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**SUBSTITUTE SENATE BILL 5531**

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**State of Washington**

**58th Legislature**

**2003 Regular Session**

**By** Senate Committee on Technology & Communications (originally sponsored by Senators Finkbeiner, Reardon, Esser, T. Sheldon, Sheahan, Schmidt, Doumit, Hale, Rasmussen, Roach, Rossi, Stevens, West and Eide)

READ FIRST TIME 02/12/03.

1 AN ACT Relating to removing the expiration date for the  
2 high-technology research and development sales and use tax deferral  
3 program; and amending RCW 82.63.010 and 82.63.030.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 82.63.010 and 1995 1st sp.s. c 3 s 12 are each amended  
6 to read as follows:

7 Unless the context clearly requires otherwise, the definitions in  
8 this section apply throughout this chapter.

9 (1) "Advanced computing" means technologies used in the designing  
10 and developing of computing hardware and software, including  
11 innovations in designing the full spectrum of hardware from hand-held  
12 calculators to super computers, and peripheral equipment.

13 (2) "Advanced materials" means materials with engineered properties  
14 created through the development of specialized processing and synthesis  
15 technology, including ceramics, high value-added metals, electronic  
16 materials, composites, polymers, and biomaterials.

17 (3) "Applicant" means a person applying for a tax deferral under  
18 this chapter.

1 (4) "Biotechnology" means the application of technologies, such as  
2 recombinant DNA techniques, biochemistry, molecular and cellular  
3 biology, genetics and genetic engineering, cell fusion techniques, and  
4 new bioprocesses, using living organisms, or parts of organisms, to  
5 produce or modify products, to improve plants or animals, to develop  
6 microorganisms for specific uses, to identify targets for small  
7 molecule pharmaceutical development, or to transform biological systems  
8 into useful processes and products or to develop microorganisms for  
9 specific uses.

10 (5) "Department" means the department of revenue.

11 (6) "Electronic device technology" means technologies involving  
12 microelectronics; semiconductors; electronic equipment and  
13 instrumentation; radio frequency, microwave, and millimeter  
14 electronics; optical and optic-electrical devices; and data and digital  
15 communications and imaging devices.

16 (7) "Eligible investment project" means an investment project which  
17 either initiates a new operation, or expands or diversifies a current  
18 operation by expanding, renovating, or equipping an existing facility.  
19 The lessor or owner of the qualified building is not eligible for a  
20 deferral unless the underlying ownership of the buildings, machinery,  
21 and equipment vests exclusively in the same person, or unless the  
22 lessor by written contract agrees to pass the economic benefit of the  
23 deferral to the lessee in the form of reduced rent payments.

24 (8) "Environmental technology" means assessment and prevention of  
25 threats or damage to human health or the environment, environmental  
26 cleanup, and the development of alternative energy sources.

27 (9) "Investment project" means an investment in qualified buildings  
28 or qualified machinery and equipment, including labor and services  
29 rendered in the planning, installation, and construction or improvement  
30 of the project.

31 (10) "Person" has the meaning given in RCW 82.04.030 and also means  
32 any research university.

33 (11) "Pilot scale manufacturing" means design, construction, and  
34 testing of preproduction prototypes and models in the fields of  
35 biotechnology, advanced computing, electronic device technology,  
36 advanced materials, and environmental technology other than for  
37 commercial sale. As used in this subsection, "commercial sale"

1 excludes sales of prototypes or sales for market testing if the total  
2 gross receipts from such sales of the product, service, or process do  
3 not exceed one million dollars.

4 (12) "Qualified buildings" means construction of new structures,  
5 and expansion or renovation of existing structures for the purpose of  
6 increasing floor space or production capacity used for pilot scale  
7 manufacturing or qualified research and development, including plant  
8 offices and other facilities that are an essential or an integral part  
9 of a structure used for pilot scale manufacturing or qualified research  
10 and development. If a building is used partly for pilot scale  
11 manufacturing or qualified research and development, and partly for  
12 other purposes, the applicable tax deferral shall be determined by  
13 apportionment of the costs of construction under rules adopted by the  
14 department.

15 (13) "Qualified machinery and equipment" means fixtures, equipment,  
16 and support facilities that are an integral and necessary part of a  
17 pilot scale manufacturing or qualified research and development  
18 operation. "Qualified machinery and equipment" includes: Computers;  
19 software; data processing equipment; laboratory equipment,  
20 instrumentation, and other devices used in a process of experimentation  
21 to develop a new or improved pilot model, plant process, product,  
22 formula, invention, or similar property; manufacturing components such  
23 as belts, pulleys, shafts, and moving parts; molds, tools, and dies;  
24 vats, tanks, and fermenters; operating structures; and all other  
25 equipment used to control, monitor, or operate the machinery. For  
26 purposes of this chapter, qualified machinery and equipment must be  
27 either new to the taxing jurisdiction of the state or new to the  
28 certificate holder, except that used machinery and equipment may be  
29 treated as qualified machinery and equipment if the certificate holder  
30 either brings the machinery and equipment into Washington or makes a  
31 retail purchase of the machinery and equipment in Washington or  
32 elsewhere.

33 (14) "Qualified research and development" means research and  
34 development performed within this state in the fields of advanced  
35 computing, advanced materials, biotechnology, electronic device  
36 technology, and environmental technology.

37 (15) "Recipient" means a person receiving a tax deferral under this  
38 chapter.

1 (16) "Research and development" means activities performed to  
2 discover technological information, and technical and nonroutine  
3 activities concerned with translating technological information into  
4 new or improved products, processes, techniques, formulas, inventions,  
5 or software. The term includes exploration of a new use for an  
6 existing drug, device, or biological product if the new use requires  
7 separate licensing by the federal food and drug administration under  
8 chapter 21, C.F.R., as amended. The term does not include adaptation  
9 or duplication of existing products where the products are not  
10 substantially improved by application of the technology, nor does the  
11 term include surveys and studies, social science and humanities  
12 research, market research or testing, quality control, sale promotion  
13 and service, computer software developed for internal use, and research  
14 in areas such as improved style, taste, and seasonal design.

15 **Sec. 2.** RCW 82.63.030 and 1994 sp.s. c 5 s 5 are each amended to  
16 read as follows:

17 (1) Except as provided in subsection (2) of this section, the  
18 department shall issue a sales and use tax deferral certificate for  
19 state and local sales and use taxes due under chapters 82.08, 82.12,  
20 and 82.14 RCW on each eligible investment project.

21 (2) No certificate may be issued for an investment project that has  
22 already received a deferral under chapter 82.60 or 82.61 RCW or this  
23 chapter, except that an investment project for qualified research and  
24 development that has already received a deferral may also receive an  
25 additional deferral certificate for adapting the investment project for  
26 use in pilot scale manufacturing.

27 (~~(3) This section shall expire July 1, 2004.~~)

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