

SENATE BILL REPORT

SB 5916

As Reported by Senate Committee On:
Ways & Means, April 4, 2017

Title: An act relating to the continuation of tax preferences supporting the semiconductor materials manufacturing industry.

Brief Description: Concerning the continuation of tax preferences supporting the semiconductor materials manufacturing industry.

Sponsors: Senators Rivers, Cleveland and Wilson.

Brief History:

Committee Activity: Ways & Means: 4/04/17, 4/04/17 [DPS, DNP, w/oRec].

Brief Summary of Substitute Bill

- Extends the following two tax preferences that support the solar silicon manufacturing industry: (1) the expiration date of a preferential business and occupation tax rate for semiconductor manufacturing from 2018 to 2028, and (2) the expiration date of a sales and use tax exemption for gases and chemicals used in the production of semiconductor materials from 2018 to 2028.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5916 be substituted therefor, and the substitute bill do pass.

Signed by Senators Braun, Chair; Brown, Vice Chair; Rossi, Vice Chair; Honeyford, Vice Chair, Capital Budget ; Bailey, Becker, Fain, Miloscia, Padden, Rivers, Schoesler, Warnick and Zeiger.

Minority Report: Do not pass.

Signed by Senators Ranker, Ranking Minority Member; Rolfes, Assistant Ranking Minority Member, Operating Budget; Carlyle, Darneille, Hasegawa and Pedersen.

Minority Report: That it be referred without recommendation.

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.

Signed by Senators Frockt, Assistant Ranking Minority Member, Capital Budget; Billig, Conway and Keiser.

Staff: Carrie Graf (786-7708)

Background: Business and Occupation (B&O) Tax. Washington's major business tax is the 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 cost of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. The general manufacturing B&O rate is 0.484 percent. Current law authorizes multiple exemptions, deductions, and credits to reduce the B&O tax liability for specific taxpayers and business industries.

Retail Sales Taxes. Retail sales taxes are imposed on retail sales of most articles of tangible personal property. A retail sale is a sale to the final consumer or end user of the property. If retail sales taxes were not collected when the consumer purchased the property, then the consumer owes use tax on the value of the property. The state sales and use tax rate is 6.5 percent. Most cities and all counties also levy retail sales and use taxes, with rates varying from 0.5 percent to 3 percent.

Preferential B&O Manufacturing Rate for Solar Energy and Silicon Product Manufacturers. Washington tax law provides a preferential B&O manufacturing rate of 0.275 percent on the manufacture or process for hire of semiconductor materials. The exemption is set to expire December 1, 2018.

Sales Tax Exemption for Gases and Chemicals Used in the Production of Semiconductor Materials. Washington tax law provides a sales tax exemption for sales of gases and chemicals used by a manufacturer or processor for hire in the production of semiconductor materials. The exemption is set to expire December 1, 2018.

Summary of Bill (First Substitute): Both the preferential B&O manufacturing rate of 0.275 percent for manufacturers and processors for hire of semiconductor materials and the sales tax exemption for gases and chemicals used in the production of semiconductor materials are extended to December 1, 2028.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Modifies a technical error in the tax preference performance statement that at least 80 percent, rather than 8 percent, of the high-wage jobs created pay \$35 per hour or more.

Appropriation: None.

Fiscal Note: Requested on March 29, 2017.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: Several years ago SW Washington was developed as a high tech corridor, and this tool was successful in attracting high tech businesses to Washington. The semi-conductor manufacturing industry has made a significant capital investment in SW Washington, resulting in thousands of both middle and high wage jobs. The semi-conductor cluster is recognized as an industry of statewide significance, and this tax incentive plays a pivotal role in attracting expansion and new investments in Washington, resulting in thousands of family wage jobs for Washington.

Persons Testifying: PRO: Senator Ann Rivers, Prime Sponsor; Max Ault, VP, Columbia River EDC.

Persons Signed In To Testify But Not Testifying: No one.