SENATE BILL REPORT
ESHB 3014

As of Second Reading

Title: An act relating to modifying the sales and use tax deferral program for investment projects in rural counties.

Brief Description: Modifying the sales and use tax deferral program for investment projects in rural counties.

Sponsors: House Committee on Finance (originally sponsored by Representatives Kessler, Morrell and Van De Wege; by request of Governor Gregoire).

Brief History: Passed House: 3/17/10, 87-6.
Committee Activity:

Staff: Jack Brummel (786-7428)

Background: 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 Rural County Sales and Use Tax Deferral Program (program) grants a deferral of sales and use tax for manufacturing, including computer-related businesses, research and development laboratories, commercial testing facilities, and vegetable seed conditioning facilities located in rural counties, Community Empowerment Zones (CEZ), or a county containing a CEZ.

The sales and use taxes on qualified construction and equipment costs for such businesses located in these specific geographic areas are waived when all program requirements have been met and verified. These waiver requirements include: (1) an annual report covering each calendar year that must be filed by March 31 of the following year; (2) a verification by the Department of Revenue (DOR) that all purchases are eligible; (3) use of the facility for qualified activities during the year in which the investment project is certified as operationally complete by the DOR and for each of the following seven years; and (4) that

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employment requirements have been met for a business located in a CEZ or county containing a CEZ.

This program is scheduled to expire on July 1, 2010.

Summary of Bill: Beginning July 1, 2010, the program is changed to include only distressed counties and CEZs. A distressed county means a county that has an unemployment rate which is at least 20 percent above the state average for three years as determined by the Employment Security Department.

The definition of manufacturing in the deferral program and the rural county B&O (business and occupation) tax credit program is clarified to include computer programming and other related services only if the service provides a new, different, or useful substance or article of tangible personal property for sale. This definition applies retroactively. Computer programming and other computer related services are eliminated from the definition of manufacturing beginning July 1, 2010.

Tax deferrals may remain in place for up to two years during periods of temporary shutdowns. This is limited to facilities in counties with a population of less than 20,000 people and where the remaining labor force at the project is greater than 10 percent of labor force at the time the deferral was approved by the DOR.

Appropriation: None.

Fiscal Note: Available on substitute bill.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2010, except section 3, relating to the Department of Revenue compiling a list of distressed counties, which takes effect 90 days after adjournment of the session in which the bill is passed.