

---

SECOND SUBSTITUTE SENATE BILL 5469

---

State of Washington

57th Legislature

2001 Regular Session

By Senate Committee on Ways & Means (originally sponsored by Senators T. Sheldon, Rasmussen, Haugen and McCaslin)

READ FIRST TIME 03/28/01.

1 AN ACT Relating to tax incentives in rural counties and community  
2 empowerment zones; amending RCW 82.60.010, 82.60.020, 82.62.010,  
3 82.62.030, and 82.62.045; providing an effective date; and declaring an  
4 emergency.

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

6 **Sec. 1.** RCW 82.60.010 and 1985 c 232 s 1 are each amended to read  
7 as follows:

8 The legislature finds that there are several areas in the state  
9 that are characterized by very high levels of unemployment and poverty.  
10 The (~~legislative~~[legislature]) legislature further finds that  
11 economic stagnation is the primary cause of this high unemployment rate  
12 and poverty; that new state policies are necessary in order to promote  
13 economic stimulation and new employment opportunities in these rural  
14 and distressed areas; and that policies providing incentives for  
15 economic growth in these rural and distressed areas are essential. For  
16 these reasons, the legislature hereby establishes a tax deferral  
17 program to be effective solely in rural and distressed areas and under  
18 circumstances where the deferred tax payments are for investments or  
19 costs that result in the creation of a specified number of jobs. The

1 legislature declares that this limited program serves the vital public  
2 purpose of creating employment opportunities and reducing poverty in  
3 the rural and distressed areas of the state.

4 **Sec. 2.** RCW 82.60.020 and 1999 sp.s. c 9 s 2 are each amended to  
5 read as follows:

6 Unless the context clearly requires otherwise, the definitions in  
7 this section apply throughout this chapter.

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

10 (2) "Department" means the department of revenue.

11 (3) "Eligible area" means a rural county (~~((with fewer than one  
12 hundred persons per square mile as determined annually by the office of  
13 financial management and published by the department of revenue  
14 effective for the period July 1st through June 30th))~~) as defined in  
15 this section.

16 (4)(a) "Eligible investment project" means an investment project in  
17 an eligible area as defined in subsection (3) of this section.

18 (b) The lessor/owner of a qualified building is not eligible for a  
19 deferral unless the underlying ownership of the buildings, machinery,  
20 and equipment vests exclusively in the same person, or unless the  
21 lessor by written contract agrees to pass the economic benefit of the  
22 deferral to the lessee in the form of reduced rent payments.

23 (c) "Eligible investment project" does not include any portion of  
24 an investment project undertaken by a light and power business as  
25 defined in RCW 82.16.010(5), other than that portion of a cogeneration  
26 project that is used to generate power for consumption within the  
27 manufacturing site of which the cogeneration project is an integral  
28 part, or investment projects which have already received deferrals  
29 under this chapter.

30 (5) "Investment project" means an investment in qualified buildings  
31 or qualified machinery and equipment, including labor and services  
32 rendered in the planning, installation, and construction of the  
33 project.

34 (6) "Manufacturing" means the same as defined in RCW 82.04.120.  
35 "Manufacturing" also includes computer programming, the production of  
36 computer software, and other computer-related services, and the  
37 activities performed by research and development laboratories and  
38 commercial testing laboratories.

1 (7) "Person" has the meaning given in RCW 82.04.030.

2 (8) "Qualified buildings" means construction of new structures, and  
3 expansion or renovation of existing structures for the purpose of  
4 increasing floor space or production capacity used for manufacturing  
5 and research and development activities, including plant offices and  
6 warehouses or other facilities for the storage of raw material or  
7 finished goods if such facilities are an essential or an integral part  
8 of a factory, mill, plant, or laboratory used for manufacturing or  
9 research and development. If a building is used partly for  
10 manufacturing or research and development and partly for other  
11 purposes, the applicable tax deferral shall be determined by  
12 apportionment of the costs of construction under rules adopted by the  
13 department.

14 (9) "Qualified machinery and equipment" means all new industrial  
15 and research fixtures, equipment, and support facilities that are an  
16 integral and necessary part of a manufacturing or research and  
17 development operation. "Qualified machinery and equipment" includes:  
18 Computers; software; data processing equipment; laboratory equipment;  
19 manufacturing components such as belts, pulleys, shafts, and moving  
20 parts; molds, tools, and dies; operating structures; and all equipment  
21 used to control or operate the machinery.

22 (10) "Recipient" means a person receiving a tax deferral under this  
23 chapter.

24 (11) "Research and development" means the development, refinement,  
25 testing, marketing, and commercialization of a product, service, or  
26 process before commercial sales have begun. As used in this  
27 subsection, "commercial sales" excludes sales of prototypes or sales  
28 for market testing if the total gross receipts from such sales of the  
29 product, service, or process do not exceed one million dollars.

30 (12) "Rural county" means a county with fewer than one hundred  
31 persons per square mile or less than two hundred fifty square miles as  
32 determined annually by the office of financial management and published  
33 by the department of revenue effective for the period July 1st through  
34 June 30th.

35 **Sec. 3.** RCW 82.62.010 and 1999 sp.s. c 9 s 3 are each amended to  
36 read as follows:

37 Unless the context clearly requires otherwise, the definitions in  
38 this section apply throughout this chapter.

1 (1) "Applicant" means a person applying for a tax credit under this  
2 chapter.

3 (2) "Department" means the department of revenue.

4 (3) "Eligible area" means (~~(an area)~~) a rural county as defined in  
5 RCW 82.60.020.

6 (4)(a) "Eligible business project" means manufacturing or research  
7 and development activities which are conducted by an applicant in an  
8 eligible area at a specific facility, provided the applicant's average  
9 full-time qualified employment positions at the specific facility will  
10 be at least fifteen percent greater in the year for which the credit is  
11 being sought than the applicant's average full-time qualified  
12 employment positions at the same facility in the immediately preceding  
13 year.

14 (b) "Eligible business project" does not include any portion of a  
15 business project undertaken by a light and power business as defined in  
16 RCW 82.16.010(5) or that portion of a business project creating  
17 qualified full-time employment positions outside an eligible area or  
18 those recipients of a sales tax deferral under chapter 82.61 RCW.

19 (5) "Manufacturing" means the same as defined in RCW 82.04.120.  
20 "Manufacturing" also includes computer programming, the production of  
21 computer software, and other computer-related services, and the  
22 activities performed by research and development laboratories and  
23 commercial testing laboratories.

24 (6) "Person" has the meaning given in RCW 82.04.030.

25 (7) "Qualified employment position" means a permanent full-time  
26 employee employed in the eligible business project during the entire  
27 tax year.

28 (8) "Tax year" means the calendar year in which taxes are due.

29 (9) "Recipient" means a person receiving tax credits under this  
30 chapter.

31 (10) "Research and development" means the development, refinement,  
32 testing, marketing, and commercialization of a product, service, or  
33 process before commercial sales have begun. As used in this  
34 subsection, "commercial sales" excludes sales of prototypes or sales  
35 for market testing if the total gross receipts from such sales of the  
36 product, service, or process do not exceed one million dollars.

37 **Sec. 4.** RCW 82.62.030 and 1999 c 164 s 306 are each amended to  
38 read as follows:

1 (1) A person shall be allowed a credit against the tax due under  
2 chapter 82.04 RCW as provided in this section. The credit shall equal:  
3 (a) Four thousand dollars for each qualified employment position with  
4 wages and benefits greater than forty thousand dollars annually that is  
5 directly created in an eligible business and (b) two thousand dollars  
6 for each qualified employment position with wages and benefits less  
7 than or equal to forty thousand dollars annually that is directly  
8 created in an eligible business.

9 (2) The department shall keep a running total of all credits  
10 granted under this chapter during each fiscal year. The department  
11 shall not allow any credits which would cause the tabulation to exceed  
12 ~~((seven))~~ eight million five hundred thousand dollars in any fiscal  
13 year, however no less than one million dollars per fiscal year may be  
14 allocated toward credits for qualified employment positions created as  
15 a result of a business relocation or expansion to an eligible area from  
16 a noneligible area of the state. If all or part of an application for  
17 credit is disallowed under this subsection, the disallowed portion  
18 shall be carried over for approval the next fiscal year. However, the  
19 applicant's carryover into the next fiscal year is only permitted if  
20 the tabulation for the next fiscal year does not exceed the cap for  
21 that fiscal year as of the date on which the department has disallowed  
22 the application.

23 (3) No recipient may use the tax credits to decertify a union or to  
24 displace existing jobs in any ~~((community in the state))~~ rural county  
25 or designated community empowerment zone, approved under RCW  
26 43.31C.020.

27 (4) No recipient may receive a tax credit on taxes which have not  
28 been paid during the taxable year.

29 **Sec. 5.** RCW 82.62.045 and 1999 c 164 s 307 are each amended to  
30 read as follows:

31 (1) For the purposes of this section "eligible area" also means a  
32 designated community empowerment zone approved under RCW ~~((43.63A.700))~~  
33 43.31C.020.

34 (2) An eligible business project located within an eligible area as  
35 defined in this section qualifies for a credit under this chapter for  
36 those employees who at the time of hire are residents of the community  
37 empowerment zone in which the project is located, if the fifteen  
38 percent threshold is met. As used in this subsection, "resident" means

1 the person makes his or her home in the community empowerment zone. A  
2 mailing address alone is insufficient to establish that a person is a  
3 resident for the purposes of this section.

4 (3) All other provisions and eligibility requirements of this  
5 chapter apply to applicants eligible under this section.

6 NEW SECTION. **Sec. 6.** This act is necessary for the immediate  
7 preservation of the public peace, health, or safety, or support of the  
8 state government and its existing public institutions, and takes effect  
9 July 1, 2001.

--- END ---