

September 12, 2003

TO: The Honorable Dino Rossi, Chair
Senate Ways and Means Committee

The Honorable Jim McIntire, Acting Chair
House Finance Committee

FROM: William N. Rice, Acting Director
Department of Revenue

SUBJECT: HIGH TECHNOLOGY TAX INCENTIVES STUDY

This study is the final of the three analyses required by RCWs 82.04.4452(8) and 82.63.020. These statutes require the Department to analyze the results of the high technology tax incentives for research and development (R&D). Prior reports were submitted in 1997 and 2000.

In 1994, the Legislature established a business and occupation (B&O) tax credit and the retail sales/use tax deferral/exemption for investment in R&D or pilot scale manufacturing by high tech firms in the state. The purpose of the study is to evaluate these programs in terms of job creation, company growth, development of new products, geographic diversification of the state economy, growth of R&D investment, and the location of new firms in Washington.

To date, 1,311 firms have utilized the B&O tax credit resulting in tax savings of \$204 million. There have been 393 approved projects eligible for the sales tax deferral/exemption program and the total tax exempted amounts to \$324 million.

This study provides evidence that high tech firms are increasing their investment in R&D in response to Washington's high tech incentive programs. Washington's incentives provide more tax relief than most all states that are considered our strongest competitors for high technology firms. The sales and use tax deferral for R&D facilities improves Washington's comparative tax burden. However, tax relief from the B&O tax credit for R&D spending does not appear to materially improve Washington's comparative tax burden.

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The report was prepared by the Research Division under the direction of Mary Welsh, Assistant Director. If you have any questions, please contact Mary at (360) 570-6076. Copies of the report are being distributed to each member of your committees, as well as staff. The Governor's office, the Department of Community, Trade and Economic Development and chairs of legislative economic development committees will also receive copies.

cc: The Honorable Gary Locke, Governor
The Honorable Tim Sheldon, Chair
Senate Economic Development Committee
The Honorable Velma Veloria, Chair
House Trade and Economic Development Committee