

SENATE BILL REPORT

SB 6430

As Reported by Senate Committee On:
Trade & Economic Development, February 4, 2014

Title: An act relating to extending tax preferences for high-technology research and development.

Brief Description: Extending tax preferences for high-technology research and development.

Sponsors: Senators Lias, Fain, Hobbs, Litzow, Eide, Dammeier, McAuliffe, Baumgartner, Cleveland, Angel and Ericksen.

Brief History:

Committee Activity: Trade & Economic Development: 1/30/14, 2/04/14 [DP-WM, DNP].

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Braun, Chair; Angel, Vice Chair; Holmquist Newbry and Lias.

Minority Report: Do not pass.
Signed by Senators Chase, Ranking Member; Pedersen.

Staff: Jeff Olsen (786-7428)

Background: The high technology business and occupation (B&O) tax credit and sales tax deferral are allowed for qualified research and development spending through January 1, 2015. The B&O credit for each taxpayer may not exceed \$2 million or the amount of tax liability for the calendar year, whichever is less. The sales tax deferral/exemption program provides a deferral and waiver of state and local sales and use taxes on construction of facilities and purchases of eligible machinery. To qualify, a firm must be engaged in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, or environmental technology.

Summary of Bill: The high technology B&O tax credit and the high technology sales and use tax deferral/exemption programs are extended until January 1, 2040.

Appropriation: None.

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.

Fiscal Note: Available.

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: Washington has a diverse high technology and life sciences industry that we need to foster. The innovation economy is critical to the success of the state. Washington needs to retain and recruit new companies, and by extending the research and development (R&D) tax credits, we stay competitive with other states and other parts of the world for very limited R&D investments. Long-term certainty is required for attracting new R&D investments. Texas previously repealed their R&D tax credit and later restored it after determining the loss of the credit negatively impacted investments in Texas. The Joint Legislative Audit and Review Committee (JLARC) report does not have adequate data, and they did not recommend to repeal, only to clarify the goals of the tax incentive. The Citizen's Commission recommendation to sunset the incentive is based on flawed data.

CON: JLARC has reviewed the credit and reported that it is not effective. Less than 1 percent of job growth in the sector is due to the tax incentive, and \$45,000 is spent for every job created. The Citizen's Commission on Tax Reform recommended that the incentive should sunset. The Department of Revenue has also reviewed the tax credit and documented less job growth from companies using the tax credit. If allowed to sunset, revenues could be invested in other areas. There should be the same level of scrutiny on tax incentives as there are on spending of public funds.

Persons Testifying: PRO: Senator Liias, prime sponsor; John Drescher, NW Executive Director, TechNet; Tom Ranken, WA Clean Technology Alliance; Chris Rivera, WA Biotechnology and Biomedical Assn.; Michael Schutzler, Lew McMurrin, WA Technology Industry Assn.; Neil Strege, WA Roundtable; Amber Carter, Assn. of WA Business; Doug Levy, City of Redmond, WA Tech Cities Coalition.

CON: Nick Federici, Our Economic Future Coalition.