

SENATE BILL REPORT

EHB 2664

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

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

HOUSE COMMITTEE ON REVENUE

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Rinehart, Chairman; Quigley, Vice Chairman; Bauer, Bluechel, Gaspard, Hargrove, Ludwig, McDonald, Moyer, Pelz, Snyder, Spanel, Sutherland and West.

Staff: Terry Wilson (786-7715)

Hearing Dates: March 2, 1994

BACKGROUND:

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.

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:

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 in any county is eligible for tax relief if 75 percent of new jobs are filled by residents of a neighborhood reinvestment area. Cogeneration 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 \$1,000,000 per job created. Counties where more than 30 percent of employment is federal Department of Defense related are added to the list of eligible counties.

SUMMARY OF PROPOSED STRIKING AMENDMENT:

The program remains a deferral program, and the program sunsets July 1, 1997. Subcounty areas in small cities also qualify if they are timber impact areas.

Appropriation: none

Revenue: none

Fiscal Note: available

Effective Date: July 1, 1994

TESTIMONY FOR:

Washington is one of only seven states that do not exempt manufacturing equipment from sales tax. Forgiveness costs only \$18,600 per job. Startup costs are high in Washington.

TESTIMONY AGAINST: None

TESTIFIED: Representative Springer, prime sponsor (pro)

