

**SHB 2738 - H AMD 828**

By Representative Anderson

1 On page 4, after line 16, insert:

2 "Sec. 8. RCW 82.04.4461 and 2003 2nd sp.s. c 1 s 7 are each  
3 amended to read as follows:

4 (1)(a) In computing the tax imposed under this chapter, a  
5 credit is allowed for each person for preproduction development  
6 spending occurring after December 1, 2003.

7 (b) Before July 1, 2005, any credits earned under this section  
8 must be accrued and carried forward and may not be used until July  
9 1, 2005. These carryover credits may be used at any time  
10 thereafter, and may be carried over until used. Refunds may not be  
11 granted in the place of a credit.

12 (2) The credit is equal to the amount of qualified  
13 preproduction development expenditures of a person, multiplied by  
14 the rate of 1.5 percent.

15 (3) Except as provided in subsection (1)(b) of this section the  
16 credit shall be taken against taxes due for the same calendar year  
17 in which the qualified preproduction development expenditures are  
18 incurred. Credit earned on or after July 1, 2005, may not be  
19 carried over. The credit for each calendar year shall not exceed  
20 the amount of tax otherwise due under this chapter for the calendar  
21 year. Refunds may not be granted in the place of a credit.

22 (4) Any person claiming the credit shall file an affidavit form  
23 prescribed by the department that shall include the amount of the  
24 credit claimed, an estimate of the anticipated preproduction  
25 development expenditures during the calendar year for which the  
26 credit is claimed, an estimate of the taxable amount during the  
27 calendar year for which the credit is claimed, and such additional  
28 information as the department may prescribe.

29 (5) The definitions in this subsection apply throughout this  
30 section.

1 (a) "Aeronautics" means the study of flight and the science of  
2 building and operating commercial aircraft.

3 (b) "Person" means a person as defined in RCW 82.04.030, who is  
4 a manufacturer or processor for hire of commercial airplanes, or  
5 components of such airplanes, as those terms are defined in RCW  
6 82.32.550.

7 (c) "Preproduction development" means research, design, and  
8 engineering activities performed in relation to the development of  
9 a product, product line, model, or model derivative, including  
10 prototype development, testing, and certification. The term  
11 includes the discovery of technological information, the  
12 translating of technological information into new or improved  
13 products, processes, techniques, formulas, or inventions, and the  
14 adaptation of existing products and models into new products or new  
15 models, or derivatives of products or models. The term does not  
16 include manufacturing activities or other production-oriented  
17 activities, however the term does include tool design and  
18 engineering design for the manufacturing process. The term does  
19 not include surveys and studies, social science and humanities  
20 research, market research or testing, quality control, sale  
21 promotion and service, computer software developed for internal  
22 use, and research in areas such as improved style, taste, and  
23 seasonal design.

24 (d) "Preproduction development spending" means qualified  
25 preproduction development expenditures plus eighty percent of  
26 amounts paid to a person other than a public educational or  
27 research institution to conduct qualified preproduction  
28 development.

29 (e) "Qualified preproduction development" means preproduction  
30 development performed within this state in the field of aeronautics  
31 or eligible diesel engine design.

32 (f) "Qualified preproduction development expenditures" means  
33 operating expenses, including wages, compensation of a proprietor  
34 or a partner in a partnership as determined by the department,  
35 benefits, supplies, and computer expenses, directly incurred in  
36 qualified preproduction development by a person claiming the credit  
37 provided in this section. The term does not include amounts paid  
38 to a person other than a public educational or research institution  
39 to conduct qualified preproduction development. The term does not

1 include capital costs and overhead, such as expenses for land,  
2 structures, or depreciable property.

3 (g) "Taxable amount" means the taxable amount subject to the  
4 tax imposed in this chapter required to be reported on the person's  
5 tax returns during the year in which the credit is claimed, less  
6 any taxable amount for which a credit is allowed under RCW  
7 82.04.440.

8 (h) "Eligible diesel engine" means a diesel engine designed for  
9 operating on biodiesel fuel.

10 (i) "Biodiesel fuel" means a mono alkyl ester of long chain  
11 fatty acids derived from vegetable oils or animal fats for use in  
12 compression-ignition engines and that meets the requirements of the  
13 American society of testing and materials specification D 6751 in  
14 effect as of January 1, 2003.

15 (6) In addition to all other requirements under this title, a  
16 person taking the credit under this section must report as required  
17 under RCW 82.32.545.

18 (7) Credit may not be claimed for expenditures for which a  
19 credit is claimed under RCW 82.04.4452.

20 (8) This section expires July 1, 2024.

21 **Sec. 9.** RCW 82.04.260 and 2005 c 513 s 2 are each amended to  
22 read as follows:

23 (1) Upon every person engaging within this state in the  
24 business of manufacturing:

25 (a) Wheat into flour, barley into pearl barley, soybeans into  
26 soybean oil, canola into canola oil, canola meal, or canola  
27 byproducts, or sunflower seeds into sunflower oil; as to such  
28 persons the amount of tax with respect to such business shall be  
29 equal to the value of the flour, pearl barley, oil, canola meal, or  
30 canola byproduct manufactured, multiplied by the rate of 0.138  
31 percent;

32 (b) Seafood products which remain in a raw, raw frozen, or raw  
33 salted state at the completion of the manufacturing by that person;  
34 as to such persons the amount of tax with respect to such business  
35 shall be equal to the value of the products manufactured,  
36 multiplied by the rate of 0.138 percent;

1 (c) Dairy products that as of September 20, 2001, are  
2 identified in 21 C.F.R., chapter 1, parts 131, 133, and 135,  
3 including byproducts from the manufacturing of the dairy products  
4 such as whey and casein; or selling the same to purchasers who  
5 transport in the ordinary course of business the goods out of  
6 state; as to such persons the tax imposed shall be equal to the  
7 value of the products manufactured multiplied by the rate of 0.138  
8 percent. As proof of sale to a person who transports in the  
9 ordinary course of business goods out of this state, the seller  
10 shall annually provide a statement in a form prescribed by the  
11 department and retain the statement as a business record;

12 (d) Until July 1, 2009, alcohol fuel, biodiesel fuel, or  
13 biodiesel feedstock, as those terms are defined in RCW 82.29A.135;  
14 as to such persons the amount of tax with respect to the business  
15 shall be equal to the value of alcohol fuel, biodiesel fuel, or  
16 biodiesel feedstock manufactured, multiplied by the rate of 0.138  
17 percent; and

18 (e) Alcohol fuel or wood biomass fuel, as those terms are  
19 defined in RCW 82.29A.135; as to such persons the amount of tax  
20 with respect to the business shall be equal to the value of alcohol  
21 fuel or wood biomass fuel manufactured, multiplied by the rate of  
22 0.138 percent.

23 (2) Upon every person engaging within this state in the  
24 business of splitting or processing dried peas; as to such persons  
25 the amount of tax with respect to such business shall be equal to  
26 the value of the peas split or processed, multiplied by the rate of  
27 0.138 percent.

28 (3) Upon every nonprofit corporation and nonprofit association  
29 engaging within this state in research and development, as to such  
30 corporations and associations, the amount of tax with respect to  
31 such activities shall be equal to the gross income derived from  
32 such activities multiplied by the rate of 0.484 percent.

33 (4) Upon every person engaging within this state in the  
34 business of slaughtering, breaking and/or processing perishable  
35 meat products and/or selling the same at wholesale only and not at  
36 retail; as to such persons the tax imposed shall be equal to the  
37 gross proceeds derived from such sales multiplied by the rate of  
38 0.138 percent.

1 (5) Upon every person engaging within this state in the  
2 business of acting as a travel agent or tour operator; as to such  
3 persons the amount of the tax with respect to such activities shall  
4 be equal to the gross income derived from such activities  
5 multiplied by the rate of 0.275 percent.

6 (6) Upon every person engaging within this state in business as  
7 an international steamship agent, international customs house  
8 broker, international freight forwarder, vessel and/or cargo  
9 charter broker in foreign commerce, and/or international air cargo  
10 agent; as to such persons the amount of the tax with respect to  
11 only international activities shall be equal to the gross income  
12 derived from such activities multiplied by the rate of 0.275  
13 percent.

14 (7) Upon every person engaging within this state in the  
15 business of stevedoring and associated activities pertinent to the  
16 movement of goods and commodities in waterborne interstate or  
17 foreign commerce; as to such persons the amount of tax with respect  
18 to such business shall be equal to the gross proceeds derived from  
19 such activities multiplied by the rate of 0.275 percent. Persons  
20 subject to taxation under this subsection shall be exempt from  
21 payment of taxes imposed by chapter 82.16 RCW for that portion of  
22 their business subject to taxation under this subsection.  
23 Stevedoring and associated activities pertinent to the conduct of  
24 goods and commodities in waterborne interstate or foreign commerce  
25 are defined as all activities of a labor, service or transportation  
26 nature whereby cargo may be loaded or unloaded to or from vessels  
27 or barges, passing over, onto or under a wharf, pier, or similar  
28 structure; cargo may be moved to a warehouse or similar holding or  
29 storage yard or area to await further movement in import or export  
30 or may move to a consolidation freight station and be stuffed,  
31 unstuffed, containerized, separated or otherwise segregated or  
32 aggregated for delivery or loaded on any mode of transportation for  
33 delivery to its consignee. Specific activities included in this  
34 definition are: Wharfage, handling, loading, unloading, moving of  
35 cargo to a convenient place of delivery to the consignee or a  
36 convenient place for further movement to export mode; documentation  
37 services in connection with the receipt, delivery, checking, care,  
38 custody and control of cargo required in the transfer of cargo;  
39 imported automobile handling prior to delivery to consignee;

1 terminal stevedoring and incidental vessel services, including but  
2 not limited to plugging and unplugging refrigerator service to  
3 containers, trailers, and other refrigerated cargo receptacles, and  
4 securing ship hatch covers.

5 (8) Upon every person engaging within this state in the  
6 business of disposing of low-level waste, as defined in RCW  
7 43.145.010; as to such persons the amount of the tax with respect  
8 to such business shall be equal to the gross income of the  
9 business, excluding any fees imposed under chapter 43.200 RCW,  
10 multiplied by the rate of 3.3 percent.

11 If the gross income of the taxpayer is attributable to  
12 activities both within and without this state, the gross income  
13 attributable to this state shall be determined in accordance with  
14 the methods of apportionment required under RCW 82.04.460.

15 (9) Upon every person engaging within this state as an  
16 insurance agent, insurance broker, or insurance solicitor licensed  
17 under chapter 48.17 RCW; as to such persons, the amount of the tax  
18 with respect to such licensed activities shall be equal to the  
19 gross income of such business multiplied by the rate of 0.484  
20 percent.

21 (10) Upon every person engaging within this state in business  
22 as a hospital, as defined in chapter 70.41 RCW, that is operated as  
23 a nonprofit corporation or by the state or any of its political  
24 subdivisions, as to such persons, the amount of tax with respect to  
25 such activities shall be equal to the gross income of the business  
26 multiplied by the rate of 0.75 percent through June 30, 1995, and  
27 1.5 percent thereafter. The moneys collected under this subsection  
28 shall be deposited in the health services account created under RCW  
29 43.72.900.

30 (11)(a) Beginning October 1, 2005, upon every person engaging  
31 within this state in the business of manufacturing commercial  
32 airplanes, or components of such airplanes, as to such persons the  
33 amount of tax with respect to such business shall, in the case of  
34 manufacturers, be equal to the value of the product manufactured,  
35 or in the case of processors for hire, be equal to the gross income  
36 of the business, multiplied by the rate of:

37 (i) 0.4235 percent from October 1, 2005, through the later of  
38 June 30, 2007, or the day preceding the date final assembly of a

1 superefficient airplane begins in Washington state, as determined  
2 under RCW 82.32.550; and

3 (ii) 0.2904 percent beginning on the later of July 1, 2007, or  
4 the date final assembly of a superefficient airplane begins in  
5 Washington state, as determined under RCW 82.32.550.

6 (b) Beginning October 1, 2005, upon every person engaging  
7 within this state in the business of making sales, at retail or  
8 wholesale, of commercial airplanes, or components of such  
9 airplanes, manufactured by that person, as to such persons the  
10 amount of tax with respect to such business shall be equal to the  
11 gross proceeds of sales of the airplanes or components multiplied  
12 by the rate of:

13 (i) 0.4235 percent from October 1, 2005, through the later of  
14 June 30, 2007, or the day preceding the date final assembly of a  
15 superefficient airplane begins in Washington state, as determined  
16 under RCW 82.32.550; and

17 (ii) 0.2904 percent beginning on the later of July 1, 2007, or  
18 the date final assembly of a superefficient airplane begins in  
19 Washington state, as determined under RCW 82.32.550.

20 (c) For the purposes of this subsection (11), "commercial  
21 airplane," "component," and "final assembly of a superefficient  
22 airplane" have the meanings given in RCW 82.32.550.

23 (d) In addition to all other requirements under this title, a  
24 person eligible for the tax rate under this subsection (11) must  
25 report as required under RCW 82.32.545.

26 (e) This subsection (11) does not apply after the earlier of:  
27 July 1, 2024; or December 31, 2007, if assembly of a superefficient  
28 airplane does not begin by December 31, 2007, as determined under  
29 RCW 82.32.550.

30 (12) Upon every person engaging within this state in the  
31 business of manufacturing eligible diesel engines, as to such  
32 persons the amount of tax with respect to such business shall be  
33 equal to the value of the products manufactured multiplied by the  
34 rate of 0.2904 percent. Eligible diesel engines has the same  
35 meaning as given in RCW 82.04.4461.

36 NEW SECTION. Sec. 10. A new section is added to chapter 82.08  
37 RCW to read as follows:

1 (1) The tax levied by RCW 82.08.020 does not apply to sales of  
2 computer hardware, computer peripherals, or software used primarily  
3 in the development, design, and engineering of eligible diesel  
4 engines, or to sales of or charges made for labor and services  
5 rendered in respect to installing the computer hardware, computer  
6 peripherals, or software. The exemption is available only when the  
7 buyer provides the seller with an exemption certificate in a form  
8 and manner prescribed by the department. The seller shall retain a  
9 copy of the certificate for the seller's files.

10 (2) As used in this section:

11 (a) "Eligible diesel engines" has the same meaning as given in  
12 RCW 82.04.4461.

13 (b) "Peripherals" includes keyboards, monitors, mouse devices,  
14 and other accessories that operate outside of the computer,  
15 excluding cables, conduit, wiring, and other similar property.

16 NEW SECTION. Sec. 11. A new section is added to chapter 82.12  
17 RCW to read as follows: (1) The provisions of this chapter do not  
18 apply in respect to the use of computer hardware, computer  
19 peripherals, or software used primarily in the development, design,  
20 and engineering of eligible diesel engines, or to the use of labor  
21 and services rendered in respect to installing the computer  
22 hardware, computer peripherals, or software.

23 (2) As used in this section:

24 (a) "Eligible diesel engines" has the same meaning as given in  
25 RCW 82.04.4461.

26 (b) "Peripherals" includes keyboards, monitors, mouse devices,  
27 and other accessories that operate outside of the computer,  
28 excluding cables, conduit, wiring, and other similar property."

29 Correct the title

**EFFECT:** Provides a B&O tax credit for preproduction expenses on biodiesel engines. Provides a lower B&O manufacturing tax rate for biodiesel engines. Provides a sales tax exemption on computers and software used in the development, design, and engineering of biodiesel engines.