

HOUSE BILL REPORT

HB 1526

As Reported By House Committee On:

Finance

Title: An act relating to sales and use tax deferral for construction of new or expanded business.

Brief Description: Providing sales and use tax deferral for new or expanded business operations.

Sponsors: Representatives Benton, Carlson, Pennington, Boldt, Van Luven, D. Schmidt, Ballasiotes, Thompson, Campbell, Basich, Hargrove, Chandler, Johnson, Blanton, Koster, McMahan, Hymes, Clements, Cooke, Fuhrman and Brumsickle.

Brief History:

Committee Activity:

Finance: 2/21/95, 3/6/95 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Hymes; Mulliken; Pennington; Schoesler and Van Luven.

Minority Report: Do not pass. Signed by 3 members: Representatives Dickerson, Assistant Ranking Minority Member; Mason and Sheldon.

Staff: Rick Peterson (786-7150).

Background: The state retail sales tax is imposed on each retail sale of tangible personal property and some services. Taxable services include construction, repair, telephone, some personal, and recreation and amusement services. The tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales and use taxes apply. The total rate falls in a range between 7 percent and 8.2 percent depending on the area.

Retail sales and use taxes apply to materials and labor used to construct or renovate a manufacturing facility and to the purchase of new and replacement manufacturing equipment and machinery.

The state has developed several sales and use tax relief programs for business investments. These programs are designed to encourage manufacturing and research and development firms to either locate or expand their operations in Washington.

Distressed Area Tax Deferral

The program is targeted to areas with unemployment rates 20 percent higher than the state average. Manufacturing, research and development, and computer related businesses are given a deferral of sales and use taxes on buildings, machinery and equipment, and installation labor. The businesses must create one job per \$750,000 of investment. The sales tax is forgiven on new buildings, new equipment, and modernization of existing buildings.

New Business Tax Deferral

The program is available state-wide to manufacturing and research and development businesses not doing business in the state before 1985. Sales and use taxes on new buildings and equipment are deferred until 3 years after the project is completed. The business is required to repay the deferred taxes over a 5-year period.

High Technology Tax Deferral

The program is available state-wide to research and development and pilot-scale manufacturing businesses. The business must be involved in biotechnology, advanced computing, electronic device technology, advanced materials, or environmental technology. Sales and use taxes on new or expanded facilities and machinery and equipment are deferred until 3 years after the project is completed. The business is required to repay the deferred taxes over a 5- or 6-year period.

Manufacturing Tax Study

The 1994 Legislature directed the Department of Revenue to study the current sales tax structure as it applies to manufacturers. The department, together with its advisory committee, studied the existing tax structure and the economic and other effects of tax relief. The Department of Revenue Director recommended a sales and use tax exemption for purchases of machinery and equipment used in manufacturing. The manufacturing advisory committee recommended a broader set of sale and use tax exemptions including machinery and equipment used in manufacturing, research and development expenditures in fields beyond the current high technology tax deferral program, and consumables used in manufacturing.

Summary of Bill: The bill creates a sales and use tax deferral program for manufacturers. The program is available statewide but is limited to new and expanding manufacturing operations constructed on land owned by the recipient

before July 1, 1995. Sales and use taxes are deferred on the construction costs. The deferral continues for 3 years after completion or 5 years from the time the project is started. Taxes are repaid over the following 5-year period. Interest is not charged on deferred taxes.

The Department of Revenue is required to assess the effectiveness of the program in 1998, 2001, and 2004.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 1995.

Testimony For: Major employers aren't willing to build new or to expand business operations in Washington. This bill is only for tax deferrals not exemptions. It's for businesses that already own land in Washington. The fiscal note is overstated. All border communities are affected by the current tax system and will benefit from this bill.

Testimony Against: None.

Testified: Representative Don Benton, prime sponsor; and Representative Don Carlson, sponsor.