FINAL BILL REPORT
SHB 1523

C 142 L 06

Synopsis as Enacted

Brief Description: Extending a sales and use tax exemption to the construction of new facilities to be used for the conditioning of vegetable seed.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Quall, Morris, Pettigrew, Kilmer, Talcott, Pearson, Linville and Kristiansen).

House Committee on Economic Development, Agriculture & Trade
House Committee on Finance
Senate Committee on Agriculture & Rural Economic Development
Senate Committee on Ways & Means

Background:

Retail Sales and Use Tax
The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. Sales tax is paid by the purchaser and collected by the seller. The use tax is imposed on items used in the state that were not subject to the retail sales tax and includes purchases made in other states and from sellers who do not collect Washington sales tax. The retail sales and use tax is imposed at a 6.5 percent rate by the state. In addition, state law allows for 17 different local option sales and use taxes for purposes including but not limited to transportation, criminal justice, public safety, public facilities, zoos, and sports stadia. As of April 2006, local rates range from 0.5 percent to 2.4 percent.

Rural County/Distressed Area Sales and Use Tax Deferral Program
The rural county and distressed area tax deferral as originally enacted in 1985 provided a deferral of sales and use taxes due on plant construction and expansion or on acquisition of equipment by firms that engaged in manufacturing, research and development, or computer programming activities in counties with high rates of unemployment. In 1999, the program was changed so that the incentive became available in any "rural county," defined as a county with a population density of less than 100 people per square mile, and in counties with community empowerment zones. In 2004, the program was again revised so that the incentive also became available in counties smaller than 225 square miles.

Under the original deferment, the sales/use tax liability was deferred for three years, followed by a five-year graduated repayment. Since 1994, the repayment requirement has been waived provided program requirements are maintained, thereby making the program an outright exemption. The statute is scheduled to expire on July 1, 2010.

To receive the deferral, a firm must apply to the Department of Revenue (Department) prior to the initiation of construction or acquisition of equipment. The application must contain information regarding the project location, costs, employment, wages, and schedules.

Under the program, a property owner who leases to another may receive deferral of taxes on qualifying expenditures, if the owner under a written contract agrees to pass the economic benefit of the deferral onto the lessee by reducing the amount of the lease payments.

Recipients of a deferral are required to submit a report to the Department by the end of the year in which the project is put into operation and for each of the seven following years. The report must contain information that allows the Department to determine whether the recipient is meeting the eligibility requirements of the program. If the Department finds that an investment project is not eligible for the tax deferral, the deferred taxes outstanding for the project are immediately due.

The Department is required to study the sales and use tax deferral program and report back to the Legislature by December 1, 2009, on the effects of the program on job creation, company growth, introduction of new products, diversification of the state's economy, and other outcome measures.
Thirty-two counties are eligible as rural counties under the program and four additional counties are eligible because they contain community empowerment zones. According to the Department, in recent years, the number of projects approved has ranged from a low of 20 per year to a high of 168, and annual taxpayer savings has ranged from a low of $2.5 million to a high of $16 million.

Summary:

The definition of "manufacturing" for purposes of the rural county/distressed area sales and use tax deferred is expanded to include the conditioning of vegetable seed.

Votes on Final Passage:

House	98	0	
Senate	43	5	(Senate amended)
House	97	1	(House concurred)

Effective: July 1, 2006