

SENATE BILL REPORT

SB 5849

As of January 26, 2022

Title: An act relating to tax incentives.

Brief Description: Concerning tax incentives.

Sponsors: Senator Warnick.

Brief History:

Committee Activity: Business, Financial Services & Trade: 1/25/22.

Brief Summary of Bill

- Modifies a requirement for the targeted urban area property tax exemption.
- Reauthorizes the sales and use tax deferral for qualifying businesses that invest in facilities, machinery, or equipment in certain distressed areas.
- Extends the expiration date for the reduced business and occupation tax rate for manufacturers of certain kinds of solar energy systems and their components from July 1, 2027, to July 1, 2032.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Staff: Alia Kennedy (786-7405)

Background: Targeted Urban Area Property Tax Exemption. Cities and towns are authorized to grant a ten-year local property tax exemption for new industrial or manufacturing facilities in designated areas. Industrial or manufacturing facilities must be at least 10,000 square feet with an improvement value of at least \$800,000 and meet certain building use standards by the United States Department of Labor. New construction of industrial or manufacturing facilities must:

- be within a targeted area designated by the city;

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- be on land that has no existing building improvements and that is zoned for an industrial or manufacturing use as of December 31, 2014;
- meet all construction and development regulations of the city; and
- be completed within three years from the date of approval of the application.

Within one year of building occupancy, the facility must create at least 25 family living wage jobs with an average wage of at least \$23 per hour.

A property owner seeking the exemption must apply to the city, pay any applicable fees, and enter into a contract with the city agreeing to terms and conditions of the implementation of the development. An application must be approved by a city governing authority or its authorized representative. The contract into which an applicant must enter with the city must be approved by the city governing authority, or an administrative official or commission authorized by the governing authority. No application for exemption may be submitted on or after December 31, 2030.

The value of the property tax exemption is provided on the value of eligible improvements and applies only to the city portion of the property tax. A county may, by resolution, allow any property receiving an exemption from city property taxes to also receive an exemption from county property taxes.

Tax Deferrals for Investment Projects in Rural Counties. Qualifying businesses located in economically distressed areas do not pay sales or use tax on the construction, or expansion or renovation of existing facilities; or machinery and equipment.

The preference applies to two types of economically distressed areas:

- high unemployment counties designated by the Employment Security Department based on recurring above average unemployment rates; and
- community empowerment zones designated by the Department of Commerce.

Community empowerment zones are located in cities or unincorporated areas and are characterized by limited employment opportunities and educational services, a lack of affordable housing, and deteriorating infrastructure.

The deferred taxes are waived if businesses continue to use the facilities, machinery, or equipment as intended for a total of eight years. The preference has no expiration date; however, under current law, the Department of Revenue (DOR) cannot issue deferral certificates for this program after July 1, 2020.

Reduced Business and Occupation Tax Rate for Solar Energy and Silicon Product Manufacturers. A reduced business and occupation (B&O) tax rate of 0.275 percent to manufacturers of certain kinds of solar energy systems and their components. Without the preference, these manufacturers would pay a B&O tax rate of 0.484 percent.

The preference applies to:

- manufacturers of solar energy systems using photovoltaic modules or stirling converters; and
- manufacturers of certain components of solar energy systems, specifically, solar grade silicon, silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers for use exclusively in solar energy systems.

The preference also includes the wholesale sales of these systems or components by their manufacturers.

The reduced B&O tax rate expires July 1, 2027.

Tax Preference Performance Statement. State law provides 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. 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 that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

Summary of Bill: Targeted Urban Area Property Tax Exemption. The requirement that new construction of industrial or manufacturing facilities must be on land that has no existing building improvements and is zoned for an industrial or manufacturing use as of December 31, 2014, is removed.

Tax Deferrals for Investment Projects in Rural Counties. DOR must begin accepting applications for the sales and use tax deferral for qualifying businesses that invest in facilities, machinery, or equipment in certain distressed areas.

Sales and use tax deferral applications must be submitted before construction begins on the investment project or acquisition of equipment or machinery.

The application for a deferral must be in a form and manner prescribed by DOR. Applications must contain the following information:

- the location of the investment project;
- the applicant's average employment in the state for the prior year;
- estimated or actual new employment related to the project;
- estimated or actual wages of employees related to the project;
- estimated or actual costs;
- time schedules for completion and operation; and
- other information as required by DOR.

DOR must rule on applications within 60 days and must keep a running total of all deferrals granted each fiscal biennium.

This sales and use tax deferral program expires July 1, 2032.

Reduced Business and Occupation Tax Rate for Solar Energy and Silicon Product Manufacturers. The expiration date for the reduced B&O tax rate of 0.275 percent to manufacturers of certain kinds of solar energy systems and their components is extended from July 1, 2027, to July 1, 2032.

Tax Preference Performance Statement. The act contains a tax preference performance statement that applies to the reduced B&O tax rate for solar energy and silicon product manufactures. If a review finds that the number of people employed by the solar silicon industry in Washington is the same or more than in 2019, and that at least 60 percent of employees earn \$60,000 a year or more, then the Legislature intends to extend the expiration date of the tax preference.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill takes effect on July 1, 2022.

Staff Summary of Public Testimony: PRO: The state has experienced a decline in growth of the manufacturing industry. This bill would create jobs and support economic development. Jobs in the manufacturing and solar energy industries pay higher living wage jobs. The bill would result a significant amount of direct and indirect revenue growth. Supporting the manufacturing industry is import for the economic development of smaller, rural counties.

Persons Testifying: PRO: Senator Judy Warnick, Prime Sponsor; Bruce Beckett, Port of Moses Lake; Chuck Sutton, REC Silicon; Brant Mayo, Grant County Economic Development Council; Tommy Gantz, Association of Washington Business.

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