

HOUSE BILL REPORT

HB 1764

As Reported by House Committee On:
Technology & Economic Development

Title: An act relating to creating a business and occupation tax credit for advanced composite manufacturing and wholesaling.

Brief Description: Creating a business and occupation tax credit for advanced composite manufacturing and wholesaling.

Sponsors: Representatives Van De Wege, Stokesbary, Tharinger and Ryu; by request of Office of Financial Management.

Brief History:

Committee Activity:

Technology & Economic Development: 2/17/15, 2/19/15 [DP].

Brief Summary of Bill

- Establishes a business and occupation tax credit for manufacturers or processors for hire that manufacture carbon fiber, carbon fiber composites, or carbon fiber composite products.

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: Do pass. Signed by 13 members: Representatives Morris, Chair; Tarleton, Vice Chair; Smith, Ranking Minority Member; DeBolt, Assistant Ranking Minority Member; Fey, Harmsworth, Hudgins, Magendanz, Nealey, Ryu, Santos, Wylie and Young.

Staff: Kirsten Lee (786-7133).

Background:

Business and Occupation Tax.

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, without any deduction for the costs of doing business. Businesses must pay B&O tax even though they

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may not have any profits or may be operating at a loss. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and activities not classified elsewhere. Several lower rates also apply to specific business activities

Tax Preferences.

In 2013 legislation was enacted requiring 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. Under the legislation, new tax preferences expire in 10 years, unless an alternate date is provided.

Summary of Bill:

Tax Preference.

A B&O tax credit is created for manufacturers and processors for hire of carbon fiber, carbon fiber composites, or carbon fiber composite products. The tax credit is 40 percent of the taxes due on the manufacturing and wholesale sales of carbon fiber, carbon fiber composites, or carbon fiber composite products.

The following conditions apply to the tax credits:

- The credit is limited to \$500,000 per calendar year per person.
- There is a \$4 million credit statewide limit per year.
- Credits are available on a first-in-time basis.
- Credits do not carry over to another tax reporting period.
- The credit does not apply to the manufacturing of commercial airplanes, including manufacturing tooling specifically designed for use in manufacturing commercial airplanes or components of such airplanes, or making sales, at retail or wholesale, of such airplanes, components, or tooling manufactured by the seller.

The carbon fiber and carbon fiber composite manufacturing tax preference expires on July 1, 2020.

Tax Preference Performance Statement.

The tax performance statement specifies that the public policy objective is to: improve industry competitiveness; create or retain jobs specifically to increase the existing level of family wage employment in the carbon fiber and carbon fiber composite manufacturing industries; and to increase the number of carbon fiber and carbon fiber manufacturing facilities in the state. The JLARC must compare employment changes related to carbon fiber, carbon fiber composite, and carbon fiber composite manufacturing in relation to other

states and internationally and assess changes in the number of carbon fiber, carbon fiber composite, and carbon fiber composite product manufacturing facilities in the state. The JLARC must use occupational data provided from the Employment Security Department and the Bureau of Labor Statistics to perform the assessment when possible. The Department of Revenue is required to provide the JLARC with other tax data relevant to their review.

If the JLARC finds that jobs and the number of facilities have increased related to carbon fiber, carbon fiber composite, and carbon fiber composite product manufacturing, the tax preference, due to the Legislature intends to extend the expiration of date of the tax preference.

Definitions.

"Carbon fiber" is a very strong and thin fiber containing at least 90-percent carbon, whether created by the controlled pyrolysis and thermal treatment of appropriate fibers or other process.

"Carbon fiber composite" is a homogenous material created by the synthetic assembly of selected filler or reinforcing elements and compatible carbon fiber matrix binder to obtain characteristics and properties. Carbon fiber composites include bio-based carbon fiber composites contain bio-based resin, or carbon fiber bio-based matrix. 'Bio-based' means an organic material derived from renewable materials, including agricultural, aquatic, and forestry materials.

"Carbon fiber composite product" means: (1) products consisting entirely of carbon fiber composite materials; and (2) products containing one or more carbon fiber composite components, but only when the same person manufactures the carbon fiber composite component and the product.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2015.

Staff Summary of Public Testimony:

(In support) Tax preferences are a tool to help support industries that have potential for significant growth. The composite industry is an industry that is expected to a 30 percent growth across the globe between now and 2019. Washington already has a significant presence in the composite industry and will be home to the largest carbon manufacturing facility in the world. Certain businesses in segments of the composites industry are not eligible to use existing tax preferences, including businesses related to military aircraft, helicopters, unmanned aerial vehicles, and space vehicles. In addition, the automotive, maritime, sporting goods, and construction industries are also benefited by the composites industry and have the potential to grow significantly. The goal is to incentivize businesses,

so the composite industry continues to grow in Washington. The composite industry is highly competitive and many states around the nation and in other nations want to lead in this industry. This legislation creates a pilot program to test the benefits of using a B&O tax preference to grow the composite industry.

(Opposed) None.

Persons Testifying: Representative Van De Wege, prime sponsor; and Alex Pietsch, Office of the Governor.

Persons Signed In To Testify But Not Testifying: None.