

SENATE BILL REPORT

SB 5531

As Reported By Senate Committee On:
Technology & Communications, February 10, 2003
Ways & Means, April 7, 2003

Title: An act relating to removing the expiration date for the high-technology research and development sales and use tax deferral program.

Brief Description: Removing the expiration date for the high-technology research and development sales and use tax deferral program.

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

Brief History:

Committee Activity: Technology & Communications: 2/6/03, 2/10/03 [DPS-WM, DNP].
Ways & Means: 3/6/03, 4/7/03 [DP2S, DNP].

SENATE COMMITTEE ON TECHNOLOGY & COMMUNICATIONS

Majority Report: That Substitute Senate Bill No. 5531 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)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5531 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Hale, Honeyford, Johnson, Parlette, Roach, Sheahan, B. Sheldon and Winsley.

Minority Report: Do not pass.

Signed by Senators Fairley, Fraser and Regala.

Staff: Terry Wilson (786-7433)

Background: The high technology deferral/exemption program is available statewide to businesses involved in "high-tech" research and development and pilot scale manufacturing. The business must be involved in biotechnology, advanced computing, electronic device technology, advanced materials, or environmental technology. These businesses may defer

sales and use taxes on buildings, machinery and equipment, and installation labor. An expansion or renovation must increase the floor space or production capacity of an existing structure to qualify.

These taxes need not be repaid unless the project is used for a non-qualifying purpose during the eight years after the project is operationally complete. If used for a non-qualifying purpose, a pro-rata share of the taxes are due. However, no repayment is required on new and replacement machinery and equipment used directly in the manufacturing process, including installation labor and services.

The Department of Revenue must report on the effectiveness of the program on job creation, the number of jobs created for Washington residents, company growth, the introduction of new products, the diversification of the state's economy, growth in research and development investment, and the movement of firms or the consolidation of firms' operations into the state by September 1, 2003.

According to the Department of Revenue, about 60 entities are currently participating in the deferral program.

The hi-tech sales and use tax deferral program expires on July 1, 2004.

Summary of Second Substitute Bill: The hi-tech sales and use tax deferral program is extended indefinitely.

Second Substitute Bill Compared to Substitute Bill: Research universities are removed.

Substitute Bill Compared to Original Bill: The definition of eligible "person" 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 (Technology & Communications): 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 credit and deferral programs as was originally intended.

Testimony Against (Technology & Communications): None.

Testified (Technology & Communications): 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).

Testimony For (Ways & Means): The hi-tech industry is a driving force in Washington's economy in part because of these tax incentives. The incentives need to be extended now because business is engaged in long-term planning. Thirty-seven other states provide incentives and this helps make Washington competitive. Money saved from these incentives is reinvested in more research or more jobs. Research results in new products and more tax revenues to the state. The previous studies have not shown these secondary impacts on the economy. This is the state's only direct investment in biotech which relies heavily on venture capital. The credits have made the difference between profitability and bankruptcy. The credit has been successful. You need a nonpunitive tax system for hi-tech industries to thrive, and these incentives reduce the punitive nature of the system.

Testimony Against (Ways & Means): There is a severe budget crisis. All tax breaks should be scrutinized to see if they create jobs. Tax breaks stay on the books long after they are relevant. The taxpayers should know why the incentives are being given. These breaks don't expire until next year and the Legislature should wait until the 2003 study is completed before they are extended. The 2000 study showed that the credit cost taxpayers \$345,000 per job created and \$590,000 per job created that was filled by a Washington resident. Underfunding health care shifts costs to hospitals. The Governor's budget cuts threaten health care and health care jobs. These exemptions are not needed. Microsoft does not need a \$2.0 million per year tax break. Business should pay tax like everyone else. A tax break is the same as an expenditure. Many more jobs would be created by using this money for health care. It is hypocritical to talk of scrubbing the expenditure side but not the revenue side. You should not give tax breaks with no end in sight without knowing how it benefits Washington citizens. Extension should be based on data. There is no hurry here.

Testified (Ways & Means): PRO: Nancy Atwood, AeA; Vicki Austin, WBBA; Bill Grinstein, Battelle; Lew McMurrin, WSA, Karen Evans, Aptech Systems; Shannon Childs, Paladin Data Systems; CON: Ellie Menzies, SEIU; Robert Stern, WA State Labor Council.