Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2204

Brief Description: Reestablishing the rural county sales and use tax exemption program.

Sponsors: Representatives Manweller, Haler, Buys, Chandler, Blake, Short, Pike, Hayes, Condotta, Vick and Warnick.

Brief Summary of Bill

- Modifying county eligibility requirements for the sales and use tax deferral program for investment projects in high unemployment counties.
- Includes a tax preference performance statement describing the specific public policy objective of the legislation as well as the data and metrics for measuring the legislation's effectiveness in achieving the public policy objective.

Hearing Date: 1/16/14

Staff: Richelle Geiger (786-7175).

Background:

Retail Sales and Use Tax
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.

High Unemployment Sales and Use Tax Deferral Program
The High Unemployment Sales and Use Tax Deferral Program (program) grants a deferral of sales and use tax for manufacturing, including research and development laboratories, commercial testing facilities, and vegetable seed conditioning facilities located in a county with an unemployment rate which is at least 20 percent above the state average for three years or a community empowerment zone, an area with at least 51 percent of households at or below 80

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percent of the county's median income and an average unemployment rate at least 120 percent of the average unemployment rate of the county.

From 1985 to 1999 manufacturers located within a county that met unemployment criteria were eligible for the program. Legislation passed in 1999 that replaced the unemployment criteria with the requirement that eligible manufacturers must be located within a county with a population density between 60 and 100 people per square mile or smaller than 225 square miles. Legislation passed in 2010 that eliminated the population and geographic criteria and reenacted county eligibility based on unemployment criteria.

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. This program is scheduled to expire on July 1, 2020.

<u>Tax Preferences.</u>
In 2013 the Legislature passed Engrossed Substitute Senate Bill 5882 (ESSB 5882), which requires all new tax preference legislation to include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference.

ESSB 5882 also establishes an automatic 10-year expiration date for new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

Summary of Bill:

Manufacturers located in counties with a population density between 60 and 100 people per square mile or a county smaller than 225 square miles are eligible for the program. Manufacturing is defined to also include, computer programming, the production of computer software and other computer- related services performed by a manufacturer. The program is extended from July 1, 2020 to July 1, 2024. These changes take effect July 1, 2014.

The bill's tax preference performance statement specifies that the public policy objective is to incentivize private sector investment, diversify state employment opportunities, and create jobs in rural counties by reinstating the rural sales tax program for a period of 10 years. The tax preference performance statement requires JLARC to use data collected from the department of revenue, employment security department and tax preference recipients on employment rates in rural counties as well as property tax revenue and capital investment associated with projects qualifying for the sales and use tax deferral under this act to evaluate the actual fiscal impact of the bill compared to the fiscal note provided to the legislature prior to the enactment of the legislation.

Appropriation: None.

Fiscal Note: Available.

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