

# HOUSE BILL REPORT

## ESHB 3303

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### As Passed Legislature

**Title:** An act relating to a business and occupation tax credit for qualified preproduction development expenditures for polysilicon manufacturers.

**Brief Description:** Concerning tax incentives for certain polysilicon manufacturers.

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

#### Brief History:

##### Committee Activity:

Finance: 2/6/08, 2/12/08 [DPS].

##### Floor Activity:

Passed House: 2/18/08, 95-0.

Passed Senate: 3/12/08, 48-0.

Passed Legislature.

#### Brief Summary of Engrossed Substitute Bill

- Establishes a new business and occupation tax credit for pre-production expenses of a polysilicon manufacturing facility.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Conway, Ericks, McIntire and Santos.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Condotta, Assistant Ranking Minority Member; Roach.

**Staff:** Don Taylor (786-7388).

#### 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

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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; and 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.

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**Summary of Engrossed Substitute Bill:**

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 (potentially either Cowlitz or Walla Walla counties).

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 existing accountability reporting statute is amended to transfer the evaluation of various tax incentive programs from legislative staff to the Joint Legislative Audit and Review Committee (JLARC). The initial report by JLARC is due by November 1, 2010 for aerospace industries 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 cannot be taken until July 1, 2009. Unused credits in any year may be carried forward until fully utilized. The B&O tax credit will expire on July 1, 2024.

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**Appropriation:** None.

**Fiscal Note:** Preliminary fiscal note available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:**

(In support) The proposed \$1.2 billion facility would be a real boom for the regional economy of southeast Washington, in addition to the entire state. The plant is exploring three other sites – including one in Iceland – and it could locate virtually anywhere in the world. The tax incentive is necessary to bring the facility and many high-paying jobs to Washington. The plant will manufacture polysilicon components of solar panels. The products are shipped throughout the entire world.

Although the fiscal note considers only those tax provisions in the actual legislation, it should be noted that the state property taxes paid on the plant would offset the credit against the business tax. Also, the investment would increase the assessed value of the county by one-third, resulting in a huge reduction in local property tax rates for existing property taxpayers.

The facility will provide approximately 1,000 construction jobs and 300 permanent jobs with an average salary of \$40,000 plus benefits.

(Opposed) None.

**Persons Testifying:** Representative Grant, prime sponsor; and Greg Tompkins, Walla Walla County.

**Persons Signed In To Testify But Not Testifying:** None.