

FINAL BILL REPORT

SB 5725

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Synopsis as Enacted

Brief Description: Providing tax incentives to support the state's semiconductor cluster.

Sponsors: Senators Zarelli, T. Sheldon, Carlson, Reardon, Benton, Hewitt, Winsley, Hale, Sheahan, Honeyford, Finkbeiner, Johnson and West.

Senate Committee on Economic Development
Senate Committee on Ways & Means
House Committee on Finance

Background: A report performed for the Department of Community, Trade, and Economic Development has identified the semiconductor industry and its related firms as a significant cluster in Washington State. Semiconductor manufacturers are one component of these clusters.

Semiconductor manufacturers in Washington State currently pay the manufacturing business and occupation (B&O) tax of 0.484 percent. They are eligible for the manufacturing machinery and equipment sales and use tax exemption that exempts all machinery and equipment, and installation labor, for manufacturing from the sales and use taxes.

In addition, if a semiconductor manufacturer locates in a rural county with fewer than 100 people per square mile, it is eligible for three more tax incentives:

- a sales and use tax exemption on buildings and equipment used in manufacturing (if the business applied for this before July 1, 1994, it is only a deferral and must be repaid);
- a 20 percent B&O tax credit for job training, up to \$5,000 per year; and
- a B&O tax credit for new manufacturing, research and development, or computer service jobs: \$2,000 for jobs paying less than \$40,000 per year and \$4,000 for jobs paying at least \$40,000.

Summary: Tax incentives targeting semiconductor manufacturers in Washington are created, as well as reporting requirements reflecting the usage and effectiveness of these incentives. With one exception as noted below, the tax preferences last for 12 years from this act's effective date.

1. The B&O tax for businesses of manufacturing semiconductor materials is set at a rate equal to the value of the product multiplied by 0.275 percent.
2. Manufacturers of semiconductor microchips in particular are exempt from the B&O tax for nine years after the effective date of this act.

3. The sale of gases and chemicals used by a manufacturer in the manufacturing of semiconductor materials is exempt from sales and use tax.

The following tax incentives are provided if the manufacturer maintains at least 75 percent of full employment at the new building over an eight-year period:

4. Labor, services, and sales of tangible personal property related to the construction of new buildings used for manufacturing semiconductor materials are exempt from state sales tax.
5. Businesses may claim a \$3,000 B&O tax job credit for each manufacturing production position that takes places in a new building exempt from sales and use tax under this bill's semiconductor exemption. This credit is good for up to eight years.
6. Machinery and equipment used in manufacturing semiconductor materials, at a building exempt from sales and use tax under this bill's semiconductor exemption, is exempt from property tax.

No application for any of the tax incentives is necessary, except for an application for the property tax exemption to the appropriate county assessor.

Manufacturers claiming exemptions or credits must file annual reports detailing employment, wages, and health and retirement benefits with the Department of Revenue (DOR). Two reports to the appropriate fiscal legislative committees must be made, one at the fifth and one at the eleventh year after the effective date of this act.

Before a manufacturer can make use of these tax incentives, DOR must first determine that a contract exists for at least a \$1 billion investment in the semiconductor facility.

Votes on Final Passage:

Senate	35	11	
House	94	4	(House amended)
Senate	40	8	(Senate concurred)

Effective: The first day of the month in which a contract for the construction of a significant semiconductor fabrication facility is signed.