

SENATE BILL REPORT

ESHB 2663

AS REPORTED BY COMMITTEE ON WAYS & MEANS, MARCH 2, 1994

Brief Description: Providing tax credits and deferrals for high-technology businesses.

SPONSORS: House Committee on Revenue (originally sponsored by Representatives Finkbeiner, Foreman, Cothorn, G. Fisher, Forner, Patterson, Shin, Dorn, Bray, R. Meyers, Basich, Johanson, Pruitt, Ogden, Wolfe, Quall, Jones, Moak, H. Myers, Kessler, Springer, King, Morris, Cooke, Backlund and L. Johnson; by request of Governor Lowry)

HOUSE COMMITTEE ON REVENUE

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Rinehart, Chairman; Quigley, Vice Chairman; Anderson, Bluechel, Gaspard, Ludwig, McDonald, Moyer, Owen, Pelz, Roach, Snyder, Spanel, Sutherland, Talmadge and Wojahn.

Staff: Terry Wilson (786-7715)

Hearing Dates: March 2, 1994

BACKGROUND:

Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. Although there are several different rates, the principal rates are:

Retailing activities	0.471%
Manufacturing, wholesaling, & extracting	0.515%
Miscellaneous services	2.13%
Selected business services	2.5%

Businesses engaged in computer and data processing, information services, engineering services and others pay the selected services rate of 2.5 percent. Nonprofit corporations engaged in research and development activities pay a tax rate of 0.515 percent.

Since the B&O tax is a gross receipts tax, deductions for the costs of doing business are not permitted. Some other deductions are allowed, but most of these are really exemptions of certain types of gross income or business activities.

Deferral of sales and tax is permitted on purchases on plant and equipment investments by manufacturing firms and research

and development firms in distressed counties, and by new manufacturers and aluminum firms statewide. These firms are allowed to defer sales and use tax for three years after completion of the project followed by repayment over five years. Sales tax on labor in distressed areas is not repaid. Also, a \$1,000 business and occupation tax credit is available for each new job created above a 15 percent growth rate by manufacturing firms and research and development firms in distressed areas.

SUMMARY:

A B&O tax credit is allowed equal to 2.5 percent of the amount of qualified high-tech research and development expenditures. For firms hired to perform research and development services for others, the credit is calculated on 80 percent of the payment for such services. For nonprofit research and development entities, the credit is equal to 0.515 percent of qualified research and development expenditures.

To qualify for the credit a business must spend at least 0.92 percent of the firm's gross income on qualified research and development. Qualified research and development must take place in the fields of advanced computing, advanced materials, biotechnology, electronic device technology or environmental technology.

The credit for any one firm is limited to no more than \$1 million in 1994 and no more than \$2 million per year in 1995 and after. A firm hired to do research and development for another firm may assign the B&O credit to the hiring firm. The credit may be used to reduce taxes only for same year as the research and development expenditures. Unused credits may not be "carried forward" and used to offset future tax liability.

The B&O credit provisions sunset on December 31, 2004.

A new sales tax deferral program is created for investments in pilot scale manufacturing or qualifying research and development. The pilot scale manufacturing and research and development must be in the fields listed above for the B&O credit program. Pilot scale manufacturing is the design, construction and testing of pre-production prototypes and models other than for commercial sale.

Expenditures for buildings, machinery and equipment are eligible for the deferral. Deferred sales taxes are repaid beginning three years after completion of the investment project. Repayments are made over a five-year period. If the investment project is for a product requiring licensing by the Federal Food and Drug Administration, then taxes are paid back over a six-year period starting five years after the project is complete.

The Department of Revenue may not approve new applications for the deferral program after July 1, 2004.

The Department of Revenue is required to evaluate the new credit and deferral programs in 1997, 2000, and 2003. Also the department must study the effectiveness of the current sales tax deferral and B&O credit programs and report by September 1, 1996. Reports to the Legislature must measure the effect on job creation, company growth, the introduction of new products, the diversification of the state's economy, growth in research and development and the movement of firms or the consolidation of firms' operations in Washington.

SUMMARY OF PROPOSED STRIKING AMENDMENT:

The programs sunset July 1, 1997. The Department of Revenues's report on its assessment of the programs to the Governor and the Legislature shall be made by January 1, 1997.

Appropriation: none

Revenue: none

Fiscal Note: available

Effective Date: The bill contains an emergency clause and takes effect immediately.

TESTIMONY FOR: None

TESTIMONY AGAINST: None

TESTIFIED: No one