
SUBSTITUTE HOUSE BILL 2663

State of Washington**53rd Legislature****1994 Regular Session**

By 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)

Read first time 02/07/94.

1 AN ACT Relating to the taxation of high-technology businesses;
2 providing business and occupation tax credits for qualifying research
3 and development expenditures; providing tax deferrals for research and
4 development and pilot scale manufacturing facilities; adding a new
5 section to chapter 82.04 RCW; adding a new chapter to Title 82 RCW;
6 creating a new section; and providing an effective date.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

8 NEW SECTION. **Sec. 1.** The legislature finds that high-wage, high-
9 skilled jobs are vital to the economic health of the state's citizens,
10 and that targeted tax incentives will encourage the formation of high-
11 wage, high-skilled jobs. The legislature also finds that tax
12 incentives should be subject to the same rigorous requirements for
13 efficiency and accountability as are other expenditure programs, and
14 that tax incentives should therefore be focused to provide the greatest
15 possible return on the state's investment.

16 The legislature also finds that high-technology businesses are a
17 vital and growing source of high-wage, high-skilled jobs in this state,
18 and that the high-technology sector is a key component of the state's
19 effort to encourage economic diversification. However, the legislature

1 finds that many high-technology businesses incur significant costs
2 associated with research and development and pilot scale manufacturing
3 many years before a marketable product can be produced, and that
4 current state tax policy discourages the growth of these companies by
5 taxing them long before they become profitable.

6 The legislature further finds that stimulating growth of high-
7 technology businesses early in their development cycle, when they are
8 turning ideas into marketable products, will build upon the state's
9 established high-technology base, creating additional research and
10 development jobs and subsequent manufacturing facilities.

11 For these reasons, the legislature hereby establishes a program of
12 business and occupation tax credits for qualified research and
13 development expenditures. The legislature also hereby establishes a
14 tax deferral program for high-technology research and development and
15 pilot scale manufacturing facilities. The legislature declares that
16 these limited programs serve the vital public purpose of creating
17 employment opportunities in this state. The legislature further
18 declares its intent to create a contract within the meaning of Article
19 I, section 23 of the state Constitution as to those businesses that
20 make capital investments in consideration of the tax deferral program
21 established in this chapter.

22 NEW SECTION. **Sec. 2.** A new section is added to chapter 82.04 RCW
23 to read as follows:

24 (1) In computing the tax imposed under this chapter, a credit is
25 allowed for each person whose research and development spending during
26 the year in which the credit is claimed exceeds 0.92 percent of the
27 person's taxable amount during the same calendar year.

28 (2) The credit is equal to the greater of the amount of qualified
29 research and development expenditures of a person or eighty percent of
30 amounts received by a person other than a public educational or
31 research institution in compensation for the conduct of qualified
32 research and development, multiplied by the rate of 0.515 percent in
33 the case of a nonprofit corporation or nonprofit association engaging
34 within this state in research and development, and 2.5 percent for
35 every other person.

36 (3) Any person entitled to the credit provided in subsection (2) of
37 this section as a result of qualified research and development
38 conducted under contract may assign all or any portion of the credit to

1 the person contracting for the performance of the qualified research
2 and development.

3 (4) The credit, including any credit assigned to a person under
4 subsection (3) of this section, shall be taken against taxes due for
5 the same calendar year in which the qualified research and development
6 expenditures are incurred. The credit, including any credit assigned
7 to a person under subsection (3) of this section, for calendar year
8 1994 shall not exceed the lesser of one million dollars or the taxes
9 otherwise due under this chapter for the period July 1, 1994 through
10 December 31, 1994. The credit, including any credit assigned to a
11 person under subsection (3) of this section, for each calendar year
12 thereafter shall not exceed the lesser of two million dollars or the
13 amount of tax otherwise due under this chapter for the calendar year.

14 (5) Any person taking the credit, including any credit assigned to
15 a person under subsection (3) of this section, whose research and
16 development spending during the calendar year in which the credit is
17 claimed fails to exceed 0.92 percent of the person's taxable amount
18 during the same calendar year shall be liable for payment of the
19 additional taxes represented by the amount of credit taken together
20 with interest, but not penalties. Interest shall be due at the rate
21 provided for delinquent excise taxes retroactively to the date the
22 credit was taken until the taxes are paid. Any credit assigned to a
23 person under subsection (3) of this section that is disallowed as a
24 result of this section may be taken by the person who performed the
25 qualified research and development subject to the limitations set forth
26 in subsection (4) of this section.

27 (6) Any person claiming the credit, and any person assigning a
28 credit as provided in subsection (4) of this section, shall file an
29 affidavit form prescribed by the department which shall include the
30 amount of the credit claimed, an estimate of the anticipated qualified
31 research and development expenditures during the calendar year for
32 which the credit is claimed, an estimate of the taxable amount during
33 the calendar year for which the credit is claimed, and such additional
34 information as the department may prescribe.

35 (7) A person claiming the credit shall agree to supply the
36 department with information necessary to measure the results of the tax
37 credit program for qualified research and development expenditures.

38 (8) The department shall use the information required under
39 subsection (7) of this section to perform three assessments on the tax

1 credit program authorized under this section. The assessments will
2 take place in 1997, 2000, and 2003. The department shall prepare
3 reports on each assessment and deliver their reports by September 1,
4 1997, September 1, 2000, and September 1, 2003. The assessments shall
5 measure the effect of the program on job creation, company growth, the
6 introduction of new products, the diversification of the state's
7 economy, growth in research and development investment, the movement of
8 firms or the consolidation of firms' operations into the state, and
9 such other factors as the department selects.

10 (9) For the purpose of this section:

11 (a) "Qualified research and development expenditures" means
12 operating expenses, including wages, compensation of a proprietor or a
13 partner in a partnership as determined under rules adopted by the
14 department, benefits, supplies, and computer expenses, directly
15 incurred in qualified research and development by a person claiming the
16 credit provided in this section. The term does not include amounts
17 paid to a person other than a public educational or research
18 institution to conduct qualified research and development. Nor does
19 the term include capital costs and overhead, such as expenses for land,
20 structures, or depreciable property.

21 (b) "Qualified research and development" shall have the same
22 meaning as in section 3 of this act.

23 (c) "Research and development spending" means qualified research
24 and development expenditures plus eighty percent of amounts paid to a
25 person other than a public educational or research institution to
26 conduct qualified research and development.

27 (d) "Taxable amount" means the taxable amount subject to the tax
28 imposed in this chapter required to be reported on the person's
29 combined excise tax returns during the year in which the credit is
30 claimed, less any taxable amount for which a credit is allowed under
31 RCW 82.04.440.

32 (10) This section shall expire December 31, 2004.

33 NEW SECTION. **Sec. 3.** Unless the context clearly requires
34 otherwise, the definitions in this section apply throughout this
35 chapter.

36 (1) "Advanced computing" means technologies used in the designing
37 and developing of computing hardware and software, including

1 innovations in designing the full spectrum of hardware from hand-held
2 calculators to super computers, and peripheral equipment.

3 (2) "Advanced materials" means materials with engineered properties
4 created through the development of specialized processing and synthesis
5 technology, including ceramics, high value-added metals, electronic
6 materials, composites, polymers, and biomaterials.

7 (3) "Applicant" means a person applying for a tax deferral under
8 this chapter.

9 (4) "Biotechnology" means the application of technologies, such as
10 recombinant DNA techniques, biochemistry, molecular and cellular
11 biology, genetics and genetic engineering, cell fusion techniques, and
12 new bioprocesses, using living organisms, or parts of organisms, to
13 produce or modify products, to improve plants or animals, to develop
14 microorganisms for specific uses, to identify targets for small
15 molecule pharmaceutical development, or to transform biological systems
16 into useful processes and products or to develop microorganisms for
17 specific uses.

18 (5) "Department" means the department of revenue.

19 (6) "Electronic device technology" means technologies involving
20 microelectronics; semiconductors; electronic equipment and
21 instrumentation; radio frequency, microwave, and millimeter
22 electronics; and optical and optic-electrical devices; and data and
23 digital communications and imaging devices.

24 (7) "Eligible investment project" means that portion of an
25 investment project which either initiates a new operation, or expands
26 or diversifies a current operation by expanding, renovating, or
27 equipping an existing facility with costs in excess of twenty-five
28 percent of the true and fair value of the facility prior to
29 improvement. The lessor or owner of the qualified building is not
30 eligible for a deferral unless the underlying ownership of the
31 buildings, machinery, and equipment vests exclusively in the same
32 person, or unless the lessor by written contract agrees to pass the
33 economic benefit of the deferral to the lessee in the form of reduced
34 rent payments.

35 (8) "Environmental technology" means assessment and prevention of
36 threats or damage to human health or the environment, environmental
37 cleanup, and the development of alternative energy sources.

38 (9) "Investment project" means an investment in qualified buildings
39 or qualified machinery and equipment, including labor and services

1 rendered in the planning, installation, and construction or improvement
2 of the project.

3 (10) "Person" has the meaning given in RCW 82.04.030.

4 (11) "Pilot scale manufacturing" means design, construction, and
5 testing of preproduction prototypes and models in the fields of
6 biotechnology, advanced computing, electronic device technology,
7 advanced materials, and environmental technology other than for
8 commercial sale. As used in this subsection, "commercial sale"
9 excludes sales of prototypes or sales for market testing if the total
10 gross receipts from such sales of the product, service, or process do
11 not exceed one million dollars.

12 (12) "Qualified buildings" means structures used for pilot scale
13 manufacturing or qualifying research and development, including plant
14 offices and other facilities that are an essential or an integral part
15 of a structure used for pilot scale manufacturing or qualifying
16 research and development. If a building is used partly for pilot scale
17 manufacturing or qualifying research and development, and partly for
18 other purposes, the applicable tax deferral shall be determined by
19 apportionment of the costs of construction under rules adopted by the
20 department.

21 (13) "Qualified machinery and equipment" means fixtures, equipment,
22 and support facilities that are an integral and necessary part of a
23 pilot scale manufacturing or qualifying research and development
24 operation. "Qualified machinery and equipment" includes: Computers;
25 software; data processing equipment; laboratory equipment,
26 instrumentation, and other devices used in a process of experimentation
27 to develop a new or improved pilot model, plant process, product,
28 formula, invention, or similar property; manufacturing components such
29 as belts, pulleys, shafts, and moving parts; molds, tools, and dies;
30 vats, tanks, and fermenters; operating structures; and all other
31 equipment used to control, monitor, or operate the machinery. For
32 purposes of this chapter, new machinery and equipment means either new
33 to the taxing jurisdiction of the state or new to the certificate
34 holder. Used machinery and equipment may be treated as new equipment
35 and machinery if the certificate holder either brings the machinery and
36 equipment into Washington or makes a retail purchase of the machinery
37 and equipment in Washington or elsewhere.

38 (14) "Qualified research and development" means research and
39 development performed within this state in the fields of advanced

1 computing, advanced materials, biotechnology, electronic device
2 technology, and environmental technology.

3 (15) "Recipient" means a person receiving a tax deferral under this
4 chapter.

5 (16) "Research and development" means activities performed to
6 discover technological information, and technical and nonroutine
7 activities concerned with translating technological information into
8 new or improved products, processes, techniques, formulas, inventions,
9 or software. The term includes exploration of a new use for an
10 existing drug, device, or biological product if the new use requires
11 separate licensing by the federal food and drug administration under
12 chapter 21, C.F.R., as amended. The term does not include adaptation
13 or duplication of existing products where the products are not
14 substantially improved by application of the technology, nor does the
15 term include surveys and studies, social science and humanities
16 research, market research or testing, quality control, sale promotion
17 and service, computer software developed for internal use, and research
18 in areas such as improved style, taste, and seasonal design.

19 NEW SECTION. **Sec. 4.** Application for deferral of taxes under this
20 chapter must be made before initiation of construction of, or
21 acquisition of equipment or machinery for the investment project. The
22 application shall be made to the department in a form and manner
23 prescribed by the department. The application shall contain
24 information regarding the location of the investment project, the
25 applicant's average employment in the state for the prior year,
26 estimated or actual new employment related to the project, estimated or
27 actual wages of employees related to the project, estimated or actual
28 costs, time schedules for completion and operation, and other
29 information required by the department. The department shall rule on
30 the application within sixty days.

31 Applicants for deferral of taxes under this chapter shall agree to
32 supply the department with nonproprietary information necessary to
33 measure the results of the tax deferral program for high-technology
34 research and development and pilot scale manufacturing facilities. The
35 department shall use the information to perform three assessments on
36 the tax deferral program authorized under chapter . . . , Laws of 1994
37 (this act). The assessments will take place in 1997, 2000, and 2003.
38 The department shall prepare reports on each assessment and deliver

1 their reports by September 1, 1997, September 1, 2000, and September 1,
2 2003. The assessments shall measure the effect of the program on job
3 creation, company growth, the introduction of new products, the
4 diversification of the state's economy, growth in research and
5 development investment, the movement of firms or the consolidation of
6 firms' operations into the state, and such other factors as the
7 department selects.

8 NEW SECTION. **Sec. 5.** (1) Except as provided in subsection (2) of
9 this section, the department shall issue a sales and use tax deferral
10 certificate for state and local sales and use taxes due under chapters
11 82.08, 82.12, and 82.14 RCW on each eligible investment project.

12 (2) No certificate may be issued for an investment project that has
13 already received a deferral under chapters 82.60 or 82.61 RCW or this
14 chapter, except that an investment project for qualified research and
15 development that has already received a deferral may also receive an
16 additional deferral certificate for adapting the investment project for
17 use in pilot scale manufacturing.

18 (3) This section shall expire July 1, 2004.

19 NEW SECTION. **Sec. 6.** (1) Except as provided in subsections (2)
20 and (3) of this section, a recipient shall begin paying taxes deferred
21 under this chapter on December 31st of the third calendar year after
22 the date certified by the department as the date on which the
23 investment project has been operationally completed, or on December
24 31st of the fifth calendar year after the certificate was granted,
25 whichever is sooner. Subsequent annual payments shall be due on
26 December 31st of the following four years with amounts of payment
27 scheduled as follows:

28	Repayment Year	% of Deferred Tax Repaid
29	1	10%
30	2	15%
31	3	20%
32	4	25%
33	5	30%

34 (2) A recipient that is an institution recognized as a
35 comprehensive cancer center by the national cancer institute before

1 April 20, 1983, shall begin paying taxes deferred under this chapter on
2 December 31st of the third calendar year after the date certified by
3 the department as the date on which the investment project has been
4 operationally completed, or on December 31st of the fifth calendar year
5 after the certificate was granted, whichever is sooner. Subsequent
6 annual payments shall be due on December 31st of the following four
7 years with amounts of payment scheduled as follows:

8	Repayment Year	% of Deferred Tax Repaid
9	1	10%
10	2	12%
11	3	14%
12	4	28%
13	5	36%

14 (3) A recipient of a tax deferral on an investment project for
15 qualified research and development on, or pilot scale manufacturing of,
16 a drug, device, or biological product that requires licensing by the
17 federal food and drug administration under chapter 21, C.F.R., as
18 amended, shall begin paying taxes deferred under this chapter on
19 December 31st of the fifth calendar year after the date certified by
20 the department as the date on which the investment project has been
21 operationally completed, or on December 31st of the seventh calendar
22 year after the certificate was granted, whichever is sooner.
23 Subsequent annual payments shall be due on December 31st of the
24 following five years with amounts of payment scheduled as follows:

25	Repayment Year	% of Deferred Tax Repaid
26	1	10%
27	2	10%
28	3	15%
29	4	20%
30	5	20%
31	6	25%

32 (4) The department may authorize an accelerated repayment schedule
33 upon request of the recipient.

34 (5) Interest may not be charged on taxes deferred under this
35 chapter for the period of deferral, although all other penalties and

1 interest applicable to delinquent excise taxes may be assessed and
2 imposed for delinquent payments under this chapter. The debt for
3 deferred taxes will not be extinguished by insolvency or other failure
4 of the recipient.

5 NEW SECTION. **Sec. 7.** If an investment project is used for
6 purposes other than qualified research and development or pilot scale
7 manufacturing prior to repayment of the taxes deferred under this
8 chapter, the amount of the deferred taxes outstanding for the project
9 is immediately due.

10 NEW SECTION. **Sec. 8.** Chapter 82.32 RCW applies to the
11 administration of this chapter.

12 NEW SECTION. **Sec. 9.** Applications and other information received
13 by the department under this chapter are not confidential and are
14 subject to disclosure.

15 NEW SECTION. **Sec. 10.** The department shall perform an assessment
16 of the results of the tax credit and tax deferral programs authorized
17 under chapters 82.60, 82.61, and 82.62 RCW and deliver a report on the
18 assessment to the governor and the legislature by September 1, 1996.
19 The assessments shall measure the effect of the programs on job
20 creation, company growth, the introduction of new products, the
21 diversification of the state's economy, growth in research and
22 development investment, the movement of firms or the consolidation of
23 firms' operations into the state, and such other factors as the
24 department selects.

25 NEW SECTION. **Sec. 11.** Sections 1 and 3 through 9 of this act
26 shall constitute a new chapter in Title 82 RCW.

27 NEW SECTION. **Sec. 12.** This act shall take effect July 1, 1994.

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