment of deferred taxes.** Repayment of tax deferred under chapter 82.60 RCW is excused, except as otherwise provided in RCW 82.60.070 and this

subsection on an investment project for which a deferral has been granted under chapter 82.60 RCW after June 30, 1994.

(a) The following describes the various circumstances under which repayment of the deferral may be required. Outstanding taxes are determined by reference to the following table. The table presumes the taxpayer maintained eligibility for the entire year. See subsection (c) for repayment and waiver for deferrals with hiring requirements.

Repayment Year	Percentage of Deferred Tax Waived
1 (Year operationally complete)	0%
2	0%
3	0%
4	10%
5	15%
6	20%
7	25%
8	30%

Any action taken by the department to disqualify a recipient for tax deferral or require payment of all or part of deferred taxes is subject to administrative review pursuant to the provisions of WAC 458-20-100, appeals, small claims and settlements. The filing of a petition for review with the department starts a review of departmental action.

(b) Failure of investment project to satisfy general conditions. If, on the basis of the recipient's annual report or other information, including that submitted by the department of employment security, the department finds that an investment project is not eligible for tax deferral, other than failure to create the required number of positions, the department will declare the amount of deferred taxes outstanding to be immediately due. For example, a reason for disqualification would be that the facility is not used for manufacturing or research and development operations.

(c) Failure of investment project to satisfy employment positions conditions. If, on the basis of the recipient's annual report or other information, the department finds that an investment project has been operationally complete for three years and has failed to create the required number of qualified employment positions, the amount of taxes deferred will be immediately due. The department will assess interest at the rate and as provided for delinquent excise taxes under RCW 82.32.050 (retroactively to the date of deferral). No penalties will be assessed.

(d) Failure of investment project to satisfy employee residency requirements. If, on the basis of the recipient's annual report or other information, the department finds that an investment project under RCW 82.60.040 (1)(b) or (c) has failed to comply with the special hiring requirements of RCW 82.60.045 for any calendar year for which reports are required under this subsection, twelve and one-half percent of the amount of deferred taxes will be immediately due. For each year a deferral's requirements are met twelve and one-half percent of the amount of deferred taxes will be waived. The department will assess interest at the rate provided for delinquent excise taxes under RCW 82.32.050, retroactively to the date of deferral. No penalties will be assessed.

(e) The department of employment security makes and certifies to the department all determinations of employment and wages required under this subsection, per request.

~~((38))~~ **(412) Debt not extinguished because of insolvency or sale.** Insolvency or other failure of the recipient does not extinguish the debt for deferred taxes nor will the sale, exchange, or other disposition of the recipient's business extinguish the debt for the deferred taxes. 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. Any person who becomes a successor (see WAC 458-20-216) to such investment project is liable for the full amount of any unpaid, deferred taxes under the same terms and conditions as the original recipient.

~~((39))~~ **(413) Disclosure of information.** Applications and reports received by the department under chapter 82.60 RCW are not confidential and are subject to disclosure. (RCW 82.60.100.) Effective April 1, 2004, all information collected in annual surveys, except the amount of tax deferral taken, is confidential and not subject to disclosure. Information on the amount of tax deferral taken in annual surveys is not confidential and may be disclosed to the public upon request.

PART ~~(IV)~~ V

Applications from July 1, 1992, to June 30, 1994

~~((40))~~ **(501) Definitions.** For the purposes of this part, the following definitions apply for applications made after July 1, 1992, but before July 1, 1994:

(a) "Acquisition of equipment or machinery" means the equipment and machinery is under the dominion and control of the recipient.

(b) "Applicant" means a person applying for a tax deferral under chapter 82.60 RCW.

(c) "Certificate holder" means an applicant to whom a tax deferral certificate has been issued.

(d) "Computer-related services" means services that are connected or interact directly in the manufacture of computer hardware or software or the programming of the manufactured hardware. This includes the manufacture of hardware such as chips, keyboards, monitors, any other hardware, and the components of these items. It includes creating operating systems and software that will be copied and sold as canned software. "Computer-related services" does not include information services. The activities performed by the manufacturer to test, correct, revise, and upgrade software or hardware before they are approved for sale to the consumer are considered computer-related services in this instance.

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

(f) "Eligible area" means:

(i) Unemployment county. A county in which the average level of unemployment for the three calendar years preceding the year in which an application is filed exceeds the average state unemployment for those years by twenty percent. The department may compare the county's average unemployment rate in the prior three years to one hundred twenty percent of the state's average unemployment rate based on official unemployment figures published by the department of employment security;

(ii) MSA. A metropolitan statistical area, as defined by the Office of Federal Statistical Policy and Standards, United States Department of Commerce, in which the average level of unemployment for the calendar year immediately preceding the year in which an application is filed under chapter 82.60 RCW exceeds the average state unemployment for such calendar year by twenty percent; or

(iii) CEZ. Beginning July 1, 1993, a designated community empowerment zone approved under RCW 43.63A.700.

(g)(i) "Eligible investment project" means that portion of an investment project which:

(A) Is directly utilized to create at least one new full-time qualified employment position for each three hundred thousand dollars of investment on which a deferral is requested; and

(B) Either initiates a new operation, or expands or diversifies a current operation by expanding, or renovating an existing building with costs in excess of twenty-five percent of the true and fair value of the plant complex prior to improvement. "Improvement" means the physical alteration by significant expansion, modernization, or renovation of an existing plant complex, excluding land, where the cost of such expansion, etc., exceeds twenty-five percent of the true and fair value of the existing plant complex prior to the initiation of the expansion or renovation. The term "improvement" is further defined to include those portions of an existing building which do not increase the usable floor space, but is limited to the renovation, modernization, or any other form of alteration or addition and the equipment and machinery installed therein during the course of construction. The twenty-five percent test may be satisfied by considering the value of both the building and machinery and equipment; however, at least forty percent of the total renovation costs must be attributable to the physical renovation of the building structure alone. "True and fair value" means the value listed on the assessment rolls as determined by the county assessor for the land, buildings, or equipment for ad valorem property tax purposes at the time of application; or

(C) Acquires machinery and equipment to be used for either manufacturing or research and development. The lessor/owner of the structure is not eligible for a deferral unless the underlying ownership of the buildings, machinery, and equipment vests exclusively in the same person.

(ii) "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 or investment projects that have already received deferrals under chapter 82.60 RCW.

(h) "Industrial fixture" means an item attached to a building or to land. Fixtures become part of the real estate to which they are attached and upon attachment are classified as real property, not personal property. Examples of "industrial fixtures" are fuel oil lines, boilers, craneways, and certain concrete slabs.

(i) "Initiation of construction," in regards to the construction of new buildings, means the commencement of on-site construction work.

(j) "Initiation of construction," in regards to the construction of expanding or renovating existing structures for the purpose of increasing floor space or production capacity used

for manufacturing and research and development, means the commencement of new construction by renovation, modernization, or expansion, by physical alteration.

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

(l) "Manufacturing" has the meaning given in RCW 82.04.120. Manufacturing, for purposes of the distressed area deferral program, also includes computer programming, the production of computer software, and other computer-related services, but only when the computer programming, production of computer software, or other computer-related services are performed by a manufacturer as defined in RCW 82.04.110 and contribute to the production of a new, different, or useful substance or article of tangible personal property for sale; and the activities performed by research and development laboratories and commercial testing laboratories. (Chapter 16, Laws of 2010.)

(m) "Operationally complete" means the project is capable of being used for its intended purpose as described in the application.

(n) "Person" has the meaning given in RCW 82.04.030. "Person" does not include the state of Washington or its institutions. "Person" can be either a lessee or a lessor, who can apply separately for individual investment projects at the same site, if they comply with the other requirements of this chapter. The lessor/owner of the structure is not eligible for deferral unless the underlying ownership of the buildings, machinery, or equipment vests in the lessor/owner.

(o) "Qualified buildings" are limited to structures used for manufacturing and research and development activities. "Qualified buildings" include plant offices and warehouses if such facilities are essential or an integral part of a factory, mill, plant, or laboratory. "Office" means space used by professional, clerical, or administrative staff. For plant office space to be a qualified building, its use must be essential or integral to the manufacturing or research and development operation. Office space that is used by supervisors and their staff, by technicians, by payroll staff, by the safety officer, and by the training staff are examples of qualifying office space. "Warehouse" means facilities used for the storage of raw materials or finished goods.

(p) "Qualified employment position" means a permanent full-time employee employed in the eligible investment project during the entire tax year. The "entire tax year" means the full-time position is filled for a period of twelve consecutive months. "Full time" means at least 35 hours a week, 455 hours a quarter, or 1,820 hours a year.

(q) "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 operation 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 machinery. It also includes machinery and equipment acquired under the terms of a long- or short-term lease by the recipient. "New" as used

in this subsection means either new to the taxing jurisdiction of the state or new to the certificate holder.

(r) "Recipient" means a person receiving a tax deferral under this program.

(s) "Research and development" means the development, refinement, testing, marketing, and commercialization of a product, service, or process before commercial sales have begun. 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 one million dollars.

~~((41))~~ (502) **Issuance of deferral certificate.** The department will 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 for an eligible investment project. The department will state on the certificate the amount of tax deferral for which the recipient is eligible. Recipients must keep track of how much deferral is taken.

~~((42))~~ (503) **Eligible investment amount.** Recipients are eligible for a deferral on investment used to create employment positions.

(a) Total qualifying project costs must be examined to determine the number of positions associated with the project. Total qualifying project costs are divided by three hundred thousand, the result being the qualified employment positions. This is the number of positions used as the hiring benchmark at the end of year three. The qualified employment positions are reviewed in the third year, following December 31st of the year the project is operationally complete. If the recipient has failed to create the requisite number of positions, the department will issue an assessment under subsection ~~((50))~~ (511) of this section. Buildings that will be used partly for manufacturing or research and development and partly for other purposes are eligible for a deferral on a proportionate basis. Subsection ~~((43))~~ (504) of this section explains the procedure for apportionment.

(b) Qualified employment positions does not include those persons hired in excess of the ratio of one employee per required dollar of investment for which a deferral is granted. In the event an employee is either voluntarily or involuntarily separated from employment, the employment position will be considered filled if the employer is either training or actively recruiting a replacement employee so long as the position is not actually vacant for any period in excess of thirty consecutive days.

~~((43))~~ (504) **Apportionment of costs between qualifying and nonqualifying investments.** The deferral is allowable only in respect to investment in the construction of a new building or the expansion or renovation of existing buildings directly used in manufacturing, research and development, or commercial testing laboratories.

(a) Where a building(s) is used partly for manufacturing or research and development, or commercial testing and partly for purposes, which do not qualify for deferral under this rule, the deferral will be determined by apportionment of the total project costs. The applicable tax deferral will be determined by apportionment according to the ratio of the square footage of that portion of the building(s) directly used for manufacturing or research and development purposes bears to the square footage of the total building(s).

Apportionment formula:

$$\frac{\text{Eligible square feet of building(s)}}{\text{Total square feet of building(s)}} = \text{Percent Eligible}$$

Percent Eligible x Total Project Costs = Eligible Costs.

"Total Project Costs" means cost of multipurpose buildings and other improvement costs associated with the deferral project. Machinery and equipment are not included in this calculation. Common areas, such as hallways and bathrooms, are not included in the square feet figure for either the numerator or the denominator. The cost of the common areas is multiplied by the percent eligible to determine the portion of the common area that is eligible for deferral.

Eligible Tax Deferred = Eligible Cost x Tax Rate.

(b) Qualified machinery and equipment is not subject to apportionment.

~~((44))~~ **(505) Leased equipment.** The amount of tax deferral allowable for leased equipment is the amount of the consideration paid by the recipient to the lessor over the initial term of the lease, excluding any period of extension or option to renew, up to the last date for repayment of the deferred taxes. After that date the recipient must pay the appropriate sales taxes to the lessor for the remaining term of the lease.

~~((45))~~ **(506) Application procedure and review process.** An application for sales and use tax deferral under this program must be made prior to the initiation of construction and the acquisition of equipment or machinery. Persons who apply after construction is initiated or finished or after acquisition of machinery and equipment are not eligible for the program.

(a) Application forms will be supplied to the applicant by the department upon request. The completed application may be sent by fax to 360-586-2163 or mailed to the following address:

State of Washington
Department of Revenue
Special Programs
P.O. Box 47477
Olympia, WA 98504-7477

(b) The department will verify the information contained in the application and either approve or disapprove the application within sixty days. If approved, the department will issue a tax deferral certificate. If disapproved, the department will notify the applicant as to the reason(s) for disapproval. The U.S. Post Office postmark or fax date will be used as the date of application.

(c) The applicant may seek administrative review of the department's refusal to issue a certificate pursuant to the provisions of WAC 458-20-100, appeals, small claims and settlements, within thirty days from the date of notice of the department's refusal, or within any extension of such time granted by the department. The filing of a petition for review with the department starts a review of departmental action.

~~((46))~~ **(507) Unemployment criteria.** For purposes of making application for tax deferral and of approving such applications, the statewide and county unemployment statis-

tics last published by the department will be used to determine eligible areas. The department will update the list of eligible areas by county, on an annual basis.

~~((47))~~ **(508) Use of the certificate.** A tax deferral certificate issued under this program is for the use of the recipient for deferral of sales and use taxes due on each eligible investment project. Deferral is limited only to investment in qualified buildings or qualified machinery and equipment as defined in ~~((this Part IV))~~ subsection (501) of this section. Thus, sales and use taxes cannot be deferred on items that do not become part of the qualified buildings, machinery, or equipment.

The tax deferral certificate is to be used in a manner similar to that of a resale certificate as set forth in WAC 458-20-102, Resale certificates. The certificate holder must provide a copy of the tax deferral certificate to the seller at the time goods or services are purchased. The seller will be relieved of the responsibility for collection of the sales or use tax upon presentation of the certificate. The seller must retain a copy of the certificate as part of its permanent records for a period of at least five years. A blanket certificate may be provided by the certificate holder and accepted by the seller covering all such purchases relative to the eligible project. The seller is liable for business and occupation tax on all tax deferral sales. The deferral certificate is to defer the taxes of the recipient. For example, the deferral is not to be used to defer the taxes of the persons with whom the recipient does business, persons the recipient hires, or employees of the recipient.

~~((48))~~ **(509) Project operationally complete.** An applicant must provide the department with the estimated cost of the investment project at the time the application is made. Following approval of the application and issuance of a tax deferral certificate, a certificate holder must notify the department, in writing, when the value of the investment project reaches the estimated cost as stated on the tax deferral certificate.

(a) If a certificate holder has reached its level of estimated costs and the project is not operationally complete, the certificate holder may request an amended certificate stating a revised amount upon which the deferral of sales and use taxes is requested. Requests must be mailed or faxed to the department.

(b) The certificate holder must notify the department in writing when the construction project is operationally complete. The department will certify the date on which the project was operationally complete. The recipient of the deferral must maintain the manufacturing or research and development activity for eight years from this date.

(c) The recipient will be notified in writing of the total amount of deferred taxes, the date(s) upon which the deferred taxes must be paid, and any reports required to be submitted in the subsequent years. If the department disallows all or any portion of the amount of sales and use taxes requested for deferral, the recipient may seek administrative review of the department's action pursuant to the provisions of WAC 458-20-100, within thirty days from the date of the notice of disallowance.

~~((49))~~ **(510) Reporting and monitoring procedure.** Requirement to submit annual reports. Each recipient of a sales and use tax deferral must submit a report to the depart-

ment on December 31st of each year during the repayment period until the tax deferral is repaid. The report must be made to the department in a form and manner prescribed by the department. The report must contain information regarding the actual employment related to the project and any other information required by the department. If the recipient fails to submit a report or submits an inadequate or falsified report, the department may declare the amount of deferred taxes outstanding to be immediately assessed and payable. An inadequate or falsified report is one that contains material omissions or contains knowingly false statements and information.

~~((50))~~ **(511) Repayment of deferred taxes.** The recipient must begin paying the deferred taxes in the third year after the date certified by the department as the date on which the construction project has been operationally completed.

(a) The first payment will be due on December 31st of the third calendar year after such certified date, with subsequent annual payments due on December 31st of the following four years, with amounts of payment scheduled as follows:

Repayment Year	Percentage of Deferred Tax Repaid
1 (Year certified operationally complete)	0%
2	0%
3	0%
4	10%
5	15%
6	20%
7	25%
8	30%

(b) The department may authorize an accelerated repayment schedule upon request of the recipient. Interest will not be charged on any taxes deferred under this part during the period of deferral, although other penalties and interest applicable to delinquent excise taxes may be assessed and imposed for any delinquent payments during the repayment period pursuant to chapter 82.32 RCW.

(c) Taxes deferred on the sale or use of labor directly applied in the construction of an investment project for which deferral has been granted need not be repaid, provided eligibility for the granted tax deferral has been perfected by meeting all of the eligibility requirements, based upon the recipient's annual December 31 reports and any other information available to the department. The recipient must establish, by clear and convincing evidence, the value of all construction and installation labor for which repayment of sales tax is sought to be excused. Such evidence must include, but is not limited to: A written, signed, and dated itemized billing from construction/installation contractors or independent third party labor providers which states the value of labor charged separately from the value of materials. This information must be maintained in the recipient's permanent records for the department's review and verification. In the absence of such itemized billings in its permanent records, no recipient may be excused from repayment of sales tax on the value of labor in an amount exceeding thirty percent of its gross construc-

tion or installation contract charges. The value of labor for which an excuse from repayment of sales or use tax may be received will not exceed the value which is subject to such taxes under the general provisions of chapters 82.08 and 82.12 RCW.

(d) **Failure of investment project to satisfy general conditions.** If, on the basis of the recipient's annual report or other information, including that submitted by the department of employment security, the department finds that an investment project is not eligible for tax deferral for reasons other than failure to create the required number of qualified employment positions, the department will declare the amount of deferred taxes outstanding to be immediately due. For example, a reason for disqualification would be the facility is not used for a manufacturing or research and development operation.

(e) **Failure of investment project to satisfy required employment positions.** If, on the basis of the recipient's annual report or other information, the department finds that an investment project has been operationally complete for three years and has failed to create the required number of qualified employment positions, the department will assess interest but not penalties, on the deferred taxes for the project. The department will assess interest at the rate provided for delinquent excise taxes under RCW 82.32.050, retroactively to the date of the date of deferral. No penalties will be assessed.

(f) The department of employment security makes and certifies to the department all determinations of employment and wages required under this subsection, per request.

(g) Any action taken by the department to assess interest or disqualify a recipient for tax deferral will be subject to administrative review pursuant to the provisions of WAC 458-20-100, appeals, small claims and settlements. The filing of a petition for review with the department starts a review of departmental action.

~~((51))~~ **(512) Debt not extinguished because of insolvency or sale.** Insolvency or other failure of the recipient does not extinguish the debt for deferred taxes nor will the sale, exchange, or other disposition of the recipient's business extinguish the debt for the deferred taxes. 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. Any person who becomes a successor (see WAC 458-20-216) to such investment project will be liable for the full amount of any unpaid, deferred taxes under the same terms and conditions as the original recipient.

~~((52))~~ **(513) Disclosure of information.** Applications and reports received by the department under chapter 82.60 RCW are not confidential and are subject to disclosure. (RCW 82.60.100.)

WSR 10-16-139
EXPEDITED RULES
DEPARTMENT OF REVENUE

[Filed August 4, 2010, 8:34 a.m.]

Title of Rule and Other Identifying Information: WAC 458-20-127 Magazines and periodicals, explains the B&O, retail sales, and use tax reporting responsibilities of persons that purchase and resell magazines and periodicals.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Richard Cason, Department of Revenue, P.O. Box 47453, Olympia, WA 98504-7453, e-mail RichardC@dor.wa.gov, AND RECEIVED BY October 4, 2010.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: The department is proposing to amend WAC 458-20-127 to reflect the following recent legislation:

- ESHB 2075 (chapter 535, Laws of 2009) - explains the application of retail sales tax and use tax for magazines and periodicals that are transferred to the buyer electronically; and
- SB 6173 (chapter 563, Laws of 2009) - replaces resale certificates with reseller permits as the means to substantiate wholesale purchases.

The department also proposes to recognize RCW 82.08.02535, which provides a retail sales tax exemption for magazine or periodical sales for certain fundraising purposes. Editing changes are also proposed for readability purposes.

Copies of draft rules are available for viewing and printing on our web site at <http://dor.wa.gov/content/FindALawOrRule/RuleMaking/agenda.aspx>.

Reasons Supporting Proposal: To recognize an exemption and recent legislative changes that are not currently addressed in this rule.

Statutory Authority for Adoption: RCW 82.32.300 and 82.01.060(2).

Statute Being Implemented: RCW 82.04.050 as it applies to magazines sales of magazines and periodicals.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: Department of revenue, governmental.

Name of Agency Personnel Responsible for Drafting: Richard Cason, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 664-0331; Implementation: Alan R. Lynn, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360)

570-6125; and Enforcement: Gilbert Brewer, 1025 Union Avenue S.E., Suite #544, Olympia, WA, (360) 570-6147.

August 4, 2010

Alan R. Lynn

Rules Coordinator

AMENDATORY SECTION (Amending WSR 89-21-001, filed 10/5/89, effective 11/5/89)

WAC 458-20-127 Sales of newspapers, magazines and periodicals. (1) ~~((Retail sales tax.))~~ **Introduction.** This section explains the application of the business and occupation (B&O) tax, retail sales tax, and use tax to sales and/or use of newspapers, magazines, and periodicals. The tax reporting information in the section is limited to persons that purchase and resell these publications. The department of revenue (department) has adopted other sections providing tax reporting information to persons printing and/or publishing these publications and other printed materials.

• Persons printing and/or publishing newspapers, magazines, and periodicals should also refer to WAC 458-20-143.

• For information regarding the printing industry in general, see WAC 458-20-144.

• Persons duplicating printed materials for others should also refer to WAC 458-20-141.

• For information regarding potential litter tax liability, see WAC 458-20-243.

(2) General tax application. This subsection explains the B&O tax and retail sales tax responsibilities of persons selling newspapers, magazines, and periodicals to consumers, when the seller is not also the printer or publisher of the publication. Refer to subsection (4) of this section for information about tax reporting responsibilities of persons selling through organizers, captains, or others selling from house to house.

Where subscriptions or renewals of subscriptions are mailed directly by purchasers to publishers outside the state, the guidelines contained in WAC 458-20-193 and 458-20-221 apply to the obligation of sellers to collect retail sales or use tax.

(a) Sales of printed magazines and periodicals. Sales of magazines and periodicals to ~~((the reading public))~~ consumers by persons operating ~~((news stands))~~ newsstands, book stores, ~~((eigar))~~ department stores, drug stores and the like are sales at retail and are subject to the retailing B&O tax and retail sales tax. ~~((Sales to newsstands or stores which are sales for resale are not subject to the retail sales tax.))~~ Refer to WAC 458-20-143 for the definition of "periodical or magazine."

(b) Magazines and periodicals sold as digital products. Sales of magazines and periodicals that are transferred electronically to the end user are subject to the retailing B&O tax and retail sales tax regardless of how they are accessed. For more information on the application of tax on digital products, refer to RCW 82.04.050, 82.04.192, and 82.04.257.

(c) Sales of newspapers. Sales of printed newspapers to consumers by persons operating newsstands, book stores, department stores, drug stores and the like are sales at retail and are subject to the retailing B&O tax. Sales of newspapers are specifically exempt from the retail sales tax per RCW

82.08.0253. Refer to WAC 458-20-143 for the definition of "newspaper."

(3) Retail sales tax exemptions. The retail sales tax does not apply to the following:

(a) Newspapers (refer to WAC 458-20-143 for a definition of "newspaper"); and

(b) Subscription sales of magazines and periodicals, including those transferred electronically to the buyer, if these sales are for the purpose of fund-raising by:

- Educational institutions as defined in RCW 82.04.170;

or

- Nonprofit organizations engaged in activities primarily for the benefit of boys and girls nineteen years of age and younger. (RCW 82.08.02535.)

(4) Sales by distributors. When magazines or periodicals are distributed to the final purchaser by a news company or distributor who effects such distribution through organizers, captains, or others selling from house to house or upon the streets, the news company or distributor is ~~((the one))~~ responsible for the collection and payment of the retail sales tax.

(a) Such news companies or distributors ~~((shall))~~ must collect from those selling the magazines or periodicals the retail sales tax upon the gross retail selling price of all magazines and periodicals taken by such persons.

~~((Registration certificates))~~ (b) Tax registration endorsements are not required for organizers, captains, or other persons selling magazines or other periodicals ~~((under such circumstances))~~ if they meet the conditions of WAC 458-20-101 (2)(a). ~~((Branch certificates))~~ Separate registration and license documents will be issued to the news company or magazine distributor for each of the local stations operated by such company. Such registration and license documents will reflect the same tax reporting account number as the news company or magazine distributor. For more information, refer to WAC 458-20-101(10).

~~((2) Where subscriptions or renewals of subscriptions are mailed directly by purchasers to publishers outside the state, the guidelines contained in WAC 458-20-193B and 458-20-221 apply to the obligation of publishers to collect sales or use tax.~~

~~This rule does not apply to the sale of newspapers. The law expressly exempts the sale of newspapers from the retail sales tax. (RCW 82.08.0253.) See WAC 458-20-143 for the definition of "newspaper."~~

~~(3) Use tax.)~~ **(5) Buyer's responsibility to remit deferred sales or use tax.** Where no retail sales tax is paid upon the purchase of, or subscription to, a magazine or periodical, the ~~((use tax is subsequently payable upon the use of the magazine or periodical in this state by the purchaser))~~ buyer or subscriber must remit the retail sales tax (commonly referred to as "deferred sales tax") or use tax directly to the department unless specifically exempt by law.

Deferred sales or use tax should be reported on the use tax line of the buyer's excise tax return. For detailed information about use tax, refer to WAC 458-20-178 (Use tax).