

Tax Incentive Overview

The Department of Revenue has many business tax incentive programs to encourage the creation and preservation of family-wage jobs in Washington. This overview provides a brief explanation of the tax incentives. You can obtain specific information on each program from the Department's web site at <http://dor.wa.gov/>.

GENERAL MANUFACTURING

Manufacturing Machinery and Equipment (M&E) Sales/Use Tax Exemption

A sales/use tax exemption is available to manufacturers for machinery and equipment used directly in a manufacturing or research and development operation. "Machinery and equipment" is defined as "industrial fixtures, devices and support facilities, and tangible personal property that becomes an ingredient or component there of." Persons claiming the exemption must provide the vendor with a completed Manufacturers' Sales and Use Tax Exemption Certificate or Buyers' Retail Sales Tax Exemption Certificate at the time of purchase.

Sales/Use Tax Deferral in Rural Counties/Community Empowerment Zones (CEZ)

A sales/use tax deferral is available for the construction of certain structures and acquisition of machinery and equipment for businesses engaged in qualifying activities that locate in rural counties, Community Empowerment Zone or a county containing a CEZ. Qualifying activities include manufacturing, research and development laboratories, commercial testing facilities, and computer-related businesses (excludes light and power businesses). If the structures or machinery and equipment are used in qualifying activities for specific periods of time, all or a portion of the deferred sales tax will be waived. An application must be filed with Department of Revenue before initiation of construction or acquisition of machinery and equipment. Persons receiving a tax deferral must file an Annual Survey. Failure to file the Annual Survey will result in repayment of a portion of deferred taxes. The program will expire on July 1, 2010.

Job Credit for Manufacturing in Rural Counties/CEZ

A business and occupation (B&O) tax credit of either \$2,000 or \$4,000 is allowed for each new employment position filled and maintained by manufacturers or research and development businesses located in a rural county or Community Empowerment Zone. The credit amount depends on annual wages and benefits. An application must be filed with Department of Revenue before filling new positions.

DISTRIBUTION CENTER/ WAREHOUSING/ GRAIN ELEVATORS/ COLD STORAGE

Distribution Center/Warehouse/ Grain Elevator/Cold Storage Warehouse Remittance Program

Wholesalers, retail distribution centers and third party warehouse qualify for a refund of the state's portion of the sales or use tax (6.5 percent) on the construction of distribution centers warehouses and grain elevators when certain size and use conditions have been met. Certain material handling and racking equipment may qualify for a partial refund of tax. Persons first pay the sales tax to their vendors at the time of purchase and then file an Application for Remittance with the Department for the refund. Cold storage warehouses meeting certain construction requirements can qualify effective July 1, 2007.

AEROSPACE MANUFACTURING

Business and Occupation (B&O) Tax Rate Decrease

As of October 1, 2005, manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes will report under a new B&O tax classification at the rate of 0.4325 percent. The B&O tax rate will be further reduced to 0.2904 percent on July 1, 2007, or when final assembly of a super-efficient airplane has begun, whichever is later. Persons claiming the reduced B&O tax rate are required to file an Annual Report. Failure to file the Annual Report will result in repayment of the amount of taxes reduced by the B&O tax rate. The reduced B&O tax rate will expire on July 1, 2024.

B&O Credit for Preproduction Development Expenditures

A B&O tax credit is available to manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes for qualified expenditures in research, design and engineering activities related to the development of aerospace products or models. The credit is equal to the amount of qualified expenditures multiplied by 1.5 percent. Persons claiming the reduced B&O tax rate are required to file an affidavit to claim the credit. Additionally, persons claiming the credit must file an Annual Report. Failure to file the Annual Report will result in repayment of the amount of taxes credited. The credit expires on July 1, 2024.

B&O Tax Credit for Property Taxes Paid on Property Used in Manufacturing Commercial Airplanes and Component Parts of Commercial Airplanes

A B&O tax credit is available to manufacturers and processors for hire of commercial airplanes or components for:

- property taxes paid on new buildings and land upon which the business is located; and
- property taxes attributable to the renovation or expansion of buildings, used exclusively in the manufacturing of commercial airplanes or component of such airplanes.

Property taxes paid on qualifying machinery and equipment is eligible for the credit in proportion to the amount of activity in manufacturing or commercial airplanes or its components. Persons claiming the credit must file an Annual Report. Failure to file the Annual Report will result in repayment of the amount of taxes credited. The credit will expire on July 1, 2024.

Sales/Use Tax Exemption for Computers

A sales/use tax exemption is available to manufacturers and processors for hire of commercial airplanes or component of such airplanes for the purchase of computer hardware, software and computer peripherals used primarily in the development, design and engineering of such products. The exemption includes installation charges. Persons claiming the exemption must provide the vendor with a completed Buyers' Retail Sales Tax Exemption Certificate at the time of purchase. The exemption will expire on July 1, 2024.

AEROSPACE MANUFACTURING

AGRICULTURE/ FOOD PROCESSING

Fruit and Vegetable Processing

Effective July 1, 2005, ESHB 2221 (Chapter 513, Laws of 2005) provides a B&O tax exemption for persons that manufacture fresh fruit and vegetables by canning, freezing, processing or dehydrating, and selling such products on a wholesale basis for transport out-of-state. Persons claiming this exemption must file an Annual Survey. Failure to file the Annual Survey will result in repayment of the amount of B&O taxes exempted.

Effective July 1, 2007, the legislation also provides a sales/use tax deferral program for the construction of certain structures and acquisition of machinery and equipment used in fresh fruit and vegetable processing and cold storage warehouse activation.

Sales/Use Tax Exemption for Farm M&E for Qualified Farmers in Qualifying Counties (Ag Burning Exemption)

A sales/use tax exemption is available for qualified farmers for the purchase or use of certain farm machinery and equipment. The exemption includes materials and labor and services for the construction of hay sheds for qualified farmers. Persons claiming the exemption must provide the completed Buyers' Retail Sales Tax Exemption Certificate to the seller at the time of purchase. Persons claiming this exemption must file an Annual Survey. Failure to file the Annual Survey will result in repayment of the amount of B&O taxes exempted. The exemption will expire on January 1, 2011.

Reduced B&O Rate for Manufacturing Alternative Energy Systems

Effective October 1, 2005, a reduced B&O tax rate of 0.2904 percent is available to businesses manufacturing solar energy systems using photovoltaic modules or silicon components of such systems and to businesses that sell such systems at wholesale. Persons claiming the reduced B&O tax rate are required to file an Annual Report. Failure to file the Annual Report will result in repayment of the amount of taxes reduced by the B&O tax rate. The reduced B&O tax will expire on July 1, 2014.

Biodiesel Fuel Manufacturers

The tax rate for manufacturers of biodiesel fuel, biodiesel feedstock, alcohol fuel, and wood biomass fuel is reduced to 0.138 percent.

There is also a property tax/leasehold excise tax exemption for operational real and personal property used primarily for manufacturing alcohol, biodiesel or wood biomass fuels. The buildings and equipment must be new and not have existed before July 2003.

Biodiesel/Alcohol Fuel Seller

A B&O deduction is available for income received from the distribution or sale of alcohol fuel containing at least 85 percent alcohol, biodiesel fuel, and wood biomass fuel. A sales and use tax exemption is also available for:

- qualifying machinery and equipment,
- construction of facilities used directly for the retail sale of biofuel blends, and
- purchase of fuel delivery vehicles and labor and service charges.

The deduction and exemption will expire on July 1, 2009.

ALTERNATIVE ENERGY

HIGH TECHNOLOGY

B&O Credit for Research and Development

A B&O tax credit is available to businesses performing research and development activities in advanced computing, advanced materials, biotechnology, electronic device technology and environmental technology within the state. Persons claiming the credit must file an annual survey. Failure to file the Annual Survey will result in ineligibility for the credit during the calendar year the Annual Survey is due. The credit will expire on January 1, 2015.

Sales/Use Tax Deferral/Exemption

A sales/use tax exemption is available for the construction of certain structures and acquisition of machinery and equipment used for research and development, and pilot scale manufacturing activities in advanced computing, advanced materials, biotechnology, electronic device technology or environmental technology. If the structures or machinery and equipment are used in qualifying activities for specific periods of time, a portion of the deferred sales tax may be waived. An application must be filed with Department of Revenue before initiation of construction or acquisition of machinery and equipment. Persons receiving a tax deferral must file an Annual Survey. Failure to file the Annual Survey will result in repayment of a portion of deferred taxes. The program will expire on January 1, 2015.

B&O Credit for Software Programming and Manufacturing in Rural Counties

A B&O tax credit of \$1,000 per calendar year for each new qualified employment position created in a rural county is available for persons engaged in the business of manufacturing computer software or programming. No application is required, but records must be maintained to verify eligibility. Persons claiming the credit must file an annual report in letter form. The credit will expire on January 1, 2011.

B&O Deduction for Third Party Help Desk Services

A B&O tax credit is available for persons in rural counties that provide information technology help desk services to third parties. The credit is equal to 100 percent of the B&O tax due that is attributable to providing such services. Information technology help desk services includes software and hardware, maintenance, diagnostics and troubleshooting, hardware installation, hardware repair, information and training, and upgrades using electronic telephonic communication. No application is required, but records must be maintained to verify eligibility. Persons claiming the deduction must file an annual report in letter form. The deduction will expire on January 1, 2011.

B&O Tax Exemption for Federal and State Research Grants

A B&O exemption is available for amounts received for research and development under the federal small business innovation research program, federal small business technology transfer program and state life sciences discovery fund.

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