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**SENATE BILL 5973**

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**State of Washington**

**54th Legislature**

**1995 Regular Session**

**By** Senators Bauer, Cantu, Snyder, Strannigan, McAuliffe, Heavey, Rasmussen, Hochstatter, Hale, Quigley, Sheldon, C. Anderson, Fairley, Loveland, McDonald, Winsley, Prince, McCaslin, Finkbeiner, West, Wood, Schow, Sutherland, Oke, Long, Moyer, Deccio, Morton, Sellar, Roach, Owen, Prentice, Smith and Kohl

Read first time 02/20/95. Referred to Committee on Ways & Means.

1 AN ACT Relating to tax exemptions for manufacturing and processing;  
2 amending RCW 82.04.190, 82.60.040, 82.60.045, 82.60.070, 82.61.010, and  
3 82.63.010; reenacting and amending RCW 82.60.020; adding a new section  
4 to chapter 82.08 RCW; adding a new section to chapter 82.12 RCW; adding  
5 a new section to chapter 82.63 RCW; creating new sections; repealing  
6 RCW 82.61.020, 82.61.040, 82.63.040, and 82.63.050; providing an  
7 effective date; providing an expiration date; and declaring an  
8 emergency.

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

10 NEW SECTION. **Sec. 1.** The legislature finds and declares that:  
11 (1) The health, safety, and welfare of the people of the state of  
12 Washington are heavily dependent upon the continued encouragement,  
13 development, and expansion of opportunities for family wage employment  
14 in our state's private sector;  
15 (2) The state's private sector must be encouraged to commit to  
16 continuous improvement of process, products, and services and to  
17 deliver high-quality, high-value products through technological  
18 innovations and high-performance work organizations;

1 (3) The state's opportunities for increased economic dealings with  
2 other states and nations of the world are dependent on supporting and  
3 attracting a diverse, stable, and competitive economic base of private  
4 sector employers;

5 (4) The state's current policy of applying its sales and use taxes  
6 to machinery, equipment, and installation labor used in manufacturing,  
7 research and development, and other activities has placed our state's  
8 private sector at a competitive disadvantage with other states and  
9 serves as a significant disincentive to the continuous improvement of  
10 products, technology, and modernization necessary for the preservation,  
11 stabilization, and expansion of employment and to ensure a stable  
12 economy; and

13 (5) It is vital to the continued development of economic  
14 opportunity in this state, including the development of new businesses  
15 and the expansion or modernization of existing businesses, that the  
16 state of Washington provide tax incentives to entities making a  
17 commitment to sites and operations in this state.

18 NEW SECTION. **Sec. 2.** A new section is added to chapter 82.08 RCW  
19 to read as follows:

20 (1) The tax levied by RCW 82.08.020 shall not apply to sales to a  
21 manufacturer or processor for hire of machinery and equipment used  
22 directly in a manufacturing operation, or to sales of or charges made  
23 for labor and services rendered in respect to installing the machinery  
24 and equipment, but only when the purchaser provides an exemption  
25 certificate in a form and manner prescribed by the department by rule.

26 (2) For purposes of this section and section 3 of this act:

27 (a) "Machinery and equipment" means industrial fixtures, devices,  
28 and support facilities. "Machinery and equipment" includes pollution  
29 control equipment installed and used in a manufacturing operation to  
30 prevent air pollution, water pollution, or contamination that might  
31 otherwise result from the manufacturing operation.

32 (b) "Machinery and equipment" does not include:

33 (i) Hand tools;

34 (ii) Property with a useful life of less than one year;

35 (iii) Repair parts required to restore machinery and equipment to  
36 normal working order;

1 (iv) Replacement parts that do not increase productivity, improve  
2 efficiency, or extend the useful life of the machinery and equipment;  
3 or

4 (v) Building fixtures that are not integral to the manufacturing  
5 operation that are permanently affixed to and become a physical part of  
6 a building, such as utility systems for heating, ventilation, air  
7 conditioning, communications, plumbing, or electrical.

8 (c) Machinery and equipment is "used directly" in a manufacturing  
9 operation if the machinery and equipment:

10 (i) Acts upon or interacts with an item of tangible personal  
11 property;

12 (ii) Conveys, transports, handles, or temporarily stores an item of  
13 tangible personal property at the manufacturing site;

14 (iii) Controls, guides, measures, verifies, aligns, regulates, or  
15 tests tangible personal property;

16 (iv) Provides physical support for or access to tangible personal  
17 property;

18 (v) Produces steam or mechanical power for, or lubricates machinery  
19 and equipment;

20 (vi) Produces another item of tangible personal property for use in  
21 the manufacturing operation; or

22 (vii) Places tangible personal property in the container, package,  
23 or wrapping in which the tangible personal property is normally sold or  
24 transported.

25 (d) "Manufacturing operation" means the manufacturing of articles,  
26 substances, or commodities for sale as tangible personal property. The  
27 manufacturing operation begins at the point where the raw materials  
28 enter the manufacturing site and ends at the point where the finished  
29 product leaves the manufacturing site. The term does not include  
30 research and development, cogeneration or the production of  
31 electricity, or the preparation of food products on the premises of a  
32 person selling food products at retail.

33 NEW SECTION. **Sec. 3.** A new section is added to chapter 82.12 RCW  
34 to read as follows:

35 The provisions of this chapter shall not apply in respect to the  
36 use by a manufacturer or processor for hire of machinery and equipment  
37 used directly in a manufacturing operation.

1       **Sec. 4.** RCW 82.04.190 and 1986 c 231 s 2 are each amended to read  
2 as follows:

3       "Consumer" means the following:

4       (1) Any person who purchases, acquires, owns, holds, or uses any  
5 article of tangible personal property irrespective of the nature of the  
6 person's business and including, among others, without limiting the  
7 scope hereof, persons who install, repair, clean, alter, improve,  
8 construct, or decorate real or personal property of or for consumers  
9 other than for the purpose (a) of resale as tangible personal property  
10 in the regular course of business or (b) of incorporating such property  
11 as an ingredient or component of real or personal property when  
12 installing, repairing, cleaning, altering, imprinting, improving,  
13 constructing, or decorating such real or personal property of or for  
14 consumers or (c) of consuming such property in producing for sale a new  
15 article of tangible personal property or a new substance, of which such  
16 property becomes an ingredient or component or as a chemical used in  
17 processing, when the primary purpose of such chemical is to create a  
18 chemical reaction directly through contact with an ingredient of a new  
19 article being produced for sale or (d) purchases for the purpose of  
20 consuming the property purchased in producing ferrosilicon which is  
21 subsequently used in producing magnesium for sale, if the primary  
22 purpose of such property is to create a chemical reaction directly  
23 through contact with an ingredient of ferrosilicon;

24       (2) Any person engaged in any business activity taxable under RCW  
25 82.04.290 and any person who purchases, acquires, or uses any telephone  
26 service as defined in RCW 82.04.065, other than for resale in the  
27 regular course of business;

28       (3) Any person engaged in the business of contracting for the  
29 building, repairing or improving of any street, place, road, highway,  
30 easement, right of way, mass public transportation terminal or parking  
31 facility, bridge, tunnel, or trestle which is owned by a municipal  
32 corporation or political subdivision of the state of Washington or by  
33 the United States and which is used or to be used primarily for foot or  
34 vehicular traffic including mass transportation vehicles of any kind as  
35 defined in RCW 82.04.280, in respect to tangible personal property when  
36 such person incorporates such property as an ingredient or component of  
37 such publicly owned street, place, road, highway, easement, right of  
38 way, mass public transportation terminal or parking facility, bridge,  
39 tunnel, or trestle by installing, placing or spreading the property in

1 or upon the right of way of such street, place, road, highway,  
2 easement, bridge, tunnel, or trestle or in or upon the site of such  
3 mass public transportation terminal or parking facility;

4 (4) Any person who is an owner, lessee or has the right of  
5 possession to or an easement in real property which is being  
6 constructed, repaired, decorated, improved, or otherwise altered by a  
7 person engaged in business, excluding only (a) municipal corporations  
8 or political subdivisions of the state in respect to labor and services  
9 rendered to their real property which is used or held for public road  
10 purposes, and (b) the United States, instrumentalities thereof, and  
11 county and city housing authorities created pursuant to chapter 35.82  
12 RCW in respect to labor and services rendered to their real property.  
13 Nothing contained in this or any other subsection of this definition  
14 shall be construed to modify any other definition of "consumer";

15 (5) Any person who is an owner, lessee, or has the right of  
16 possession to personal property which is being constructed, repaired,  
17 improved, cleaned, imprinted, or otherwise altered by a person engaged  
18 in business;

19 (6) Any person engaged in the business of constructing, repairing,  
20 decorating, or improving new or existing buildings or other structures  
21 under, upon, or above real property of or for the United States, any  
22 instrumentality thereof, or a county or city housing authority created  
23 pursuant to chapter 35.82 RCW, including the installing or attaching of  
24 any article of tangible personal property therein or thereto, whether  
25 or not such personal property becomes a part of the realty by virtue of  
26 installation; also, any person engaged in the business of clearing land  
27 and moving earth of or for the United States, any instrumentality  
28 thereof, or a county or city housing authority created pursuant to  
29 chapter 35.82 RCW. Any such person shall be a consumer within the  
30 meaning of this subsection in respect to tangible personal property  
31 incorporated into, installed in, or attached to such building or other  
32 structure by such person; and

33 (7) Any person who is a lessor of machinery and equipment, the  
34 rental of which is exempt from the tax imposed by RCW 82.08.020 under  
35 section 2 of this act, with respect to the sale of or charge made for  
36 tangible personal property consumed and for labor and services rendered  
37 in respect to repairing the machinery and equipment.

1 Nothing contained in this or any other subsection of this  
2 definition shall be construed to modify any other definition of  
3 "consumer."

4 **Sec. 5.** RCW 82.60.020 and 1994 sp.s. c 7 s 704 and 1994 sp.s. c 1  
5 s 1 are each reenacted and amended to read as follows:

6 Unless the context clearly requires otherwise, the definitions in  
7 this section apply throughout this chapter.

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

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

11 (3) "Eligible area" means: (a) A county in which the average level  
12 of unemployment for the three years before the year in which an  
13 application is filed under this chapter exceeds the average state  
14 unemployment for those years by twenty percent; (b) a metropolitan  
15 statistical area, as defined by the office of federal statistical  
16 policy and standards, United States department of commerce, in which  
17 the average level of unemployment for the calendar year immediately  
18 preceding the year in which an application is filed under this chapter  
19 exceeds the average state unemployment for such calendar year by twenty  
20 percent; (c) a designated community empowerment zone approved under RCW  
21 43.63A.700 or a county containing such a community empowerment zone;  
22 (d) a town with a population of less than twelve hundred persons in  
23 those counties that are not covered under (a) of this subsection that  
24 are timber impact areas as defined in RCW 43.31.601; ~~((or))~~ (e) a  
25 county designated by the governor as an eligible area under RCW  
26 82.60.047; or (f) a county that is contiguous to a county that  
27 qualifies as an eligible area under (a) or (e) of this subsection.

28 (4)(a) "Eligible investment project" means:

29 (i) An investment project in an eligible area as defined in  
30 subsection (3)(a), (b), (d), or (e) of this section; or

31 (ii) That portion of an investment project in an eligible area as  
32 defined in subsection (3)(c) or (f) of this section which(~~(i)~~) is  
33 directly utilized to create at least one new full-time qualified  
34 employment position for each three hundred thousand dollars of  
35 investment on which a deferral is requested in an application approved  
36 before July 1, 1994, and for each seven hundred fifty thousand dollars  
37 of investment on which a deferral is requested in an application  
38 approved after June 30, 1994(~~(i) and~~

1       ~~(ii) Either initiates a new operation, or expands or diversifies a~~  
2 ~~current operation by expanding, equipping, or renovating an existing~~  
3 ~~facility with costs in excess of twenty five percent of the true and~~  
4 ~~fair value of the facility prior to improvement)).~~

5       **(b)** The lessor/owner of a qualified building is not eligible for a  
6 deferral unless the underlying ownership of the buildings, machinery,  
7 and equipment vests exclusively in the same person, or unless the  
8 lessor by written contract agrees to pass the economic benefit of the  
9 deferral to the lessee in the form of reduced rent payments.

10       ~~((b))~~ **(c)** For purposes of ~~(a)((i))~~ **(ii)** of this  
11 subsection~~((7))~~:

12       **(i)** The department shall consider the entire investment project,  
13 including any investment that qualifies for exemption under section 2  
14 or 3 of this act, for purposes of determining the portion of the  
15 investment project which qualifies for deferral as an eligible  
16 investment project; and

17       **(ii)** The number of new full-time qualified employment positions  
18 created by an investment project shall be deemed to be reduced by the  
19 number of full-time employment positions maintained by the recipient in  
20 any other community in this state that are displaced as a result of the  
21 investment project.

22       ~~((e))~~ **(d)** "Eligible investment project" does not include any  
23 portion of an investment project undertaken by a light and power  
24 business as defined in RCW 82.16.010(5), other than a cogeneration  
25 project~~((s that are both an integral part of a manufacturing facility~~  
26 ~~and owned at least fifty percent by the manufacturer))~~ that is used to  
27 generate power for consumption within the manufacturing site of which  
28 the cogeneration project is an integral part, or investment projects  
29 which have already received deferrals under this chapter.

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

34       (6) "Manufacturing" means all activities of a commercial or  
35 industrial nature wherein labor or skill is applied, by hand or  
36 machinery, to materials so that as a result thereof a new, different,  
37 or useful substance or article of tangible personal property is  
38 produced for sale or commercial or industrial use and shall include the  
39 production or fabrication of specially made or custom made articles.

1 "Manufacturing" also includes computer programming, the production of  
2 computer software, and other computer-related services, and the  
3 activities performed by research and development laboratories and  
4 commercial testing laboratories.

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

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

18 (9) "Qualified employment position" means a permanent full-time  
19 employee employed in the eligible investment project during the entire  
20 tax year.

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

29 (11) "Recipient" means a person receiving a tax deferral under this  
30 chapter.

31 (12) "Research and development" means the development, refinement,  
32 testing, marketing, and commercialization of a product, service, or  
33 process before commercial sales have begun. As used in this  
34 subsection, "commercial sales" excludes sales of prototypes or sales  
35 for market testing if the total gross receipts from such sales of the  
36 product, service, or process do not exceed one million dollars.

37 **Sec. 6.** RCW 82.60.040 and 1994 sp.s. c 1 s 3 are each amended to  
38 read as follows:

1 (1) The department shall issue a sales and use tax deferral  
2 certificate for state and local sales and use taxes due under chapters  
3 82.08, 82.12, and 82.14 RCW on each eligible investment project that:

4 (a) Is located in an eligible area (~~((other than a designated~~  
5 ~~neighborhood reinvestment area approved under RCW 43.63A.700))~~ as  
6 defined in RCW 82.60.020(3)(a), (b), (d), or (e);

7 (b) Is located in (~~(any county)~~) an eligible area as defined in RCW  
8 82.60.020(3)(f) if seventy-five percent of the new qualified employment  
9 positions are to be filled by residents of a contiguous county that  
10 qualifies as an eligible area; or

11 (c) Is located in (~~(a designated neighborhood reinvestment area~~  
12 ~~approved under RCW 43.63A.700, or in a county containing such a~~  
13 ~~neighborhood reinvestment area,)~~) an eligible area as defined in RCW  
14 82.60.020(3)(c) if seventy-five percent of the new qualified employment  
15 positions are to be filled by residents of (~~(the neighborhood~~  
16 ~~reinvestment area)) a designated community empowerment zone approved  
17 under RCW 43.63A.700 located within the county in which the eligible  
18 investment project is located.~~

19 (2) The department shall keep a running total of all deferrals  
20 granted under this chapter during each fiscal biennium.

21 **Sec. 7.** RCW 82.60.045 and 1994 sp.s. c 1 s 4 are each amended to  
22 read as follows:

23 In addition to the other requirements of this chapter, a recipient  
24 of a tax deferral under RCW 82.60.040(1) (b) or (c) shall meet the  
25 following requirements:

26 (1) The recipient shall fill at least seventy-five percent of the  
27 new qualified employment positions with residents of the contiguous  
28 county or (~~(neighborhood reinvestment area))~~ community empowerment zone  
29 by December 31 of the calendar year during which the department  
30 certifies that the investment project is operationally completed, and  
31 shall maintain the required percentage during each of the seven  
32 succeeding calendar years.

33 (2) If the deferral is for expansion or diversification of an  
34 existing facility, the recipient shall ensure that the percentage of  
35 qualified employment positions filled by residents of the contiguous  
36 county or (~~(neighborhood reinvestment area))~~ community empowerment zone  
37 for periods prior to the application be maintained for seven calendar

1 years after the year during which the department certifies that the  
2 investment project is operationally completed.

3 **Sec. 8.** RCW 82.60.070 and 1994 sp.s. c 1 s 5 are each amended to  
4 read as follows:

5 (1) Each recipient of a deferral granted under this chapter prior  
6 to July 1, 1994, shall submit a report to the department on December  
7 31st of each year during the repayment period until the tax deferral is  
8 repaid. Each recipient of a deferral granted under this chapter after  
9 June 30, 1994, shall submit a report to the department on December 31st  
10 of the year in which the investment project is certified by the  
11 department as having been operationally completed, and on December 31st  
12 of each of the seven succeeding calendar years. The report shall  
13 contain information, as required by the department, from which the  
14 department may determine whether the recipient is meeting the  
15 requirements of this chapter. If the recipient fails to submit a  
16 report or submits an inadequate report, the department may declare the  
17 amount of deferred taxes outstanding to be immediately assessed and  
18 payable.

19 (2) If, on the basis of a report under this section or other  
20 information, the department finds that an investment project is not  
21 eligible for tax deferral under this chapter for reasons other than  
22 failure to create the required number of qualified employment  
23 positions, the amount of deferred taxes outstanding for the project  
24 shall be immediately due.

25 (3) If, on the basis of a report under this section or other  
26 information, the department finds that an investment project for which  
27 a deferral has been granted under this chapter prior to July 1, 1994,  
28 has been operationally complete for three years and has failed to  
29 create the required number of qualified employment positions, the  
30 department shall assess interest, but not penalties, on the deferred  
31 taxes for the project. The interest shall be assessed at the rate  
32 provided for delinquent excise taxes, shall be assessed retroactively  
33 to the date of deferral, and shall accrue until the deferred taxes are  
34 repaid.

35 (4) If, on the basis of a report under this section or other  
36 information, the department finds that an investment project for which  
37 a deferral has been granted under this chapter after June 30, 1994, has  
38 been operationally complete for three years and has failed to create

1 the required number of qualified employment positions, the amount of  
2 taxes not eligible for deferral shall be immediately due. The  
3 department shall assess interest at the rate provided for delinquent  
4 excise taxes, but not penalties, retroactively to the date of deferral.

5 (5) If, on the basis of a report under this section or other  
6 information, the department finds that an investment project qualifying  
7 for deferral under RCW 82.60.040(1) (b) or (c) has failed to comply  
8 with any requirement of RCW 82.60.045 for any calendar year for which  
9 reports are required under subsection (1) of this section, twelve and  
10 one-half percent of the amount of deferred taxes shall be immediately  
11 due. The department shall assess interest at the rate provided for  
12 delinquent excise taxes, but not penalties, retroactively to the date  
13 of deferral.

14 (6) Notwithstanding any other subsection of this section, deferred  
15 taxes on the following need not be repaid:

16 (a) Machinery and equipment, and sales of or charges made for labor  
17 and services, which at the time of purchase would have qualified for  
18 exemption under section 2 of this act; and

19 (b) Machinery and equipment which at the time of first use would  
20 have qualified for exemption under section 3 of this act.

21 **Sec. 9.** RCW 82.61.010 and 1994 c 125 s 1 are each amended to read  
22 as follows:

23 Unless the context clearly requires otherwise, the definitions in  
24 this section apply throughout this chapter.

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

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

28 (3) "Department" means the department of revenue.

29 (4) "Eligible investment project" means:

30 (a) Construction of new buildings and the acquisition of new  
31 related machinery and equipment when the buildings, machinery, and  
32 equipment are to be used for either manufacturing or research and  
33 development activities, which construction is commenced prior to  
34 December 31, (~~(1998)~~) 1995; or

35 (b) Acquisition prior to December 31, (~~(1998)~~) 1995, of new  
36 machinery and equipment to be used for either manufacturing or research  
37 and development if the machinery and equipment is housed in a new  
38 leased structure. The lessor/owner of the structure is not eligible

1 for a deferral unless the underlying ownership of the buildings,  
2 machinery, and equipment vests exclusively in the same person; or

3 (c) Acquisition of all new or used machinery, equipment, or other  
4 personal property for use in the production or casting of aluminum at  
5 an aluminum smelter or at facilities related to an aluminum smelter, if  
6 the plant was in operation prior to 1975 and has ceased operations or  
7 is in imminent danger of ceasing operations for economic reasons, as  
8 determined by the department, and if the person applying for a deferral  
9 (i) has consulted with any collective bargaining unit that represented  
10 employees of the plant pursuant to a collective bargaining agreement  
11 that was in effect either immediately prior to the time the plant  
12 ceased operations or during the period when the plant was in imminent  
13 danger of ceasing operations, on the proposed operation of the plant  
14 and on the terms and conditions of employment for wage and salaried  
15 employees and (ii) has obtained a written concurrence from the  
16 bargaining unit on the decision to apply for a deferral under this  
17 chapter; or

18 (d) Modernization projects involving construction, acquisition, or  
19 upgrading of equipment or machinery, including services and labor,  
20 which are commenced after May 19, 1987, and are intended to increase  
21 the operating efficiency of existing plants which are either aluminum  
22 smelters or aluminum rolling mills or of facilities related to such  
23 plants, if the plant was in operation prior to 1975, and if the person  
24 applying for a deferral (i) has consulted with any collective  
25 bargaining unit that represents employees of the plant on the proposed  
26 operation of the plant and the terms and conditions of employment for  
27 wage and salaried employees and (ii) has obtained a written concurrence  
28 from the bargaining unit on the decision to apply for a deferral under  
29 this chapter.

30 (5) "Manufacturing" means all activities of a commercial or  
31 industrial nature wherein labor or skill is applied, by hand or  
32 machinery, to materials so that as a result thereof a new, different,  
33 or useful substance or article of tangible personal property is  
34 produced for sale or commercial or industrial use and includes the  
35 production or fabrication of specially made or custom-made articles.

36 (6) "Research and development" means the development, refinement,  
37 testing, marketing, and commercialization of a product, service, or  
38 process before commercial sales have begun.

1 (7) "Buildings" means only those new structures used for either  
2 manufacturing or research and development activities, including plant  
3 offices and warehouses or other facilities for the storage of raw  
4 materials or finished goods if such facilities are an essential or an  
5 integral part of a factory, mill, plant, or laboratory used for  
6 manufacturing or research and development purposes. If a building is  
7 used partly for manufacturing or research and development and partly  
8 for other purposes, the applicable tax deferral shall be determined by  
9 apportionment of the costs of construction under rules adopted by the  
10 department.

11 (8) "Machinery and equipment" means all industrial and research  
12 fixtures, equipment, and support facilities that are an integral and  
13 necessary part of a manufacturing or research and development  
14 operation. "Qualified machinery and equipment" includes computers;  
15 software; data processing equipment; laboratory equipment;  
16 manufacturing components such as belts, pulleys, shafts, and moving  
17 parts; molds, tools, and dies; operating structures; and all equipment  
18 used to control or operate the machinery. For purposes of this  
19 chapter, new machinery and equipment means either new to the taxing  
20 jurisdiction of the state or new to the certificate holder. Used  
21 machinery and equipment may be treated as new equipment and machinery  
22 if the certificate holder either brings the machinery and equipment  
23 into Washington or makes a retail purchase of the machinery and  
24 equipment in Washington or elsewhere.

25 (9) "Qualified employment position" means a permanent full-time  
26 employee employed in the eligible investment project during the entire  
27 tax year.

28 (10) "Recipient" means a person receiving a tax deferral under this  
29 chapter.

30 (11) "Certificate holder" means an applicant to whom a tax deferral  
31 certificate has been issued.

32 (12) "Operationally complete" means constructed or improved to the  
33 point of being functionally useable for the intended purpose.

34 (13) "Initiation of construction" means that date upon which on-  
35 site construction commences.

36 NEW SECTION. **Sec. 10.** The following acts or parts of acts are  
37 each repealed:

38 (1) RCW 82.61.020 and 1987 c 497 s 2 & 1985 ex.s. c 2 s 2; and

1 (2) RCW 82.61.040 and 1993 sp.s. c 25 s 408, 1988 c 41 s 2, 1986 c  
2 116 s 10, & 1985 ex.s. c 2 s 8.

3 **Sec. 11.** RCW 82.63.010 and 1994 sp.s. c 5 s 3 are each amended to  
4 read as follows:

5 Unless the context clearly requires otherwise, the definitions in  
6 this section apply throughout this chapter.

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

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

15 (3) "Applicant" means a person applying for a tax deferral under  
16 this chapter.

17 (4) "Biotechnology" means the application of technologies, such as  
18 recombinant DNA techniques, biochemistry, molecular and cellular  
19 biology, genetics and genetic engineering, cell fusion techniques, and  
20 new bioprocesses, using living organisms, or parts of organisms, to  
21 produce or modify products, to improve plants or animals, to develop  
22 microorganisms for specific uses, to identify targets for small  
23 molecule pharmaceutical development, or to transform biological systems  
24 into useful processes and products or to develop microorganisms for  
25 specific uses.

26 (5) "Department" means the department of revenue.

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

32 (7) "Eligible investment project" means ~~((that portion of))~~ an  
33 investment project which either initiates a new operation, or expands  
34 or diversifies a current operation by expanding, renovating, or  
35 equipping an existing facility ~~((with costs in excess of twenty five  
36 percent of the true and fair value of the facility prior to  
37 improvement))~~. The lessor or owner of the qualified building is not  
38 eligible for a deferral unless the underlying ownership of the

1 buildings, machinery, and equipment vests exclusively in the same  
2 person, or unless the lessor by written contract agrees to pass the  
3 economic benefit of the deferral to the lessee in the form of reduced  
4 rent payments.

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

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

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

13 (11) "Pilot scale manufacturing" means design, construction, and  
14 testing of preproduction prototypes and models in the fields of  
15 biotechnology, advanced computing, electronic device technology,  
16 advanced materials, and environmental technology other than for  
17 commercial sale. As used in this subsection, "commercial sale"  
18 excludes sales of prototypes or sales for market testing if the total  
19 gross receipts from such sales of the product, service, or process do  
20 not exceed one million dollars.

21 (12) "Qualified buildings" means construction of new structures,  
22 and expansion or renovation of existing structures for the purpose of  
23 increasing floor space or production capacity used for pilot scale  
24 manufacturing or qualified research and development, including plant  
25 offices and other facilities that are an essential or an integral part  
26 of a structure used for pilot scale manufacturing or qualified research  
27 and development. If a building is used partly for pilot scale  
28 manufacturing or qualified research and development, and partly for  
29 other purposes, the applicable tax deferral shall be determined by  
30 apportionment of the costs of construction under rules adopted by the  
31 department.

32 (13) "Qualified machinery and equipment" means fixtures, equipment,  
33 and support facilities that are an integral and necessary part of a  
34 pilot scale manufacturing or qualified research and development  
35 operation. "Qualified machinery and equipment" includes: Computers;  
36 software; data processing equipment; laboratory equipment,  
37 instrumentation, and other devices used in a process of experimentation  
38 to develop a new or improved pilot model, plant process, product,  
39 formula, invention, or similar property; manufacturing components such

1 as belts, pulleys, shafts, and moving parts; molds, tools, and dies;  
2 vats, tanks, and fermenters; operating structures; and all other  
3 equipment used to control, monitor, or operate the machinery. For  
4 purposes of this chapter, qualified machinery and equipment must be  
5 either new to the taxing jurisdiction of the state or new to the  
6 certificate holder, except that used machinery and equipment may be  
7 treated as qualified machinery and equipment if the certificate holder  
8 either brings the machinery and equipment into Washington or makes a  
9 retail purchase of the machinery and equipment in Washington or  
10 elsewhere.

11 (14) "Qualified research and development" means research and  
12 development performed within this state in the fields of advanced  
13 computing, advanced materials, biotechnology, electronic device  
14 technology, and environmental technology.

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

17 (16) "Research and development" means activities performed to  
18 discover technological information, and technical and nonroutine  
19 activities concerned with translating technological information into  
20 new or improved products, processes, techniques, formulas, inventions,  
21 or software. The term includes exploration of a new use for an  
22 existing drug, device, or biological product if the new use requires  
23 separate licensing by the federal food and drug administration under  
24 chapter 21, C.F.R., as amended. The term does not include adaptation  
25 or duplication of existing products where the products are not  
26 substantially improved by application of the technology, nor does the  
27 term include surveys and studies, social science and humanities  
28 research, market research or testing, quality control, sale promotion  
29 and service, computer software developed for internal use, and research  
30 in areas such as improved style, taste, and seasonal design.

31 NEW SECTION. **Sec. 12.** A new section is added to chapter 82.63 RCW  
32 to read as follows:

33 (1) Except as provided in subsection (2) of this section, taxes  
34 deferred under this chapter need not be repaid.

35 (2) If, on the basis of a report under RCW 82.63.020 or other  
36 information, the department finds that an investment project is used  
37 for purposes other than qualified research and development or pilot  
38 scale manufacturing at any time during the calendar year in which the

1 investment project is certified by the department as having been  
2 operationally completed, or at any time during any of the seven  
3 succeeding calendar years, a portion of deferred taxes shall be  
4 immediately due according to the following schedule:

5	Year in which use occurs	% of deferred taxes due
6	1	100%
7	2	87.5%
8	3	75%
9	4	62.5%
10	5	50%
11	6	37.5%
12	7	25%
13	8	12.5%

14 The department shall assess interest at the rate provided for  
15 delinquent taxes, but not penalties, retroactively to the date of  
16 deferral.

17 (3) Notwithstanding subsection (2) of this section, deferred taxes  
18 on the following need not be repaid:

19 (a) Machinery and equipment, and sales of or charges made for labor  
20 and services, which at the time of purchase would have qualified for  
21 exemption under section 2 of this act; and

22 (b) Machinery and equipment which at the time of first use would  
23 have qualified for exemption under section 3 of this act.

24 NEW SECTION. **Sec. 13.** The following acts or parts of acts are  
25 each repealed:

26 (1) RCW 82.63.040 and 1994 sp.s. c 5 s 6; and

27 (2) RCW 82.63.050 and 1994 sp.s. c 5 s 7.

28 NEW SECTION. **Sec. 14.** The department of revenue may make and  
29 publish rules and regulations necessary to implement this act.

30 NEW SECTION. **Sec. 15.** The department of revenue shall perform an  
31 assessment of the results of the tax exemption authorized under this  
32 act and deliver a report to the governor and the legislature by  
33 September 1, 1998. The assessment shall measure the effect of the  
34 exemption on the creation of jobs, diversification of the state's  
35 economy, and other factors the department may select.

1        NEW SECTION.   **Sec. 16.**   Section 6 of this act expires July 1, 2004.

2        NEW SECTION.   **Sec. 17.**   This act is necessary for the immediate  
3        preservation of the public peace, health, or safety, or support of the  
4        state government and its existing public institutions, and shall take  
5        effect July 1, 1995.

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