
Finance Committee

HB 1683

Brief Description: Eliminating the expiration date on the tax deferral program for research and development and high technology businesses.

Sponsors: Representatives Cairnes, Nixon, Carrell, McDonald, Bush, Orcutt, McMahan, Shabro, Sump, Mielke, Holmquist, Clements, Benson, Armstrong, Pflug, Condotta, Hinkle, Anderson, Woods, Buck, Delvin, Newhouse, Kristiansen, Sehlin, Pearson, Bailey, Chandler, Ericksen, Roach and Campbell.

Brief Summary of Bill

- Extends the sales and use tax deferral/exemption for certain expenditures associated with R&D and pilot scale manufacturing indefinitely.

Hearing Date: 3/3/03

Staff: Mark Matteson (786-7145).

Background:

Retail sales and use taxes. The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax is imposed at a 6.5 percent rate by the state. Cities and counties may impose a local tax at a rate up to a maximum of 3.1 percent. As of December 2002, local rates imposed range from 0.5 percent to 2.4 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

Research and Development Tax Incentives. In 1994 the Legislature enacted several tax incentives to encourage additional research and development (R&D) in the high-technology sector. The legislation allows businesses that conduct R&D or pilot scale manufacturing activities in advanced computing, advanced materials, biotechnology, electronic device technology or environmental technology and that make certain expenditures to be eligible for an exemption from state and local retail sales and use taxes.

Under the incentive program, sales and use taxes are deferred on qualified purchases and acquisitions, including expenditures on construction and equipment related to R&D or to pilot scale manufacturing. To receive the deferral, an applicant is required to submit an application to the Department of Revenue before beginning construction or equipment purchases. The application must include the location of the project, current employment, new employment estimates, estimated wages related to the project, estimated or actual cost data, time schedules for completion and operation, and other information required by the Department.

As originally enacted, the program required deferred sales and use taxes to be repaid starting the third year after which the project was put into operation. In 1995 the Legislature modified the incentive, making it an outright exemption if the firm taking the deferral continued to use the facilities or equipment for a qualified use for at least eight years. No new deferral/exemption certificates may be issued under the program after June 30, 2004.

The Department of Revenue is required under the 1994 legislation to do an assessment of the program in 1997, 2000, and 2003. The department has estimated that about 60 businesses each year take the deferral/exemption from sales and use taxes, resulting in annual savings of about \$60 to 70 million.

Summary of Bill:

The provisions that terminate the sales and use tax deferral/exemption provided to high-technology firms for capital expenditures relating to research and development and to pilot-scale manufacturing are removed, making the incentive permanent.

Appropriation: None.

Fiscal Note: Preliminary Fiscal Note Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.