High Unemployment County Sales and Use Tax Deferral Program
Eligible Counties from July 1, 2014 - June 30, 2016

Purpose
This Special Notice updates the list of counties that qualify for the High Unemployment County Sales and Use Tax Deferral Program from July 1, 2014 – June 30, 2016. This list is updated every two years. We have also provided a summary of the program and its requirements for your convenience.

What the deferral program provides
The High Unemployment County Sales/Use Tax Deferral Program grants a deferral of sales/use tax on purchases of qualifying machinery, equipment and construction to approved businesses that are:

• located in qualifying counties or Community Empowerment Zones (CEZs), and
• engaged in any of the activities listed below:
  • manufacturing
  • research and development laboratories
  • commercial testing facilities
  • vegetable seed conditioning

The Program allows for the waiver of the deferred sales and/or use tax when all program requirements have been met and verified.

This program expires on July 1, 2020.
Which counties qualify as eligible areas?

Qualifying counties are those counties with an unemployment rate that is at least 20 percent above the state average for the three calendar years immediately proceeding the year in which the list is published or updated. The list of eligible counties is published by the Washington State Employment Security Department.

The current list includes the 3 year average unemployment rate from January 2011 – December 2013. The eligible counties for applications received from **July 1, 2014 – June 30, 2016** are:

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The eligible counties for applications received from **July 1, 2012 – June 30, 2014** were:

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The eligible counties for applications received from **July 1, 2010 – June 30, 2012** were:

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Businesses making investment decisions need to be aware that the list is updated every two years. A specific area may not be on the list each time it is updated. Before making a final investment decision based on this program, the business should call the Special Programs Division at (360) 534-1503, option 6 to determine the eligibility of a particular area.

Which Community Empowerment Zones qualify as eligible areas?

All Community Empowerment Zones (CEZ) approved under RCW 43.31C.020 are eligible. They have a continuous eligible status and are not reevaluated annually. The following cities have designated community empowerment zones:

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<td>Bremerton</td>
<td>Spokane</td>
<td>White Center</td>
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<tr>
<td>Duwamish</td>
<td>Tacoma</td>
<td>Yakima</td>
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Maps of the CEZs are available on our website at [http://dor.wa.gov](http://dor.wa.gov). Under *Learn about*… select *Tax incentive programs* and scroll to the bottom of the page where you’ll find CEZ map links.
What are the business requirements for deferral program?

To qualify for the program, businesses must:

- Be located in a qualified county or a CEZ.
- Be engaged in manufacturing activities, the conditioning of vegetable seeds, or activities performed by research and development laboratories, or commercial testing laboratories.
- Invest in one or both of the following activities:
  - The construction of new structures, or expansion or renovation of existing structures to increase floor space or production capacity used for the qualifying activities.
  - The purchase of new industrial and research fixtures, equipment, and support facilities that are integral to the manufacturing or research and development operation.

What expenses qualify for the program?

Machinery and equipment

To qualify, the machinery and equipment must be new to the business, or, be new to the state (the businesses must move the items to Washington from outside the state).

Eligible machinery and equipment includes:
Computers; software; data processing equipment; laboratory equipment; manufacturing components such as belts, pulleys, shafts, and moving parts; molds, tools, and dies; operating structures; and all equipment used to control or operate the machinery.

Construction

The lessor or owner of a qualified building can be eligible for a deferral when:

- The underlying ownership of the buildings, machinery, and equipment vests exclusively in the same person; or
- The lessor by written contract agrees to pass the economic benefit of the deferral to the lessee;
  - The lessee agrees in writing with the Department to complete the Annual Tax Incentive Survey required under RCW 82.60.070; and
  - The economic benefit of the deferral passed to the lessee is no less than the amount of tax deferred by the lessor and is evidenced by written documentation of any type of payment, credit or financial arrangement between the lessor or owner of the qualified building and the lessee.

All costs of the investment project, including labor and services performed in the planning, installation, and construction of the project, are used to determine the eligible portion for deferral. If the facility is used partly for qualifying activities and partly for other purposes, the tax deferral shall be determined by apportioning the costs of construction.

Cogeneration facilities that are part of a manufacturing facility qualify on the portion that is used to generate power for on-site consumption.
What are the hiring requirements?

The program's hiring requirements apply only to businesses located in a CEZ. Those businesses must hire at least one permanent full-time employee for each $750,000 of investment for which the deferral is requested. The employee must be a resident of the CEZ or the county that contains the CEZ at the time of hiring. A mailing address alone is insufficient documentation to establish that an employee is a resident. Eligible persons cannot be hired until after the application is filed with the Department.

The qualified employment position must be filled by the end of the calendar year following the year in which the project is certified as operationally complete. If a business does not meet the hiring requirements by the end of the second calendar year following the year in which the project is certified as operationally complete, all deferred taxes are immediately due.

"Operationally complete" means the project is capable of being used for its intended purpose as described in the application.

How do I apply for the deferral program?

An application must be filed with the Department of Revenue before a building permit is issued for the project or the business takes possession of the machinery or equipment. Once the application is filed, construction or possession of machinery and equipment may begin.

The High Unemployment County Application for Sales & Use Tax Deferral and the High Unemployment County Application for Lessor for Sales & Use Tax Deferral are available on our website at http://dor.wa.gov under Get a form or publication.

The Department must approve or deny applications within 60 days. If approved, a Tax Deferral Certificate is issued to the business to provide to vendors and contractors at the time of purchase. If denied, the business may appeal the decision to the Department's Appeals Division.

What does the deferral certificate do?

The deferral certificate allows the business to purchase from vendors and contractors without paying retail sales tax. Sales and use tax may be deferred on three kinds of expenditures:

- Qualified buildings
- Qualified machinery and equipment
- Labor and services rendered in the planning, installation and construction of the project.

The program is not a comprehensive sale and use tax exemption. It does not relieve contractors or subcontractors of their obligation to pay tax on the purchase or rental of tools, equipment, and supplies that are not incorporated into the final project, even though the ultimate cost of the tax is passed on to the person making the investment.
Can I use the deferral certificate to purchase all my machinery and equipment?

No. Machinery and equipment that is used directly in the manufacturing operation should be purchased exempt from retail sales or use tax using the Manufacturer’s Sales and Use Tax Exemption (M&E) provided by RCW 82.08.02565 and RCW 82.12.02565. These exemptions are separate from the deferral program and do not require an application or Annual Tax Incentive Survey to be filed. Equipment that qualifies under the M&E exemption should not be included on the deferral application.

For information on equipment that qualifies for the M&E exemption, see WAC 458-20-13601 or our online Manufacturing Industry Tax Guide at http://dor.wa.gov under Get a form or publication, then select Industry specific guides.

When do I need to file the Annual Tax Incentive Survey?

Each recipient of a deferral, including a lessee who received the benefit through a lessor, must electronically file the survey by April 30th of the year following the calendar year in which the investment project was operationally complete. Filings continue for the seven succeeding calendar years.

To file a survey, go to our website at dor.wa.gov and login to My Account. If you don’t have an online account with Revenue, click on Join Now and follow the prompts. Once you’re logged in, click on Credits & Tax Incentives, then File Tax Incentive Survey/Report and complete the survey.

If a business fails to complete a survey by the due date, 12.5 percent of the deferred tax is immediately due plus applicable interest.

When does the Department of Revenue audit the project?

When your application is approved, a deferral certificate will be issued using the estimates from your application. Upon completion of the project, an auditor will verify that you are performing qualified activities at this facility. The auditor will also verify that the approved percentage of your structure and 100 percent of the machinery and equipment are eligible for deferral. Based on his or her findings, your allowable deferral may be adjusted.

To minimize inconvenience and the time it takes to complete an audit, please have the following records for the audit period available for your meeting with the auditor:
• Purchase invoices (i.e., accounts payable, receipts)
• Supporting documentation for the construction, such as construction contracts
• Original Sales and Use Tax Deferral Certificate

Although most audits can be completed with the above records, additional documents may be required during the audit.
Definitions

**Manufacturing:** means the same as defined in RCW 82.04.120.

“Manufacturing” also includes:

- The activities performed by research and development laboratories;
- The activities performed by commercial testing laboratories; and
- Conditioning of vegetable seeds.

Effective July 1, 2010, computer programming and computer-related services no longer qualify as manufacturing activities and do not qualify for the High Unemployment County Sales and Use Tax Deferral Program.

**Research and development:** means the development, refinement, testing, marketing, and commercialization of a product, service, or process before commercial sales have begun, but only when such activities are intended to ultimately result in the production of a new, different, or useful substance or article of tangible personal property for sale. Commercial sales excludes sales of prototypes or sales for market testing if the total gross receipts from such sales of the product, service, or process do not exceed $1 million dollars.

**Vegetable seeds:** include the seeds of those crops that are grown in gardens and on truck farms and are generally known and sold under the name of vegetable or herb seeds in this state. “Vegetable seeds” includes, but is not limited to, cabbage seeds, carrot seeds, onion seeds, tomato seeds, and spinach seeds. Vegetable seeds do not include grain seeds, cereal seeds, fruit seeds, flower seeds, tree seeds, and other similar properties.

**Permanent full-time employee:** must be employed in the eligible investment project during the entire tax year.

**Entire tax year:** means a full-time position that is filled for a period of 12 consecutive months.

**Full-time:** means at least 35 hours a week, 455 hours a quarter, or 1,820 hours a year.

Additional information

- For general information, visit our Tax Incentives page online at http://dor.wa.gov. Under Learn about… select Tax incentive programs.
- See WAC 458-20-24001, Sales and use tax deferral—Manufacturing and research/development activities in high unemployment counties—Applications filed after June 30, 2010.
- For questions regarding the program or completing the application for the deferral, please call our Special Programs Division at (360) 534-1503, option 6.