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SENATE BILL 6450

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State of Washington

54th Legislature

1996 Regular Session

By Senators Bauer, Loveland, Rasmussen, Snyder, Franklin, Sutherland, Winsley, Strannigan, Haugen, Hale, A. Anderson, Sheldon, Quigley, Heavey, Finkbeiner, McAuliffe, Kohl and Cantu; by request of Governor Lowry

Read first time 01/15/96. Referred to Committee on Ways & Means.

1 AN ACT Relating to sales and use tax exemptions for manufacturing  
2 or research and development machinery and equipment; amending RCW  
3 82.08.02565 and 82.12.02565; creating a new section; and providing an  
4 effective date.

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

6 NEW SECTION. **Sec. 1.** The legislature finds that the health,  
7 safety, and welfare of the people of the state of Washington are  
8 heavily dependent upon the continued encouragement, development, and  
9 expansion of opportunities for family wage employment in the state's  
10 manufacturing industries.

11 The legislature also finds that sales and use tax exemptions for  
12 manufacturing machinery and equipment enacted by the 1995 legislature  
13 have improved Washington's ability to compete with other states for  
14 manufacturing investment, but that additional incentives for  
15 manufacturers need to be adopted to solidify and enhance the state's  
16 competitive position.

17 The legislature intends to accomplish this by extending the current  
18 manufacturing machinery and equipment exemptions to include machinery  
19 and equipment used for research and development with potential

1 manufacturing applications. The legislature also intends to allow a  
2 sales tax exemption for labor and service charges for repairing,  
3 cleaning, altering, or improving machinery and equipment, and a sales  
4 and use tax exemption for repair and replacement parts with a useful  
5 life of one year or more.

6 **Sec. 2.** RCW 82.08.02565 and 1995 1st sp.s. c 3 s 2 are each  
7 amended to read as follows:

8 (1) The tax levied by RCW 82.08.020 shall not apply to sales to a  
9 manufacturer or processor for hire of machinery and equipment used  
10 directly in a manufacturing operation or research and development  
11 operation, or to sales of or charges made for labor and services  
12 rendered in respect to installing, repairing, cleaning, altering, or  
13 improving the machinery and equipment, but only when the purchaser  
14 provides the seller with an exemption certificate in a form and manner  
15 prescribed by the department by rule, and the purchaser provides the  
16 department with a duplicate of the certificate or a summary of exempt  
17 sales as the department may require. The seller shall retain a copy of  
18 the certificate for the seller's files.

19 (2) For purposes of this section and RCW 82.12.02565:

20 (a) "Machinery and equipment" means industrial fixtures, devices,  
21 and support facilities, and tangible personal property that becomes an  
22 ingredient or component thereof, including repair parts and replacement  
23 parts. "Machinery and equipment" includes pollution control equipment  
24 installed and used in a manufacturing operation or research and  
25 development operation to prevent air pollution, water pollution, or  
26 contamination that might otherwise result from the manufacturing  
27 operation or research and development operation.

28 (b) "Machinery and equipment" does not include:

29 (I) Hand tools;

30 (ii) Property with a useful life of less than one year;

31 (iii) ~~((Repair parts required to restore machinery and equipment to~~  
32 ~~normal working order;~~

33 ~~(iv) Replacement parts that do not increase productivity, improve~~  
34 ~~efficiency, or extend the useful life of the machinery and equipment;~~  
35 ~~or~~

36 ~~(v))~~ Buildings, other than machinery and equipment that is  
37 permanently affixed to or becomes a physical part of a building; and

1        (iv) Building fixtures that are not integral to the manufacturing  
2 operation or research and development operation that are permanently  
3 affixed to and become a physical part of a building, such as utility  
4 systems for heating, ventilation, air conditioning, communications,  
5 plumbing, or electrical.

6        (c) Machinery and equipment is "used directly" in a manufacturing  
7 operation or research and development operation if the machinery and  
8 equipment:

9        (I) Acts upon or interacts with an item of tangible personal  
10 property;

11        (ii) Conveys, transports, handles, or temporarily stores an item of  
12 tangible personal property at the manufacturing site;

13        (iii) Controls, guides, measures, verifies, aligns, regulates, or  
14 tests tangible personal property;

15        (iv) Provides physical support for or access to tangible personal  
16 property;

17        (v) Produces power for, or lubricates machinery and equipment;

18        (vi) Produces another item of tangible personal property for use in  
19 the manufacturing operation or research and development operation;  
20 ((or))

21        (vii) Places tangible personal property in the container, package,  
22 or wrapping in which the tangible personal property is normally sold or  
23 transported; or

24        (viii) Is integral to research and development as defined in RCW  
25 82.63.010.

26        (d) "Manufacturing operation" means the manufacturing of articles,  
27 substances, or commodities for sale as tangible personal property. The  
28 manufacturing operation begins at the point where the raw materials  
29 enter the manufacturing site and ends at the point where the finished  
30 product leaves the manufacturing site. The term also includes that  
31 portion of a cogeneration project that is used to generate power for  
32 consumption within the manufacturing site of which the cogeneration  
33 project is an integral part. The term does not include ((~~research and~~  
34 ~~development,~~) the production of electricity by a light and power  
35 business as defined in RCW 82.16.010((~~7~~)) or the preparation of food  
36 products on the premises of a person selling food products at retail.

37        (e) "Cogeneration" means the simultaneous generation of electrical  
38 energy and low-grade heat from the same fuel.

1        (f) "Research and development operation" means engaging in research  
2 and development as defined in RCW 82.63.010 by a manufacturer or  
3 processor for hire.

4        **Sec. 3.** RCW 82.12.02565 and 1995 1st sp.s. c 3 s 3 are each  
5 amended to read as follows:

6        The provisions of this chapter shall not apply in respect to the  
7 use by a manufacturer or processor for hire of machinery and equipment  
8 used directly in a manufacturing operation or research and development  
9 operation, but only when the user provides the department with:

10        (1) An exemption certificate in a form and manner prescribed by the  
11 department within sixty days of the first use of the machinery and  
12 equipment in this state; or

13        (2) An annual summary listing the machinery and equipment by  
14 January 31 of the year following the calendar year in which the  
15 machinery and equipment is first used in this state.

16        NEW SECTION. **Sec. 4.** This act shall take effect July 1, 1996.

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