Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1807

Brief Description: Extending the tax preference for investment projects in distressed counties and community empowerment zones.

Sponsors: Representative Orcutt.

Brief Summary of Bill

- Extends the tax preference for investment projects in distressed counties and community empowerment zones until 2030.

Hearing Date: 2/21/19

Staff: Rachelle Harris (786-7137).

Background:

Retail Sales and Use Tax.
Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

Tax Preference Performance Statement.
State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative

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Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Tax Deferrals for Investment Projects in Economically Distressed Counties.
Qualifying businesses located in economically distressed areas may defer paying sales or use tax on the following investments:
- new construction, or expansion or renovation of existing facilities; and
- new machinery or equipment purchases.

The deferral is available in two types of economically distressed areas:
1. A high unemployment county designated by the Employment Security Department. A high unemployment county has unemployment that is at least 20 percent above the state average for the three prior calendar years; and
2. A community empowerment zone (CEZ) designated by the Department of Commerce. CEZs are located in cities or unincorporated areas that have at least 51 percent of households with incomes at or below 80 percent of the county median income, the average unemployment rate is at least 120 percent of average unemployment rate in the county, and where a five year community empowerment plan has been adopted.

Applicants for the deferral must establish at the time that the project is operationally complete that the business will hire at least one qualified person for every $750,000 of investment for which a deferral is requested and that the positions will be filled by residents of the community empowerment zone. The position must be filled by the end of the calendar year following the year the project is certified as operationally complete.

The recipient of the deferral must begin paying deferred taxes in the third year after the project is operationally complete. The deferred taxes are waived if businesses continue to use the facilities, machinery, or equipment as intended for a total of eight years.

The Department of Revenue cannot issue deferral certificates after July 1, 2020.

Summary of Bill:

The DOR may issue deferral certificates for the tax preference for investment projects in distressed counties and community empowerment zones until July 1, 2030.

A TPPS categorizes the preference as one intended to create or retain jobs. If the JLARC review finds that a taxpayer higher and retains additional employees for the deferral period, the legislature intends to extend the tax preference.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.