FINAL BILL REPORT
ESHB 3303

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Synopsis as Enacted

Brief Description: Concerning tax incentives for certain polysilicon manufacturers.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Grant, Walsh, Haler and Linville).

House Committee on Finance
Senate Committee on Ways & Means

Background:

Washington's principal tax on businesses is the state business and occupation (B&O) tax. The B&O tax applies to the gross receipts derived from engaging in business. Although the tax does not reflect the cost of doing business, there are a variety of exemptions, deductions, and other tax incentives permitted by law. Major tax rates are 0.484 percent for manufacturing and wholesaling, 0.471 percent for retailing, and 1.5 percent for services; several lower rates also apply to specific business activities. The B&O tax generates about 16 percent of all state tax collections; most of the receipts are deposited in the State General Fund.

Several of the tax incentive programs require annual reporting of employment and other information, in order to provide data necessary for the evaluation of the incentive program.

Summary:

A credit against B&O tax liability is established for pre-production development expenditures by a polysilicon manufacturing firm. In order to qualify for the tax credit, a polysilicon manufacturer must invest at least $500 million in the facility. The amount of credit claimed by a single firm is limited to $1 million annually. The investment must occur in a county which borders Oregon and which has a population between 50,000 and 100,000.

The amount of credit is equal to 7.5 percent of qualified pre-production development expenditure by the facility. Pre-production development comprises research, design, and engineering necessary prior to actual manufacturing of the product; it includes discovery and application of technology and the design of manufacturing processes and tooling. Qualified expenditures include wages, benefits, and training of employees involved in the design and engineering of a polysilicon manufacturing facility.

Expenditures for actual manufacturing activities or other production-oriented activities do not qualify for the credit. Also, capital costs and overhead, including the cost of land, structures and acquisition of utility services do not qualify.

Annual reporting of employment, wage, benefit and other data is required by participants. The accountability reporting statute is amended to transfer the evaluation of various tax incentive programs from legislative fiscal staff to the Joint Legislative Audit and Review Committee (JLARC). The initial report by JLARC is due by November 1, 2010, for aerospace tax incentives and by November 1, 2014, for the new polysilicon manufacturing incentive.

This legislation is null and void if a port district does not sign a memorandum of understanding with a qualifying polysilicon manufacturer by October 1, 2008, to locate a facility within the county.

The credit applies to expenditures made after January 1, 2008; however, the credit may not be taken until July 1, 2009. Unused credits in any year may be carried forward until fully utilized. The B&O tax credit expires on July 1, 2024.

Votes on Final Passage:

House	95	0
Senate	48	0

Effective: June 12, 2008