SENATE BILL REPORT
SB 6866

As Reported By Senate Committee On:
Ways & Means, February 27, 2008

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

Brief Description: Providing a business and occupation tax credit for qualified preproduction development expenditures for polysilicon manufacturers.

Sponsors: Senators Delvin and Hewitt.

Brief History:
Committee Activity: Ways & Means: 2/25/08, 2/27/08 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6866 be substituted therefor, and the substitute bill do pass.
Signed by Senators Prentice, Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Oemig, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Dianne Criswell (786-7433)

Background: The business & occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. In general, there are no deductions for the costs of doing business. There are several major tax rates, such as: 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. For example, the B&O tax rate on manufacturing solar grade silicon was reduced to 0.2904 percent and the rate on manufacturing semiconductor materials from certain silicon products was reduced to 0.275 percent.

Summary of Bill: The bill as referred to committee was not considered.

SUMMARY OF BILL (Recommended Substitute): A business and occupation (B&O) tax credit for qualified preproduction development expenditures is provided for polysilicon manufacturers located in a county along the boundary between Washington and Oregon with a population greater than 50,000 and less than 100,000. The credit is equal to 7.5 percent of the expenditure amounts. Credits earned must be accrued beginning January 1, 2008, and carried forward, but may not be used until July 1, 2009, and until a polysilicon manufacturer invests

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$500 million on the project. These credits may be carried over until used or until the provision expires on July 1, 2024. Refunds may not be granted in the place of a credit.

Qualified "preproduction development" is product and facility research, design and engineering, and the training of employees in the field of polysilicon manufacturing. "Qualified preproduction development expenditures" are operating expenses including wages and benefits and supplies and computer expenses directly incurred in qualified preproduction development; however, the term does not include capital costs and overhead, such as expenses for land, structures, or depreciable property.

An annual report must be submitted to the Department of Revenue by March 31 following a year in which the tax credit is used. The report must include information on wages, the number of full, part-time and temporary positions, and employer-provided health and retirement benefits at the manufacturing site. If a taxpayer claiming the credit fails to file a report, the amount of the credit taken for the year is immediately due.

The Joint Legislative Audit and Review Committee is required to report to the Legislature on the effectiveness of the credit in 2014 and 2022.

If by October 1, 2008, a port and a polysilicon manufacturer do not sign a memorandum of understanding to site a plant, the bill is null and void.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): The substitute narrows the qualified preproduction development expenditures by excluding capital costs. Further, it adjusts the rate of the credit to 7.5 percent of qualified expenditures.

Appropriation: None.

Fiscal Note: Requested on February 22, 2008.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: This proposed site in Walla Walla County is competing against several countries and other states in the US. This is a $1.6 billion investment and is important to eastern Washington. We have provided aerospace incentives, which have produced jobs. Likewise, this investment will create 300 high paying jobs in eastern Washington. Washington has the power that this plant needs, and this incentive creates revenues and jobs for Washington. This will place more value on the property tax rolls and will lower residential property tax bills. There is also increased B&O tax revenues to the state. Solar energy is good for the economy and the environment, which this plant will encourage. There are a lot of jobs related in construction of the facility and ancillary service jobs. Walla Walla County is on the short list.

Persons Testifying: PRO: Senator Delvin, prime sponsor; Greg Tomkins, Walla Walla County.