

HB 1333

Bill Analysis

February 11, 1997

Brief Description: Deferring sales and use tax for rentals of machinery and equipment used in the installation and construction of investment projects in distressed areas.

Bill Sponsors: Representatives Pennington, Van Luven, Boldt and Kessler

Staff: Linda Brooks (786-7153)

Background: Washington has several financial and technical assistance programs to assist distressed areas in responding to high unemployment rates. The programs provide distressed areas with direct financial and technical assistance to create or retain jobs and to diversify the local economy.

A distressed area— may be either an entire county or specific areas within a county. An entire county may be designated as distressed if:

- (1) It has an unemployment rate 20 percent higher than the state unemployment rate for a three-year period;
- (2) It has a median household income that is less than 75 percent of the state median household income for the previous three years;
- (3) It contains a designated, state-approved community empowerment zone; or
- (4) It has been designated by the Governor as a specially eligible area due to a sudden and severe increase in unemployment resulting from a natural disaster, military base closure, or mass layoff by a major employer.

An area within a county may be designated as distressed if:

- (1) It is a town with a population less than 1,200 persons and qualifies as a timber impact area; or
- (2) It is a metropolitan area with an average unemployment rate that exceeds the average state unemployment rate by 20 percent.

The sales and use tax deferral program encourages investment in distressed areas. Sales tax is imposed on retail sales of most items of tangible personal property and some services. Use tax is imposed on the use of an item in this state, when the acquisition of the item has

not been subject to sales tax. The combined state and local sales and use tax rate is between 7 percent and 8.6 percent, depending on location.

Businesses in distressed areas may defer sales and use taxes on eligible investments. Eligible investments are those made in buildings, machinery, and equipment to accommodate manufacturing or research and development activities.

Eligible investments are not limited to distressed counties or areas. Eligible investments may also be located in a county contiguous to a distressed county, if 75 percent of the jobs created by the investment go to residents of the distressed county.

Repayment of sales and use taxes deferred through the distressed areas program is forgiven under some circumstances. Repayment is always forgiven if an eligible investment is made in:

- a county that has an unemployment rate 20 percent higher than the state unemployment rate for a three-year period;
- a county that has a median household income that is less than 75 percent of the state median household income for the previous three years;
- a county declared as specially eligible for the distressed areas program by the Governor due to a sudden and severe increase in unemployment resulting from a natural disaster, military base closure, or mass layoff by a major employer;
- a town with a population less than 1,200 persons and qualifying as a timber impact area; or
- a metropolitan area with an average unemployment rate that exceeds the average state unemployment rate by 20 percent.

Sales and use taxes deferred on an investment in a county containing an empowerment zone are forgiven if the following criteria are met:

- (1) The total amount invested in buildings, machinery and equipment, including labor and service charges, creates at least one new full-time job for every \$750,000 dollars invested; and
- (2) Seventy-five percent of the new jobs created by the investment are filled by residents of the empowerment zone.

Likewise, sales and use taxes deferred on an investment in a county contiguous to a distressed county are forgiven if the following criteria are met:

- (1) The total amount invested in buildings, machinery and equipment, including labor and service charges, creates at least one new full-time job for every \$750,000 dollars invested; and
- (2) Seventy-five percent of the new jobs created by the investment are filled by residents of the neighboring distressed county.

In 1995 and 1996, the Legislature enacted sales and use tax exemptions for investments in machinery and equipment used directly in manufacturing or research and development operations. Given the outright tax exemption for investments in machinery and equipment, it may no longer seem necessary to track amounts spent on machinery and equipment under the sales and use tax deferral program for distressed areas. However, the fact that some provisions of the sales and use tax deferral program require one new job to be created for every \$750,000 dollars invested makes it important to track amounts invested in machinery and equipment.

Summary of Bill: The sales and use tax deferral program for distressed areas is expanded to include machinery and equipment rented for the construction and/or installation of an eligible investment. For example, if a business in a distressed area rents a bulldozer to clear land for construction of a new building to house manufacturing or research and development operations, sales or use tax paid on the bulldozer is deferrable. If an operator such as a bulldozer operator is included in the rental charge, then the portion of the rental charge attributable to operator's services is also deferrable.

Machinery and equipment rented for construction and installation purposes is distinguishable from the machinery and equipment already covered by the sales and use tax deferral program for distressed areas. The deferral program encompasses machinery and equipment used for manufacturing and research and development activities. Now sales and use tax paid on machinery and equipment rented *to install* manufacturing or research and development machinery and equipment is deferrable too.

Money spent on rentals of equipment and machinery for construction and installation purposes counts toward the \$750,000-investment-creating-at-least-one-new-job measure that must be attained for deferred sales and use taxes to be forgiven in some cases.

Fiscal Note: Available.

Effective Date: If enacted, the bill takes effect 90 days after adjournment of session.