

HOUSE BILL REPORT

HB 1943

As Reported by House Committee On:
Community Development & Housing

Title: An act relating to exempting certain manufacturing research and development activities from business and occupation taxation.

Brief Description: Exempting certain manufacturing research and development activities from business and occupation taxation.

Sponsors: Representatives Smith, Clibborn, Kenney and Sells.

Brief History:

Committee Activity:

Community Development & Housing: 2/16/11, 2/17/11 [DPS].

Brief Summary of Substitute Bill

- Provides a business and occupation tax exemption on the value of products manufactured pursuant to research and development, and a licensing agreement with the University of Washington or Washington State University.
- Requires the licensing agreement to be entered into between July 1, 2011, and June 30, 2015.
- Limits the exemption to the first five years of product production.

HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT & HOUSING

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Kenney, Chair; Finn, Vice Chair; Smith, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Maxwell, Ryu, Santos and Walsh.

Staff: Jennifer Thornton (786-7147).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited in the State General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. Following are the four major B&O classifications and corresponding rates:

B&O Classification	Rate
Retailing	.00471
Wholesaling	.00484
Manufacturing	.00484
Service and Other Activities	.018

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are various tax preferences, including exemptions, deductions, credits, and deferrals, for specific types of business activities.

One B&O tax preference allows a tax deferral for qualified research and development expenditures at certain high technology businesses. Under that tax preference, research and development activities are defined as activities performed to discover technological information and technical activities concerned with translating technological information into new or improved products, processes, or inventions. This definition does not include adaption or application of an existing product unless substantially improved by technology.

Each recipient of a research and development tax deferral must file a complete annual survey with the Department of Revenue (Department). The survey must contain the amount of the tax preference claimed and information about employment positions located in Washington. Information on the amount of tax preference claimed may be disclosed to the public under certain circumstances. The amount of the tax preference claimed is due immediately if a person fails to submit a complete annual survey by the due date. The Department must prepare a summary of statistics by category and report these statistics to the Legislature.

Summary of Substitute Bill:

A B&O tax exemption applies to the value of products manufactured in Washington pursuant to a licensing agreement entered into between July 1, 2011, and June 30, 2015, with the University of Washington or Washington State University. The products must be the result of research and development activities conducted by either or both universities. The exemption applies only during the first five years of production. "Research and development" is defined the same as research and development under the tax deferral for high technology businesses.

A person claiming the exemption must keep the relevant records establishing the right to the exemption and must file a complete annual survey with the Department.

The Department, in consultation with the University of Washington and Washington State University, must review and report on this tax exemption program to the Governor and the Legislature beginning December 1, 2014. For any subsequent years during which the exemption is claimed, a report must be submitted by December 1 of the following year.

Substitute Bill Compared to Original Bill:

The substitute bill: (1) clarifies that the B&O tax exemption is based on the value of products that are manufactured, and removes the reference to products produced in Washington; (2) specifies that to qualify for the exemption, the products must have resulted from research and development activities conducted by the University of Washington or Washington State University, or both, and the licensing agreement with the university must be entered into between July 1, 2011, and June 30, 2015; (3) defines "research and development" the same as under the B&O tax deferral for qualified research and development expenditures; (4) requires a business claiming the exemption to keep records establishing the right to the exemption and to file a complete annual survey with the Department; (5) requires the Department to report on this tax exemption program to the Governor and the Legislature by December 1 following any year in which the exemption is claimed, beginning in December 2014; and (6) removes the emergency clause.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This is a bill in the Senate that we wanted to bring to the House of Representatives. It supports testimony that we have heard in the committee. In our global health work session we heard that that while we are an epicenter of research and development, only 2 percent of what is discovered here is manufactured in the state. If we look more broadly, we would find stories of being the birthplace of innovation but manufacturing going elsewhere. This is intended to show that we are serious about providing the opportunities for products to be manufactured here.

(Opposed) None.

Persons Testifying: Representative Smith, prime sponsor.

Persons Signed In To Testify But Not Testifying: None.