# FINAL BILL REPORT

# EHB 2664

C 1 L 94 E 1
Synopsis as Enacted

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

By 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.

House Committee on Revenue
Senate Committee on Ways & Means

**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. Distressed areas include: 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:** For investment projects for which a tax deferral has been approved after July 1, 1994, all sales and use taxes are forgiven. The program's sunset date is extended to July 1, 2004.

The sales tax deferral program for distressed areas 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.

**Votes on Final Passage:**

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|---|---|---|---|
| House | 78 | 7 | |
| Senate | 44 | 4 | (Senate amended) |
| House | | | (House refused to concur) |

<u>First Special Session</u>
<u>Conference Committee</u>

| | | |
|---|---|---|
| Senate | 43 | 4 |
| House | 86 | 6 |

**Effective:** July 1, 1994