HOUSE BILL REPORT

EHB 2664

As Passed Legislature

Title: An act relating to tax deferrals for investment projects in distressed areas.

Brief Description: Modifying provisions for tax deferrals for investment projects in distressed areas.

Sponsors: Representatives Springer, Foreman, Jones, G. Fisher, Shin, Chappell, Basich, Pruitt, Holm, Ogden, Wolfe, Sheldon, H. Myers, Kessler, Conway, Cothern, Morris and Rayburn; by request of Governor Lowry.

Brief History:
Reported by House Committee on:
Revenue, February 8, 1994, DP;
Passed House, February 26, 1994, 78-7;
Amended by Senate;
Conference Committee Report adopted;
Passed Legislature, March 14, 1994, 86-6.

HOUSE COMMITTEE ON REVENUE

Majority Report: Do pass. Signed by 13 members: Representatives G. Fisher, Chair; Holm, Vice Chair; Foreman, Ranking Minority Member; Fuhrman, Assistant Ranking Minority Member; Anderson; Brown; Caver; Cothern; Leonard; Romero; Talcott; Thibaudeau and Van Luven.

Minority Report: Do not pass. Signed by 2 members: Representatives Rust and Wang.

Staff: Rick Peterson (786-7150).

Background: The sales tax deferral program for distressed areas was created in 1985. The program provides for a deferral of state and local sales and use tax liability on acquisitions of equipment and construction of facilities for manufacturers as well as research and development firms.

Distressed areas are counties with a three year average unemployment rate 20 percent greater than the state average unemployment rate and metropolitan statistical areas with a previous year unemployment rate 20 percent greater than the state average unemployment rate. Projects in neighborhood reinvestment areas are also eligible for tax relief.

Currently on the distressed areas list are: Adams, Chelan, Clallam, Columbia, Cowlitz, Douglas, Ferry, Franklin, Grant, Grays Harbor, Kittitas, Klickitat, Lewis, Mason, Okanogan, Pacific, Pend Oreille, Skagit, Skamania, Stevens, Wahkiakum and Yakima counties, and the Yakima Metropolitan Statistical Area.

Eligible projects must create one job for each $300,000 of investment. Projects must invest in machinery, equipment and the plant complex by either constructing a new building, leasing a newly constructed building, purchasing an unoccupied building or expanding or modernizing an existing plant complex.

Repayment of the tax takes place over a five year period beginning three years after completion of the project. Interest is not charged on the deferred taxes unless the project fails to create the required number of jobs. In addition, sales tax on the labor portion of construction costs need not be repaid if the project meets the required employment increase and the facility is still operating three years after completion.

Applications for the distressed area sales tax deferral program must be made to the Department of Revenue by July 1, 1998.

Summary of Bill: For projects approved after July 1, 1994, all sales and use taxes are forgiven. The program's sunset date is extended to July 1, 2004.

The distressed areas program is expanded in the following ways. Eligible projects are no longer required to include an investment in a building. A project in a county next to a distressed county may receive tax relief if 75 percent of the new jobs are filled by residents of the distressed county. A project is eligible for tax relief if 75 percent of new jobs are filled by residents of a neighborhood reinvestment area. Co-generation projects that are an integral part of a manufacturing facility and are at least 50 percent owned by the manufacturer are eligible for tax relief. The investment amount on which relief is granted is increased from $300,000 per job created to $750,000 per job created. Towns in timber impact areas, and counties designated by the Governor that have increased unemployment due to a natural disaster, business or military base closure, or mass layoff are added to the list of areas eligible for tax relief.

Fiscal Note: Available.

Effective Date: The bill takes effect July 1, 1994.

Testimony For: Sales tax on construction and equipment is an impediment to location of facilities in Washington. This bill will create jobs in Washington. Although taxes are not very important in making location decisions for company headquarters, taxes are an important consideration when branch facilities are located. There are two major areas that need to be addressed related to business development; regulatory reform and taxes on investment. This bill will provide a tax saving that will improve the likelihood of a project receiving financing. Oregon has no sales tax and has a well funded business recruitment program.

Testimony Against: None.

Witnesses: Representative Jim Springer, prime sponsor; Representative Timothy Sheldon; Len McComb, Department of Revenue; John Thompson, Cowlitz Economic Development Council; Chuck Kline, Port of Bremerton; Sid Stecker, TRICO; Ernie Hensley; Pam Brown, Forward Washington and Lewis County Economic Development Council; Pat Hamilton, Pacific County; and Patrick Jones, Washington Public Ports Association.