
Finance Committee

HB 1686

Brief Description: Eliminating the expiration date for rural county tax deferrals.

Sponsors: Representatives Ahern, Orcutt, Armstrong, Sump, Mielke, Benson, McMahan, Shabro, Bailey, Bush, Holmquist, Clements, Condotta, Nixon, Newhouse, Sehlin, Hinkle, Pearson, Woods, Delvin, Kristiansen, Chandler, Ericksen and Roach.

Brief Summary of Bill

- The rural county and distressed area sales and use tax deferral program for investment projects relating to manufacturing, research and development, and computer programming is extended 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.

Retail sales and use taxes apply to everything within the tax base that is not specifically exempt. A requirement for some exemptions is that the buyer present the seller with an affidavit or certificate demonstrating proof that the buyer is eligible for the exemption.

Rural county/distressed area sales and use tax deferral program. The rural county and distressed area tax deferral, as originally enacted in 1985, provided a deferral of sales and use taxes due on plant construction and expansion or on acquisition of equipment by firms

that engaged in manufacturing, research and development, or computer programming activities in counties with high rates of unemployment. In 1999 the program was changed so that the incentive is available in any rural county, defined as a county with a population density of less than 100 people per square mile, and in counties with community empowerment zones (CEZs). Firms that use the deferral in counties with CEZs must meet certain employment requirements, relating to the level of deferral requested. Employees hired pursuant to the requirements must be residents of the CEZs.

To receive the deferral, a firm must apply to the Department of Revenue prior to the initiation of construction or acquisition of equipment. The application must contain information regarding the project location, project costs, employment, wages, and project schedules. If the application is complete, the Department is required to issue a sales and use tax deferral certificate.

Recipients of a deferral under the program are required to submit a report to the Department by the end of the year in which the project is put into operations, and for each of the seven following years. The report must contain information that allows the Department to determine whether the recipient is meeting the eligibility requirements of the program.

Since 1994, repayment of deferred taxes has been waived, as long as the firm continues to meet eligibility requirements, thus converting the program into an outright tax exemption. The program is scheduled to expire on July 1, 2004.

Thirty-one counties are eligible as rural counties under the program, and four additional counties are eligible because they contain CEZs. The Department has estimated that there are approximately 70 projects approved annually. Taxpayer savings are approximately \$16 million annually.

Summary of Bill:

The termination date for the rural county and distressed area sales and use tax deferral program is eliminated, extending the program indefinitely.

Appropriation: None.

Fiscal Note: Available.

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