

SENATE BILL REPORT

SB 6347

AS REPORTED BY COMMITTEE ON WAYS & MEANS, FEBRUARY 8, 1994

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

**SPONSORS:** Senators Skratek, Sellar, Gaspard, Owen, Bluechel, Pelz, Winsley, McAuliffe, Quigley, Ludwig, A. Smith, Deccio, Moyer and M. Rasmussen; by request of Governor Lowry

**SENATE COMMITTEE ON TRADE, TECHNOLOGY & ECONOMIC DEVELOPMENT**

**Majority Report:** That Substitute Senate Bill No. 6347 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Skratek, Chairman; Sheldon, Vice Chairman; Bluechel, Erwin and M. Rasmussen.

**Staff:** Jack Brummel (786-7428)

**Hearing Dates:** January 28, 1994; February 3, 1994

**SENATE COMMITTEE ON WAYS & MEANS**

**Majority Report:** That Second Substitute Senate Bill No. 6347 be substituted therefor, and the second substitute bill do pass.

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

**Staff:** Terry Wilson (786-7715)

**Hearing Dates:** February 7, 1994; February 8, 1994

**BACKGROUND:**

The state of Washington has two sales and use tax deferral programs and one business and occupation tax credit program. The distressed area tax deferral program was enacted in 1985 and defers sales and use taxes on construction costs and the acquisition of machinery and equipment in distressed areas. The deferrals extend from the beginning of a project until three years after its completion. Businesses engaging in manufacturing or research and development activities in distressed areas are eligible for a B&O tax credit for each year in which they have a 15 percent growth in employees.

The statewide tax deferral program for manufacturing, research and development projects also extends the sales and use tax deferrals until three years after a project's completion. Only new projects are eligible for the statewide deferral program.

**SUMMARY:**

Firms that are engaged in biotechnology, advanced computing, electronic device technology, advanced material, and environmental technology pursuits may be eligible for a B&O tax credit and a sales and use tax deferral. Such high-tech firms investing at least 92/100 of 1 percent of their gross income in research and development are eligible for a tax credit equal to 2 1/2 percent of their investment in research and development. Credits for eligible nonprofits would equal 515/1000 of 1 percent.

High-tech firms initiating new operations, or expanding, renovating or equipping existing facilities, for research and development or pilot manufacturing purposes are eligible for deferral of sales and use taxes for up to three years after project completion. Biotechnology companies may defer taxes for five years.

The B&O tax credits and the sales and use tax deferrals for high-tech firms end in 2004.

**EFFECT OF PROPOSED SUBSTITUTE:**

The credits allowed for 1994 are lowered because the program will be in effect for only one-half year. A person entitled to a tax credit may assign all or a part of it to contractors performing the research and development.

The department is to perform assessments on the tax credit and deferral programs and report to the Governor and the Legislature.

Language is changed to be consistent with federal and state regulatory laws.

Exploration of new uses of existing drugs qualifies as research and development.

**EFFECT OF PROPOSED SECOND SUBSTITUTE:**

A new repayment schedule is provided for cancer research centers.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** available

**TESTIMONY FOR (Trade, Technology & Economic Development):**

The goals of economic development are to create living wage jobs, competitive businesses, healthy communities, and a quality environment. Maximal use of technologies is necessary for competitiveness. Hi-tech firms are growing fast but our gross receipts taxes fall hard on them.

**TESTIMONY AGAINST (Trade, Technology & Economic Development):** None

**TESTIFIED (Trade, Technology & Economic Development):** PRO: Mike Fitzgerald, DTED; Len McComb, Dept. of Revenue; Terry Linderman, Data Jet Corp., WA Software Assn.; Howard Mendelson, ICOS Corporation; Tom Rankin, Immunex, WA State Biotechnology Assn.; Jerry Smeads, WA Environmental Industry Assn.

**TESTIMONY FOR (Ways & Means):**

This authorizes a new B&O tax credit and deferral program for high technology firms.

**TESTIMONY AGAINST (Ways & Means):** None

**TESTIFIED (Ways & Means):** Len McComb, Department of Revenue (pro)