

SENATE BILL REPORT

SB 5530

As Reported By Senate Committee On:
Technology & Communications, February 10, 2003

Title: An act relating to business and occupation tax credits and deferrals for research and development and high technology job creation.

Brief Description: Eliminating the expiration date on certain business and occupation tax credits and deferrals.

Sponsors: Senators Finkbeiner, Reardon, Sheahan, Schmidt, Esser, T. Sheldon, Doumit, Hale, Rasmussen, Roach, Rossi, West and Eide.

Brief History:

Committee Activity: Technology & Communications: 2/6/03, 2/10/03 [DPS-WM, DNP].

SENATE COMMITTEE ON TECHNOLOGY & COMMUNICATIONS

Majority Report: That Substitute Senate Bill No. 5530 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Esser, Chair; Finkbeiner, Vice Chair; Schmidt and Stevens.

Minority Report: Do not pass.

Signed by Senators Eide, Poulsen and Reardon.

Staff: William Bridges (786-7424)

Background: In 1994, the Legislature created tax credits and deferrals for high-tech entities in Washington engaged in biotechnology, advanced computing, electronic device technology, advanced materials, or environmental technology.

Under the business and occupation (B&O) tax credit program, an eligible entity is allowed a credit of up to \$2 million a year for the following research and development expenditures: operating expenses, wages and benefits, supplies, and computer expenses. According to the Department of Revenue, about 600 entities are participating in the B&O tax credit program.

Under the sales and use tax deferral program, an eligible entity may defer, up to seven years from the year a project is certified, the taxes on the construction of qualified buildings and the acquisition of qualified machinery and equipment. Qualified buildings include new or existing structures used in research and development or pilot-scale manufacturing. Qualified machinery and equipment include computers, software, and laboratory equipment. The repayment of the deferred taxes is waived in the eighth year. According to the Department of Revenue, about 60 entities are currently participating in the deferral program.

The B&O tax credit program expires on December 31, 2004. The sales and use tax deferral program expires on July 1, 2004.

Summary of Substitute Bill: The expiration dates of the B&O tax credit and the sales and use tax deferral programs for high-tech research and development are removed.

Substitute Bill Compared to Original Bill: The definition of eligible "person" for the sales and use tax deferral program is amended to add "any research university."

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Washington is a nationally and internationally renowned technology center, and other states are attempting lure technology companies based here. Washington's high tech credits and deferrals have worked to keep these companies in Washington. The high tech credits and deferrals allow companies to increase research and development expenditures, which creates a multiplier effect of more high-paying jobs, more new products, and more local tax revenues. Without the credits and deferrals, Washington's high tech companies would have a more difficult time attracting new investment and staying in business. Research institutions should be allowed to participate in the sales and use tax deferral program as was originally intended.

Testimony Against: None.

Testified: Nancy Atwood, AeA (pro); Shannon Childs, Paladin Data (pro); Karen Evans, Aptech Systems (pro); Michael Martino, Sonus Pharmaceuticals (pro); Lew McMurrin, WSA (pro); James Ruppel, Philips Medical Systems (pro); Scott Ryan, Medtronic Physio-Control (pro); Jerry Smedes, NW Environmental Business Council (pro); Dick Thompson, U.W. (pro).