

Special Notice

Nov. 30, 2017

Intended audience: manufacturers who apply to this deferral program

‘Invest in Washington’ program

Change to this sales and use tax deferral program

Starting January 1, 2018, the Washington State Department of Revenue will accept two manufacturers for this deferral program each year instead of five. One manufacturer must be located in Eastern Washington. The other manufacturer must be located in Western Washington.

Manufacturers can get a sales and use tax deferral up to the first \$10 million in costs for eligible buildings, machinery and equipment on each investment project.

Applying for this program

Manufacturers must submit an application for this program before they initiate construction or before they acquire machinery or equipment. The department will determine eligibility for this program within 60 days. This program is available on a first-in-time basis.

Using the deferral certificate

Those approved for the program will receive a deferral certificate, which may be used to purchase “qualifying buildings” and “qualifying machinery and equipment” without paying sales or use tax.

Building owners can qualify for the deferral program

- The lessor or owner of the qualified building is eligible for deferral if:
- The underlying ownership of the buildings, machinery, and equipment vests exclusively in the same person; or
- The lessor:
 - By written contract, has agreed to pass the economic benefit of the deferral to the lessee;

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- The lessee that receives the economic benefit of the deferral agrees in writing with the department to complete the annual tax performance report; 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 other financial arrangement between the lessor or owner of the qualified building and the lessee.

Paying back these deferred taxes

The deferred taxes must be re-paid starting five years from the date that we certified the investment project and considered the project operationally complete. The first re-payment is 10% of the deferred taxes. This will be due December 31st of the fifth calendar year. Each annual re-payment will be 10% of the deferred taxes. These annual payments will also be due on December 31st for each of the following nine years. All of the outstanding deferred taxes will become immediately due if the manufacturing activity stops before the deferred taxes have been fully repaid.

Your tax return reporting requirements

There are two other requirements under this program.

First, the buyer's addendum must be completed and filed. Basically, you must report the tax preference amount you received under the "Tax Preference" section of the department's e-file tax return. This is because we consider this deferral a "new tax preference," which requires additional reporting requirements ([RCW 82.32.808](#)).

To fill out the buyer's addendum:

1. Start your online e-file process. Our system will take you to the buyer's addendum area in the e-file return.
2. Select the appropriate option from the list of exemptions in the drop-down menu.
3. Then, enter the purchase price that you paid on the sales where you claimed a deferral.

You must complete this addendum in addition to your regular tax reporting responsibilities. You don't need to report the preference amount you received if:

- Your tax benefit was less than \$1,000 per year; or
- Your business files tax returns with our department on an annual basis.

Second, you must file an Annual Tax Performance Report each year that you qualify for this program. You must file the first annual tax performance report by May 31 of the calendar year following the calendar year when we certify your project as operationally complete. The May 31 due date stays the same for the next seven calendar years.

For more information, please call our Telephone Information Center at 1-800-647-7706.

Definitions

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

"Qualified machinery and equipment" means all new industrial fixtures, equipment, and support

facilities that are an integral and necessary part of a manufacturing operation. “Qualified 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, monitor, or operate the machinery.

“Machinery and equipment” *does not* include the machinery and equipment used directly in the manufacturing operation that is eligible for the manufacturer’s sales and use tax exemption. You do not need to include these purchases in your deferral application because this machinery and equipment is already exempt from sales and use tax ([WAC 458-20-13601](#)).

“Eligible investment project” means an investment project for qualified buildings and machinery and equipment on two new, renovated, or expanded manufacturing operations, of which one must be located east of the crest of the Cascade Mountains and one must be located west of the crest of the Cascade Mountains. The deferral provided in this section only applies to the state and local sales and use taxes due on the first \$10 million dollars in costs for qualified buildings and machinery and equipment.

“Qualified buildings” means construction of new structures, and expansion or renovation of existing structures for the purpose of increasing floor space or production capacity, used for manufacturing, including plant offices and warehouses or other buildings for the storage of raw material or finished goods if such facilities are an essential or an integral part of a factory, mill, plant, or laboratory used for manufacturing. If a qualified building is used partly for manufacturing and partly for other purposes, the applicable tax deferral must be determined by construction cost apportionment under rules the department adopts.

“Initiation of construction” definition is listed in [RCW 82.63.010](#).