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**SENATE BILL 5701**

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**State of Washington 64th Legislature 2015 Regular Session**

**By** Senators Warnick, Hargrove, and Conway; by request of Office of Financial Management

AN ACT Relating to creating a business and occupation tax credit for advanced composite manufacturing and wholesaling; adding a new section to chapter 82.04 RCW; creating a new section; providing an effective date; providing an expiration date; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  (1) The legislature finds that the welfare of the people of the state of Washington is positively impacted through the encouragement and expansion of family wage employment in the state's manufacturing industries. The legislature further finds that targeting tax incentives to focus on key industry sectors is an important business climate strategy. The carbon fiber and carbon fiber composite industry is expanding rapidly as the demand for strong, lightweight, fuel efficient materials grows. To encourage its continued presence and growth in Washington, the legislature intends to enact tax incentives for the carbon fiber and carbon fiber composite industry sectors. This section is the tax preference performance statement for the business and occupation tax credit created in section 2 of this act.

(2) The legislature categorizes the tax preference in section 2 of this act as intended to improve industry competitiveness and create or retain jobs as indicated in RCW 82.32.808(2) (b) and (c), respectively. The legislature's specific public policy objectives are to increase the existing level of family wage employment in the carbon fiber and carbon fiber composite manufacturing industries in this state, and to increase the number of carbon fiber and carbon fiber composite manufacturing facilities in the state.

(3) The tax preference is expected to reduce the operating costs of carbon fiber, carbon fiber composite, and carbon fiber composite product manufacturers and increase the number of family wage manufacturing jobs and manufacturing facilities in these industries in Washington state.

(4) The joint legislative audit and review committee must review the tax preference provided in this act. As part of its review, the committee must specifically assess changes in carbon fiber, carbon fiber composite, and carbon fiber composite product manufacturing employment in Washington in comparison with other states and internationally. In addition, the committee must assess changes in the number of carbon fiber, carbon fiber composite, and carbon fiber composite product manufacturing facilities in the state. To the extent practicable, the committee must use occupational data statistics provided by the bureau of labor statistics and the employment security department to perform this assessment. The department of revenue must provide the joint legislative audit and review committee with annual survey information and any other tax data in its possession necessary to conduct the review.

(5) If a review finds that the aggregate number of family wage jobs in the carbon fiber, carbon fiber composite, and carbon fiber composite product manufacturing industries, and the aggregate number of manufacturing facilities in these industries, have increased in this state compared to those existing at the time of enactment of this act, then the legislature intends to extend the expiration date of the tax preference in section 2 of this act.

(6) The definitions in section 2 of this act apply to this section.

NEW SECTION. **Sec.**  A new section is added to chapter 82.04 RCW to read as follows:

(1) In computing the tax imposed under this chapter, eligible manufacturers and processors for hire are allowed a credit against the taxes otherwise due under this chapter in an amount as determined in subsection (2) of this section.

(2) The credit is equal to:

(a) Forty percent of the taxes due under this chapter on the manufacturing of carbon fiber, carbon fiber composites, or carbon fiber composite products, less any credit allowed against those taxes under RCW 82.04.440; and

(b) Forty percent of the taxes due on wholesale sales of carbon fiber, carbon fiber composites, or carbon fiber composite products, manufactured by the seller, less any credit allowed against those taxes under RCW 82.04.440.

(3) The credit is limited to five hundred thousand dollars per calendar year, per person.

(4) The total amount of credit in this section available statewide is four million dollars per calendar year.

(5) Credits may only be claimed on returns filed electronically using the department's online tax filing service, unless the department grants a waiver of this electronic filing requirement for good cause as defined in RCW 82.32.080.

(6) Credits are available on a first-in-time basis. The department must disallow any credit claimed in excess of the statewide cap. The department must assess interest as provided in chapter 82.32 RCW, but not penalties, on credits claimed in excess of the statewide cap.

(7) Credit earned for one tax reporting period must be claimed against taxes due under this chapter for that tax reporting period and may not be carried forward and claimed against taxes due in a subsequent tax reporting period.

(8) No credit under this section is allowed with respect to any activity taxable under RCW 82.04.260(11).

(9) A person claiming credits provided in this section must file a complete annual survey with the department under RCW 82.32.585.

(10) For the purposes of this section, the following definitions apply:

(a) "Carbon fiber" means a very strong and thin fiber containing at least ninety percent carbon, whether created by the controlled pyrolysis and thermal treatment of appropriate fibers or other process.

(b) "Carbon fiber composite" means a homogeneous material created by the synthetic assembly of selected filler or reinforcing elements and compatible carbon fiber matrix binder to obtain specific characteristics and properties. Carbon fiber composites includes bio-based carbon fiber composites containing a bio-based resin, or carbon fiber bio-based matrix. For purposes of this definition of carbon fiber composite, "bio-based" means an organic material derived from renewable materials, including agricultural, aquatic, and forestry materials.

(c) "Carbon fiber composite product" means: (i) Products consisting entirely of carbon fiber composite materials; and (ii) products containing one or more carbon fiber composite components, but only when the carbon fiber composite component and the product are manufactured by the same person.

(d) "Eligible manufacturers and processors for hire" means persons who, as either a manufacturer or processor for hire, manufacture carbon fiber, carbon fiber composites, or carbon fiber composite products.

(11) This section expires July 1, 2020.

NEW SECTION. **Sec.**  This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2015.

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