

SENATE BILL REPORT

SHB 3190

As Reported By Senate Committee On:
Ways & Means, February 16, 2006

Title: An act relating to providing tax incentives to support the semiconductor cluster in Washington state.

Brief Description: Providing tax incentives to support the semiconductor cluster in Washington state.

Sponsors: House Committee on Technology, Energy & Communications (originally sponsored by Representatives Wallace, Fromhold, Curtis, Orcutt, Moeller and Dunn).

Brief History: Passed House: 2/11/06, 89-9.

Committee Activity: Ways & Means: 2/16/06 [DP, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Parlette, Pridemore, Rasmussen, Roach, Schoesler and Thibaudeau.

Minority Report: Do not pass.

Signed by Senators Fraser, Vice Chair, Capital Budget Chair and Fairley.

Minority Report: That it be referred without recommendation.

Signed by Senator Rockefeller.

Staff: Terry Wilson (786-7433)

Background: In 2003, temporary tax incentives targeting semiconductor microchip manufacturers in Washington were enacted. The tax preferences included:

- A preferential business and occupation (B&O) tax rate of 0.275 percent for businesses of manufacturing semiconductor materials;
- A sales and use tax exemption for the sale of gases and chemicals used by a manufacturer in the manufacturing of semiconductor materials;
- A B&O tax exemption for manufacturers of semiconductor microchips;
- A sales and use tax exemption for labor, services, and sales of tangible personal property related to the construction of new buildings used for manufacturing semiconductor materials;
- A \$3,000 B&O tax job credit for each manufacturing production position that takes place in a new building exempt from sales and use tax; and
- A property tax exemption for machinery and equipment used in manufacturing semiconductor materials at a building exempt from sales and use tax.

Manufacturers claiming exemptions or credits must file annual reports detailing employment, wages, and health and retirement benefits with the Department of Revenue (DOR).

The act was contingent on a manufacturer making at least a \$1 billion investment in a semiconductor microchip fabrication facility. This has not yet occurred.

Summary of Bill: Tax incentives are provided for semiconductor materials manufacturing. A preferential B&O tax rate of 0.275 percent for businesses of manufacturing semiconductor materials is provided. Semiconductor materials include silicon crystals, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers. A sales and use tax exemption for the sale of gases and chemicals used by a manufacturer in the manufacturing of semiconductor materials is provided. The tax incentives expire twelve years after they take effect.

Manufacturers claiming exemptions or credits must file annual reports detailing employment, wages, and health and retirement benefits with DOR.

The incentives are contingent on a manufacturer making at least a \$350 million investment in an advanced semiconductor materials fabrication facility. Advanced semiconductor materials include silicon crystals, and, if at least 300mm in diameter, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains a contingent effective date and takes effect as follows: Sections 2 through 8, the substantive provisions concerning tax incentives for semiconductor materials manufacturing, become effective on the first day of the month following a determination by the DOR that, based on actual expenditures prior to commercial production, an investment of at least \$350 million in an advanced semiconductor materials manufacturing facility has taken place at the time commercial production began. Section 1, the Legislative intent, and section 9, governing the criteria with respect to the effective date for sections 2 through 8, take effect 90 days after adjournment of the session in which the bill passed.

Testimony For (from SB 6812): A major component of the semiconductor tax incentives was left out in 2003. The market for semiconductor microchips has gone sideways, but the market for advanced semiconductor materials has grown. The industry is important to the state. The competitive landscape has changed. This bill helps the state's industry compete.

Testimony Against (from SB 6812): None.

Who Testified (from SB 6812): PRO: Senator Zarelli, prime sponsor; Patrick McDonald, City of Vancouver; Bart Phillips, Columbia River Economic Development Council.