SENATE BILL REPORT
SB 6355

As of February 1, 2016

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

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

Sponsors: Senators Frockt, Fain, Mullet, Rivers, Hobbs, Carlyle, Liias and McAuliffe.

Brief History:
Committee Activity: Trade & Economic Development: 2/03/16.

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Staff: Jeff Olsen (786-7428)

Background: In 1994, the Legislature authorized business and occupation tax (B&O) credits for qualified research and development (R&D) expenditures, and a sales tax deferral program for high- technology R&D and pilot-scale manufacturing facilities. The R&D tax preferences expired January 1, 2015. The B&O tax credit was available for qualified R&D spending in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology, and was capped at $2 million per year per person. The sales tax deferral was available for construction of qualified R&D facilities, pilot-scale manufacturing facilities, and related machinery and equipment.

Summary of Bill: A research and development B&O tax credit and sales tax deferral program are created, effective January 1, 2017, and expiring January 1, 2026. A business whose qualified R&D spending exceeds 0.92 percent of the business's taxable amount is eligible to receive a B&O tax credit for qualified R&D expenditures performed in the fields of life science and environmental technology. The B&O tax credit is calculated by multiplying 1.5 percent times the greater of: (1) qualified R&D expenditures that exceed 0.92 percent of the business's taxable amount; or (2) 80 percent of the compensation received for conducting qualified R&D under contract. The total tax credit that may be claimed by a person is capped at the lesser of $500,000 or the amount of total B&O tax due for the calendar year.

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.

The Department of Revenue (DOR) must issue a sales and use tax deferral certificate upon receipt of an application from a person for an eligible investment project. To qualify, the application must indicate that meaningful construction will occur within 5 years of the application date. An investment project includes qualified buildings, including labor and services rendered in the planning, installation, and construction or improvement of the project. Investment in qualified machinery and equipment is not tax deferrable. An eligible investment project means an investment project that either initiates a new operation or expands or diversifies a current operation by expanding or renovating an existing facility. Qualified building includes construction of new structures and expansion or renovation of existing structures for the purpose of increasing floor space or production capacity used for pilot-scale manufacturing or qualified R&D. Qualified R&D includes activities performed within this state in the fields of life science and environmental technology.

The total amount of sales and use tax deferred is limited to $1 million per eligible project, per person, and only one eligible project per person may qualify for a deferral under this chapter per calendar year. The DOR may not issue a deferral certificate for investment projects that have already received certain other deferrals for Investment Projects in Rural Counties or High Technology Businesses. However, qualified R&D projects that are being adapted for use in pilot-scale manufacturing are eligible, even if they have previously received a deferral.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2017.