

# HOUSE BILL REPORT

## HB 2664

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As Reported By House Committee On:  
Revenue

**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, Cothorn, Morris and Rayburn; by request of Governor Lowry.

**Brief History:**

Reported by House Committee on:  
Revenue, February 8, 1994, DP.

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### 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; Cothorn; 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.

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:** The list of eligible projects is expanded to include projects that only involve the installation of machinery and equipment. Also, for projects approved after July 1, 1994, all sales and use taxes are forgiven if the employment requirements are met.

The program's sunset date is extended to July 1, 2004.

**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.