

**DESCRIPTIVE STATISTICS
FOR TAX INCENTIVE PROGRAMS**

**2007 Report Covering
Activity During Calendar Year 2006**

A Report to the Legislature

Washington State Department of Revenue
Cindi L. Holmstrom, Director

September 1, 2007



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
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September 1, 2007

TO: The Honorable Ross Hunter
Chair, House Finance Committee

The Honorable Margarita Prentice
Chair, Senate Ways and Means Committee

FROM: Cindi L. Holmstrom, Director

SUBJECT: DESCRIPTIVE STATISTICS 2007

This report summarizes information from surveys completed by taxpayers who participated in 11 tax incentive programs during calendar year 2006. The report is prepared in accordance with incentive statutes intended to provide accountability and a means to evaluate program effectiveness. Statutes require the Department to summarize survey information in descriptive statistics. Further analysis of program effectiveness is assigned variously to the fiscal committees of the Legislature, to the Joint Legislative Audit and Review Committee, and to the Department in future years.

B&O tax incentives resulted in reduced state revenues of \$24.9 million in 2006. Most of this was attributable to the B&O tax credit for high technology firms. The sales and use tax deferral/exemption for high technology and rural manufacturers totaled \$143.2 million in reduced state and local sales tax receipts.

Participants in the 11 incentive programs were required to complete a survey that asks questions such as the amount of the incentive taken and the number of employees by wage bands. These surveys are due to the Department by March 31 each year. For 2006 there were 1,200 taxpayers who participated in these incentive programs and reported a total employment of 248,000. Participants and their employees were counted more than once when they took part in multiple programs.

The statute directed that the Department only compile and summarize information provided by the taxpayers. However, significant additional effort was required by the Department to provide meaningful data on the incentives. Whenever possible, responses that appeared to be unreasonable were corrected by extrapolating and substituting data from tax records. Questions on full-time, part-time, and temporary employees and questions related to medical, dental, and retirement benefits could not be verified from existing records. In these cases, the Department directly contacted taxpayers to the extent possible given limited resources. Over 300 surveys (approximately 25 percent of all surveys filed) required correction of the data reported.

The Department is conducting further investigation and billing those taxpayers that took incentives and failed to file their survey or did not qualify for the incentive. To date 59 taxpayers that claimed the Business and Occupation tax credits and 18 taxpayers utilizing tax deferral programs have been assessed approximately \$500,000 in back taxes.

The unanticipated high rate of corrections has implications for further Department actions. Strategies are being investigated that would make it easier for taxpayers to fill out the survey and improve the quality of their responses. We are considering:

- Pre-filling certain questions on the survey such as registration number and amount of incentive reported in tax records,
- Building logic checks in the online survey to verify for reasonableness, and
- Proposing legislation to simplify and create more consistency in reporting requirements. The proposal would also extend the due date for the survey to April 30 in order to give taxpayers more time to carefully complete the survey.

The taxpayer survey was administered by our Special Programs Division and the report was compiled by the Research Division. If you have any questions, please contact Mary Welsh, Assistant Director of the Research Division, at (360) 570-6076.

cc: Governor Christine Gregoire
Members, House Finance Committee
Members, Senate Ways and Means Committee
Victor Moore, Director, OFM

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Chapter One

DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PROGRAMS:
EXECUTIVE SUMMARY

This is the third in a series of annual reports to the Legislature by the Washington State Department of Revenue. It results from various accountability statutes which require the Department to compile data from annual surveys filed by firms that participate in selected tax incentive programs.

This report covers activity during calendar year 2006. Taxpayers that make use of these incentives were required to file a survey by March 31, 2007. The data reported in this report are a synopsis of those surveys. The Department made a concerted effort to notify and then remind participants in the incentive program of their obligation to fill out a survey. Steps were taken to verify the information provided on the survey by matching responses with tax records such as tax returns reporting the amount of the incentive taken. Reasonableness checks were made for the information that could not be verified by agency records such as the amount of temporary and part-time employment and health and retirement benefits. To the extent possible given limited resources, the Department contacted taxpayers directly to check responses that appeared unreasonable. In all, the Department made corrections to about 300 out of 1,201 surveys, or about 25 percent of all surveys.

The Department is conducting further investigation and billing those taxpayers that took incentives and failed to file their surveys or did not qualify for the incentive. To date 59 taxpayers that claimed the business and occupation tax credits and 18 taxpayers that utilized tax deferral programs have been assessed approximately \$500,000 in back taxes.

The 2007 Descriptive Statistics report comprises eleven programs:

- B&O tax rate reduction for repair of commercial aircraft
- B&O tax rate reduction for manufacturers of timber and wood products
- B&O tax exemption for fruit/vegetable processors
- B&O tax exemption for producers of dairy products
- B&O tax exemption for producers of seafood products
- B&O tax credit for high tech R&D spending
- B&O tax credit for work force training expenditures
- B&O tax credit for aircraft pre-production expenditures (non-manufacturing)
- Sales tax deferral/exemption for manufacturers in rural counties
- Sales tax deferral/exemption for high tech R&D investments
- Sales tax deferral/exemption for biotech manufacturers

There are two additional tax incentive programs which will be added to the descriptive statistics report next year. These provide a sales/use tax deferral/exemption for construction of facilities and acquisition of machinery by producers of dairy or seafood products. These incentives take effect on July 1, 2007, and will be first reflected in the 2008 Descriptive Statistics report.

Basic information for all 11 programs is illustrated in Table 1.1 and 1.2.

The B&O tax credit for research and development spending had the most participants in 2006 with 484 firms as illustrated in Table 1.3. At the other extreme were the B&O tax credit for work force training expenditures and the sales tax deferral/exemption for the biotechnology industry; these programs were not utilized as much due to the lack of participants during the last six months of calendar year 2006. The B&O tax exemptions for dairy and seafood processors and the B&O tax credit for preproduction expenses for developing a super-efficient aircraft had only four participants during 2006. It should be noted that some firms participated in more than one program, so the overall participant counts are not additive.

Next, the aggregate revenue impacts are shown in Table 1.4. The B&O tax exemptions and credits totaled \$24.9 million in 2006 and represent taxes that would otherwise have been paid during the calendar year. The sales/use tax deferrals/exemptions totaled \$143.2 million and reflect the total state and local tax amounts that were deferred (and presumably will be exempt if qualifying criteria continue to be met) over the eight-year reporting period. Sales tax deferral/exemption participants first report in the year following the year in which the project was certified as operationally complete; they continue to report for the following seven years, as well. Thus, the information for these programs is not additive over time because the same sales tax impact data and employment information is repeated for the following seven years to assure continued eligibility for the eventual exemption. As a result, the 2007 surveys include sales tax deferral projects completed in calendar years 1999 through 2006.

The dollar totals for the high technology programs in Tables 3.2 and 5.2, which provide a breakdown by type of technology, did not match with the total reported dollar amounts claimed as shown in Tables 3.1 and 5.1 because some reporters failed to indicate the specific technology or reported multiple technologies on their surveys.

The program with the largest impact on tax receipts was the high tech sales tax deferral/exemption with a total revenue cost of \$80 million. Close behind was the rural county sales tax deferral/exemption with an aggregate impact of \$63.2 million. (As noted above, the dollar amount of the sales tax deferral/exemptions for a particular investment is reported each year up to a total of eight years. NOTE: Both sales tax programs include local sales tax impacts.) The other incentive with a relatively large revenue impact was the B&O tax credit for high technology with a reported \$17.5 million impact.

The total employment of 248,000 tax incentive participants is summarized in Table 1.5. These are NOT new jobs associated with the expansion of the firm. Rather, they are the total in-state jobs reported by firms who claimed the incentive. As with the total count of participants, the employment information is not additive because some firms reported total employment under more than one incentive program. There was some discrepancy in the reported number of jobs, particularly for firms with fewer than 50 employees. This may have been due to sole proprietors failing to count owners of the firm as employees. Also, the numbers did not exactly match when broken down by size of firm and by wage band.

The high tech sales tax deferral/exemption program was the most utilized program and affected 94,873 jobs for the firms that utilized the tax incentives in 2006. Following closely was the high tech B&O tax credit with 88,357 jobs. The rural county sales tax deferral/exemption totaled 31,168 jobs, and manufacturers of timber and wood products claiming the reduced B&O tax rate reported a total of 20,986 jobs.

The remainder of the report consists of one chapter for each of the eleven programs. These chapters start with background information about the tax incentive followed by tables which contain more detailed information as specified by statute.

Chapter One

**Table 1.1
COMPARISON OF TAX INCENTIVE PROGRAMS**

Overview of Programs Requiring Annual Descriptive Statistics - Part I

<u>Tax Incentive Program/Chapter</u>	<u>Statutory References</u>		<u>Program Dates</u>	
	<u>Tax Incentive</u>	<u>Accountability</u>	<u>1st Effective</u>	<u>Expires</u>
B&O TAX RATE REDUCTIONS:				
Aircraft repair (C 8)	82.04.250(3)	82.32.640	08/01/2003	07/01/2011
Manuf. timber/wood (C 9)	82.04.260(12)	82.32.630	07/01/2006	06/30/2024
B&O TAX EXEMPTIONS/DEDUCTIONS:				
Fruit & vegetables (C 2)	82.04.4266	82.32.610	07/01/2005	07/01/2012
Dairy products (C 11)	82.04.4268	82.32.610	07/01/2006	07/01/2012
Seafood products (C 12)	82.04.4269	82.32.610	07/01/2006	07/01/2012
B&O TAX CREDITS:				
High tech R&D (C 3)	82.04.4452	82.04.4452	01/01/1995	01/01/2015
Workforce training (C 10)	82.04.449	82.32.650	06/07/2006	07/01/2016
Aircraft, pre-production (C 7)	82.04.4487	82.32.635	07/01/2006	07/01/2024
SALES TAX EXEMPTIONS/DEFERRALS:				
Rural Counties (C 4)	82.60.040	82.60.070	07/01/1985	07/01/2010
High tech R&D (C 5)	82.63.030	82.63.020	01/01/1995	01/01/2015
Fruit & vegetables *	82.74.030	82.74.040	07/01/2007	07/01/2012
Dairy & seafood *	82.74.030	82.74.040	07/01/2007	07/01/2012
Biotech manufacturing (C 6)	82.75.030	82.32.645	07/01/2006	01/01/2017

*to be added for the 2008 report

Table 1.2
COMPARISON OF TAX INCENTIVE PROGRAMS

Overview of Programs Requiring Annual Descriptive Statistics - Part II

Tax Incentive Program / Chapter	Annual Survey		Summary of Tax Incentive
	First Report	Electronic Filing	
B&O TAX RATE REDUCTIONS:			
Aircraft repair (C 8)	2007	Yes	Rate of 0.2904% for firms certified by FAA to repair commercial aircraft.
Manuf. timber/wood (C 9)	2007	Yes	Rate of 0.2904% (FY 2007 = 0.4235%) for processing timber/manuf. wood products.
B&O TAX EXEMPTIONS/DEDUCTIONS:			
Fruit & vegetables (C 2)	2006	Yes	Exemption for income from processing fresh fruit & vegetables if sold out of state.
Dairy products (C 11)	2007	Yes	Exemption for income from manufacturing dairy products if sold out of state.
Seafood products (C 12)	2007	Yes	Exemption for income from manufacturing raw seafood products if sold out of state.
B&O TAX CREDITS:			
High tech R&D (C 3)	2005	Yes	Credit for expenditures on R&D by firms in five high tech areas.
Workforce training (C 10)	2007	No	50% of payments by employers who participate in customized employment training.
Aircraft, pre-production (C 7)	2007	Yes	Tax credit for pre-production costs related to manufacturing commercial aircraft.
SALES TAX EXEMPTIONS/DEFERRALS:			
Rural counties (C 4)	2005	No	Deferral/exemption for manufacturing or R&D facilities in rural counties or CEZs.
High tech R&D (C 5)	2005	No	Deferral/exemption for R&D/pilot scale manuf. facilities by firms in five high tech areas.
Fruit & vegetables*	2008	Yes	Deferral/exemption for facilities to process and store fresh fruit & vegetables.
Dairy & seafood*	2008	Yes	Deferral/exemption for facilities to manufacture and store dairy & seafood products.
Biotech manufacturing (C 6)	2007	No	Deferral/exemption for facilities to manufacture biotech products or medical devices.

Chapter One

Table 1.3
SUMMARY OF DESCRIPTIVE STATISTICS BY PROGRAM
Participation in Tax Incentive Programs by Calendar Year

Program	Number of Participants				
	2004	2005	2006	2007	2008
B&O RATE REDUCTIONS:					
Aircraft repair	n.a.	n.a.	3	#	#
Manuf. timber/wood	n.a.	n.a.	323	#	#
B&O EXEMPTIONS/DEDUCTIONS:					
Fruit & vegetables	32	42	40	#	#
Dairy products	n.a.	n.a.	4	#	#
Seafood products	n.a.	n.a.	4	#	#
B&O CREDITS:					
High tech R&D	557	535	484	#	#
Workforce training	n.a.	n.a.	0	#	#
Aircraft, pre-production	n.a.	n.a.	4	#	#
SALES TAX EXEMPTIONS/DEFERRALS:					
Rural Counties	256	238	255	#	#
High tech R&D	92	76	84	#	#
Fruit & vegetables	n.a.	n.a.	n.a.	#	#
Dairy & seafood	n.a.	n.a.	n.a.	#	#
Biotech manufacturing	n.a.	n.a.	0	#	#

n.a. = not applicable, because program does not yet require descriptive statistics

= data to be added in future years

Chapter One

Table 1.4
SUMMARY OF DESCRIPTIVE STATISTICS BY PROGRAM

Tax Savings Associated with Tax Incentive Programs by Calendar Year

Program	Tax Savings (\$ in millions)				
	2004	2005	2006	2007	2008
B&O RATE REDUCTIONS:					
Aircraft repair	n.a.	n.a.	\$ 0.0	#	#
Manuf. timber/wood	n.a.	n.a.	\$ 1.8	#	#
B&O EXEMPTIONS/DEDUCTIONS:					
Fruit & vegetables	n.a.	\$ 2.6	\$ 4.7	#	#
Dairy products	n.a.	n.a.	\$ 0.4	#	#
Seafood products	n.a.	n.a.	\$ 0.3	#	#
B&O CREDITS:					
High tech R&D	\$ 25.3	\$ 19.8	\$ 17.5	#	#
Workforce training	n.a.	n.a.	\$ -	#	#
Aircraft, pre-production	n.a.	n.a.	\$ 0.2	#	#
SALES TAX EXEMPTIONS/DEFERRALS:					
Rural Counties	\$ 58.2	\$ 57.5	\$ 63.2	#	#
High tech R&D	\$ 82.8	\$ 65.9	\$ 80.0	#	#
Fruit & vegetables	n.a.	n.a.	n.a.	#	#
Dairy & seafood	n.a.	n.a.	n.a.	#	#
Biotech manufacturing	n.a.	n.a.	\$ -	#	#

n.a. = not applicable, because program does not yet require descriptive statistics

= data to be added in future years

Chapter One

**Table 1.5
SUMMARY OF DESCRIPTIVE STATISTICS BY PROGRAM**

Total Jobs for Tax Incentive Program Participants by Calendar Year

Program	Number of Total Jobs in Washington Reported by Participants				
	2004	2005	2006	2007	2008
B&O RATE REDUCTIONS:					
Aircraft repair	n.a.	n.a.	225	#	#
Manuf. timber/wood	n.a.	n.a.	20,986	#	#
B&O EXEMPTIONS/DEDUCTIONS:					
Fruit & vegetables	5,674	9,583	9,249	#	#
Dairy products	n.a.	n.a.	924	#	#
Seafood products	n.a.	n.a.	1,583	#	#
B&O CREDITS:					
High tech R&D	83,959	83,261	88,357	#	#
Workforce training	n.a.	n.a.	0	#	#
Aircraft, pre-production	n.a.	n.a.	280	#	#
SALES TAX EXEMPTIONS/DEFERRALS:					
Rural counties	28,562	29,853	31,168	#	#
High tech R&D	71,589	87,073	94,873	#	#
Fruit & vegetables	n.a.	n.a.	n.a.	#	#
Dairy & seafood	n.a.	n.a.	n.a.	#	#
Biotech manufacturing	n.a.	n.a.	0	#	#

n.a. = not applicable, because program does not yet require descriptive statistics

= data to be added in future years

Chapter Two

BUSINESS AND OCCUPATION TAX EXEMPTION
FOR FRUIT AND VEGETABLE PROCESSORS

The first tax incentive to be considered in the annual descriptive statistics report is the B&O tax exemption for firms that process fresh fruit and vegetables. This was established in 2005 and is codified as RCW 82.04.4266. The exemption became effective on July 1, 2005.

The legislation exempts from B&O tax income derived from canning, preserving, freezing, processing, or dehydrating fruit and vegetables. Also exempt are wholesale sales of such products if they are transported directly out of state by the purchaser.

In 2006 a termination date was added to the exemption; the B&O exemption for processing of fresh fruit and vegetables will expire on July 1, 2012. At that time income from processing of these items will return to the preferential B&O tax rate classification of 0.138 percent which the industry enjoyed prior to July 1, 2005. NOTE: The 2006 legislation also provided the same exemption for processing of dairy and seafood products; these tax incentives are discussed separately in Chapters 11 and 12.

RCW 82.32.610 established accountability provisions for the fruit and vegetable tax exemption. The purpose of this process is to obtain information on the utilization of the tax incentive so that the Legislature can evaluate the effectiveness of the program. Codified as RCW 82.32.610, this section requires firms that utilize the tax exemption to file an annual survey with the Department. Based on the information submitted, the Department is required to report data on the program as summary descriptive statistics.

The following data are required to be included in the descriptive statistics report:

- Dollar amount of tax exemption taken.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment.

Chapter Two

Table 2.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Fruit and Vegetable Processors
B&O Tax Exemptions Claimed by Size of Employment
Calendar Year 2006

Total Washington Employment of Participants	Number of Firms Claiming B&O Tax Exemption	Total B&O Tax Exemption Claimed
Fewer than 50	16	\$ 2,390,966
50 - 250	16	\$ 406,159
More than 250	8	\$ 1,948,544
TOTAL	40	\$ 4,745,669

Table 2.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Fruit and Vegetable Processors
Total Washington Employment of Participants by Size of Employment
Calendar Year 2006

Size of Washington Employment	Number of Firms Claiming B&O Tax Exemption	Total Employment in Washington of Firms Claiming B&O Exemption	Percentage of Jobs that are:*		
			Full-time	Part-time	Temporary
Fewer than 50	16	209	83.3%	10.0%	6.7%
50 - 250	16	1,513	77.9%	5.7%	16.4%
More than 250	8	7,527	73.1%	20.7%	6.5%
TOTAL	40	9,249	74.1%	18.0%	8.1%

*Percentages may not add to 100% because not all survey respondents provided complete information.

Chapter Two

Table 2.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Fruit and Vegetable Processors
Employment and Employee Benefits by Wage Band
Calendar Year 2006

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	6,327	3,272	3,103	3,615
\$30,000 - \$60,000	2,303	2,127	2,088	1,927
\$60,000 or more	624	573	563	569
TOTAL	9,254	5,972	5,754	6,111

*Total does not agree with Table 2.2 due to incomplete reporting by survey respondents.

Chapter Three

BUSINESS AND OCCUPATION TAX CREDIT
FOR RESEARCH AND DEVELOPMENT EXPENDITURES
BY HIGH TECHNOLOGY FIRMS

The high technology B&O tax credit was established in 1994, effective January 1, 1995. It consists of a two-part program: a B&O tax credit and a sales tax deferral/exemption. Data on the sales tax incentive is presented in Chapter Five. The B&O tax credit is codified as RCW 82.04.4452. It provides a tax credit of up to \$2 million annually for eligible expenditures by firms that are engaged in one or more of the following areas of high technology:

- Advanced computing
- Advanced materials
- Biotechnology
- Electronic device technology
- Environmental technology

The credit is allowed for eligible expenditures on research and development in excess of 0.92 percent of the firm's taxable income. The percentage threshold was based on national average expenditures for R&D. The calculation procedure to determine the credit amount was revised in 2004 and again in 2005. The firm first determines its qualified R&D expenditures pursuant to RCW 82.04.4452(9)(b). Next, the firm subtracts an amount equal to 0.92 percent of the firm's taxable income multiplied by the firm's average tax rate. An additional calculation applies for credits taken starting in calendar year 2007; this provides a statutory alternative to the average tax rate and is phased in from 0.75 percent to 1.5 percent by 2010.

Originally the tax credit program was to expire at the end of 2004. As a result of a 2004 amendment, the expiration date was extended to January 1, 2015.

The 2004 amendment also established an annual reporting requirement for program participants in Subsection 6 of the same statute. Taxpayers claiming the B&O tax credit are to file a survey annually. Based on the data reported, the Department must compile summary statistics on the program and report annually to the Legislature. The following data are required to be included in the descriptive statistics report for this tax incentive:

- Dollar amount of tax credit taken.
- Qualified expenditures for research and development.
- Taxable amount against which the credit is claimed.
- Number of new products or research projects resulting from the expenditures.

Chapter Three

- Number of trademarks, patents, or copyrights associated with the R&D activities.
- Credits that were assigned to another firm (none were reported).
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment.

**Table 3.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS**

**High Technology Firms
B&O Tax Credits Claimed by Size of Employment
Calendar Year 2006**

Total Washington Employment of Participants	Number of Firms Claiming B&O Tax Credits	Total B&O Tax Credits Claimed	B&O Taxable Income for which Credit is Claimed	Total Qualified Expenditures by Participants
Fewer than 50	345	\$ 2,659,125	\$ 676,054,834	\$ 595,036,142
50 - 250	102	\$ 5,203,855	\$ 1,948,797,006	\$ 743,079,454
More than 250	37	\$ 9,590,256	\$ 6,424,541,840	\$ 4,532,199,697
TOTAL	484	\$ 17,453,236	\$ 9,049,393,680	\$ 5,870,315,293

Chapter Three

Table 3.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

High Technology Firms
B&O Tax Credits Claimed by Category of Technology
Calendar Year 2006

Category of High Technology	Number of Firms Claiming B&O Tax Credits*	Total B&O Tax Credits Claimed	B&O Taxable Income for which Credit is Claimed	Total Qualified Expenditures by Participants
Advanced Computing	247	\$ 7,009,087	\$ 2,466,571,717	\$ 3,731,347,534
Advanced Materials	29	\$ 368,516	\$ 320,163,603	\$ 64,361,280
Biotechnology	65	\$ 3,049,493	\$ 553,692,443	\$ 876,117,601
Electronic Devices	157	\$ 3,958,385	\$ 3,458,792,470	\$ 660,669,587
Environmental	31	\$ 2,027,531	\$ 1,392,743,635	\$ 424,443,582
Other or Not Specified	44	\$ 1,023,162	\$ 852,643,983	\$ 109,762,990
TOTAL	573	\$ 17,436,174	\$ 9,044,607,851	\$ 5,866,702,574

*Total number of firms does not agree with Table 3.1 due to incomplete reporting by survey respondents, and some firms reported under multiple technology categories.

Chapter Three

Table 3.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

High Technology Firms
Total Washington Employment of Participants by Size of Employment
Calendar Year 2006

Size of Washington Employment	Number of Firms Claiming B&O Tax Credit	Total Employment in Washington of Firms Claiming B&O Credits	Percentage of Jobs that are:*		
			Full-time	Part-time	Temporary
Fewer than 50	350	4,880	88.4%	8.0%	3.3%
50 - 250	102	11,564	95.4%	2.4%	2.1%
More than 250	37	71,913	84.2%	1.7%	14.1%
TOTAL	489	88,357	85.9%	2.1%	11.9%

*Percentages may not add to 100% because not all survey respondents provided complete information.

Table 3.4
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

High Technology Firms
Employment and Employee Benefits by Wage Band
Calendar Year 2006

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	4,527	2,917	2,662	2,118
\$30,000 - \$60,000	16,326	14,724	14,585	12,406
\$60,000 or more	67,639	57,393	57,330	50,657
TOTAL	88,492	75,034	74,577	65,181

*Total does not agree with Table 3.3 due to incomplete reporting by survey respondents.

Chapter Three

Table 3.5
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

High Technology Firms
New Products and Innovations Developed by Participants
Calendar Year 2006

Size of Washington Employment	Number of Firms Claiming B&O Tax Credits	Innovations by Participants		Evidence of Innovations		
		New Products or Processes	New Research Projects	Trademarks	Patents	Copyrights
Fewer than 50	350	2,340	1,064	143	216	26
50 - 250	102	1,518	593	66	156	13
More than 250	37	1,670	3,674	64	1,852	221
TOTAL	489	5,528	5,331	273	2,224	260

Chapter Four

SALES/USE TAX DEFERRAL/EXEMPTION
FOR INVESTMENTS IN RURAL COUNTIES

The annual descriptive statistics reporting process for the deferral/exemption of retail sales/use tax for manufacturers investing in rural counties is the earliest state program. Adopted in 1985 and codified as Chapter 82.60 RCW, the original program was oriented toward economically distressed counties and community empowerment zones (CEZs).

County eligibility was originally determined by high rates of unemployment. In 1999 the criterion was changed to one of population density. Since this change, investment occurring in counties with an average population density of less than 100 residents per square mile qualified for the incentive. Subsequently, the definition of eligible counties was amended in 2004 to include Island County. Presently 32 counties are included in the program - all except the following: Clark, King, Kitsap, Pierce, Snohomish, Spokane, and Thurston. In addition, five CEZs in noneligible counties are included in the program.

Initially the program was scheduled to expire after six years on June 30, 1991; this date was extended several times so that now applications for the program will not be accepted on or after July 1, 2010.

Applications for the deferral/exemption of state and local retail sales and use tax may be made by manufacturers and firms engaged in R&D for investments in the eligible areas. Investments include the construction of new structures or major expansions of existing facilities to be used for manufacturing or R&D activities, as well as machinery used for these purposes. Similar to the high tech sales tax deferral/exemption program, the deferred tax on facilities or machinery which continues to be used for qualifying purposes does not need to be repaid. This change to an outright exemption was made in 1994, although earlier amendments had waived the repayment requirement in certain circumstances.

In 2004 accountability provisions were added to RCW 82.60.070. Taxpayers taking the sales tax deferral/exemption were required to file an annual survey containing specified information. The survey must be filed by March 31 of the year after which the investment project is certified by the Department as being operationally complete. Thereafter, the taxpayer must also file the survey in each of the subsequent seven years. Based on this data, the Department was directed to compile the summary statistics which are presented in this report.

Listed below are the specific elements to be included in the annual descriptive statistics report for the rural county sales tax deferral/exemption:

- Dollar amount of sales/use tax deferred.
- Number of new products or research projects developed.
- Number of trademarks, patents, or copyrights associated with the activities.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment.

The data reported for the sales tax deferral/exemption cannot be added over time. That is because firms are required to report information for completed projects initially in the year after the project is complete and, in addition, reports in each of the following seven years. Thus the information reported for calendar year 2006 includes projects completed in each of the years from 1999 through 2006.

Chapter Four

Table 4.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

**Investments by Manufacturers & R&D Firms in Rural Counties
Retail Sales/Use Tax Deferrals Claimed by Size of Employment
Calendar Year 2006**

<u>Total Washington Employment of Participants</u>	<u>Number of Firms Claiming Sales Sales Tax Deferrals</u>	<u>Total State/Local Sales Tax Deferrals Taken</u>
Fewer than 50	141	\$ 9,564,960
50 - 250	91	\$ 27,777,441
More than 250	23	\$ 25,830,241
TOTAL	255	\$ 63,172,642

Table 4.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

**Investments by Manufacturers & R&D Firms in Rural Counties
Total Washington Employment of Participants by Size of Employment
Calendar Year 2006**

<u>Size of Washington Employment</u>	<u>Number of Firms Claiming Sales Tax Deferrals</u>	<u>Total Employment in Washington of Firms Claiming Sales Tax Deferrals</u>	<u>Percentage of Jobs that are:*</u>		
			Full-time	Part-time	Temporary
Fewer than 50	141	2,053	80.8%	13.6%	3.9%
50 - 250	91	10,288	91.5%	5.1%	3.5%
More than 250	23	18,827	90.2%	6.2%	3.6%
TOTAL	255	31,168	90.0%	6.3%	3.6%

*Percentages may not add to 100% because not all survey respondents provided complete information.

Chapter Four

Table 4.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

**Investments by Manufacturers and R&D Firms in Rural Counties
Employment and Employee Benefits by Wage Band
Calendar Year 2006**

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	13,560	7,946	6,806	5,527
\$30,000 - \$60,000	13,062	11,708	11,088	9,739
\$60,000 or more	3,814	3,590	3,418	3,110
TOTAL	30,436	23,244	21,312	18,376

*Total does not agree with Table 4.2 due to incomplete reporting by survey respondents.

Table 4.4
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

**Investments by Manufacturers & R&D Firms in Rural Counties
New Products and Innovations Developed by Participants by Size of Employment
Calendar Year 2006**

Size of Washington Employment	Number of Firms Claiming Sales Tax Deferrals*	Innovations by Participants		Evidence of Innovations		
		New Products	New Research Projects	Trademarks	Patents	Copyrights
Fewer than 50	141	520	11	17	1	4
50 - 250	91	200	22	9	18	0
More than 250	23	18	436	22	9	0
TOTAL	255	738	469	48	28	4

Chapter Five

SALES/USE TAX DEFERRAL/EXEMPTION
FOR INVESTMENTS BY HIGH TECHNOLOGY FIRMS

The 1994 program to encourage high technology activities in Washington was a deferral of state and local retail sales and use taxes on construction of facilities and purchase of eligible machinery by firms engaged in the same five areas of high technology as the B&O tax credit (Chapter Three). These activities are:

- Advanced computing
- Advanced materials
- Biotechnology
- Electronic device technology
- Environmental technology

Expenditures eligible for the deferral are the construction of facilities in which research and development activities are conducted, as well as pilot scale manufacturing plants - not the actual full-scale manufacturing facilities. Acquisition of machinery necessary to conduct the R&D activities also qualifies for the deferral.

The 1994 statute, which is codified as chapter 82.63 RCW, allowed only a deferral of the sales/use tax liability; repayment was to commence the third year following completion of the facility with repayments occurring over the subsequent five years. Different repayment schedules were provided for a cancer research institute and firms that develop drugs or biological products which required FDA licensing. The following year a provision was added which basically turned the deferral into an exemption, because the deferred taxes did not need to be repaid if the facility and/or machinery continued to be used for qualified R&D purposes for at least the following seven years.

The original law provided the deferral/exemption only for a ten-year period. In 2004 the expiration date was extended to January 1, 2015.

The 1994 statute directed the Department to perform three assessments of the program; reports were produced in 1997, 2000, and 2003. This requirement was amended in 2004 and the current accountability provisions were added to RCW 82.63.020. Now taxpayers taking the sales tax deferral/exemption must file an annual survey containing specified information. The survey must be filed by March 31 of the year after which the investment project is certified by the Department as being operationally complete. Thereafter, the taxpayer must also file the survey in each of the subsequent seven years. Based on this data, the Department compiles the summary statistics which are presented in this report.

Chapter Five

Listed below are the specific elements to be included in the annual descriptive statistics report for the high tech sales tax deferral/exemption:

- Dollar amount of sales/use tax deferred.
- Number of new products or research projects developed.
- Number of trademarks, patents, or copyrights associated with the R&D activities.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment.

The data reported for the sales tax deferral/exemption are not additive over time. This is due to the requirement for firms to report initially in the year after the project is complete, plus reports in each of the following seven years. Thus, the information reported for calendar year 2006 includes projects completed in each of the years from 1999 through 2006.

Table 5.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments in R&D by High Technology Firms
Retail Sales/Use Tax Deferrals Claimed by Size of Employment
Calendar Year 2006

<u>Total Washington Employment of Participants</u>	<u>Number of Firms Claiming Sales Tax Deferrals</u>	<u>Total State/Local Sales Tax Deferrals Taken</u>
Fewer than 50	29	\$ 8,009,327
50 - 250	34	\$ 14,115,842
More than 250	21	\$ 57,857,694
TOTAL	84	\$ 79,982,863

Table 5.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments in R&D by High Technology Firms
Retail Sales/Use Tax Deferrals Claimed by Category of Technology
Calendar Year 2006

<u>Category of High Technology</u>	<u>Number of Firms Claiming Sales Tax Deferrals*</u>	<u>Total State/Local Sales Tax Deferrals Taken*</u>
Advanced Computing	25	\$ 32,245,821
Advanced Materials	D	D
Biotechnology	36	\$ 33,980,498
Electronic Devices	23	\$ 10,802,013
Environmental	3	\$ 1,398,594
Other or Not Specified	4	\$ 898,281
TOTAL	91	\$ 79,325,207

D = not disclosable; amounts included in the "other" category.

*Totals do not agree with Table 5.1 due to incomplete reporting by survey respondents, and some firms reported under multiple technology categories.

Chapter Five

Table 5.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments in R&D by High Technology Firms
Total Washington Employment of Participants by Size of Employment
Calendar Year 2006

Size of Washington Employment	Number of Firms Claiming Sales Tax Deferrals	Total Employment in Washington of Firms Claiming Sales Tax Deferrals	Percentage of Jobs that are:*		
			Full-time	Part-time	Temporary
Fewer than 50	29	361	83.6%	9.5%	2.3%
50 - 250	34	4,182	91.3%	6.7%	2.0%
More than 250	21	90,330	71.5%	10.6%	17.8%
TOTAL	84	94,873	72.4%	10.5%	17.1%

*Percentages may not add to 100% because not all survey respondents provided complete information.

Table 5.4
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments in R&D by High Technology Firms
Employment and Employee Benefits by Wage Band
Calendar Year 2006

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	17,115	5,147	5,391	4,638
\$30,000 - \$60,000	18,078	16,500	16,863	14,919
\$60,000 or more	59,375	49,923	50,096	44,531
TOTAL	94,568	71,570	72,350	64,088

*Total does not agree with Table 5.3 due to incomplete reporting by survey respondents.

Chapter Five

Table 5.5
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments in R&D by High Technology Firms
New Products and Innovations Developed by Participants by Size of Employment
Calendar Year 2006

Size of Washington Employment	Number of Firms Claiming Sales Tax Deferrals	Innovations by Participants		Evidence of Innovations		
		New Products or Processes	New Research Projects	Trademarks	Patents	Copyrights
Fewer than 50	29	74	76	8	13	-
50 - 250	34	247	310	32	86	-
More than 250	21	1,516	4,117	49	1,719	246
TOTAL	84	1,837	4,503	89	1,818	246

Chapter Six

SALES/USE TAX DEFERRAL/EXEMPTION
FOR INVESTMENTS IN BIOTECHNOLOGY MANUFACTURING

This program was adopted in 2006; the program is codified as chapter 82.75 RCW. It seeks to encourage investment and employment in the biotechnology industry in Washington. The statute allows a deferral of state and local retail sales and use taxes on construction of facilities and purchase of eligible machinery by firms engaged in manufacturing of biotechnology products. The term biotechnology includes firms that develop products based on the science of biology, microbiology, molecular or cellular biology, and biochemistry or biophysics including DNA techniques, genetics, and other bioprocesses that utilize living organisms.

Expenditures for the construction of facilities for where manufacturing of biotechnology products occurs are eligible for the deferral. Acquisition of related machinery also qualifies. As long as the facility or machinery continues to qualify for the intended purposes, the deferred sales/use tax does not need to be repaid. The program was effective on July 1, 2006, and will expire on January 1, 2017. Taxpayers are required to submit an application with the Department prior to commencement of construction or acquisition of equipment.

Taxpayers taking the sales tax deferral/exemption must file an annual survey containing specified information pursuant to RCW 82.32.645. The survey must be filed by March 31 of the year after which the investment project is certified by the Department as being operationally complete. Thereafter, the taxpayer must also file the survey in each of the subsequent seven years. Based on this data, the Department compiles the summary statistics which are presented in this report.

Listed below are the specific elements to be included in the annual descriptive statistics report for the high tech sales tax deferral/exemption:

- Dollar amount of sales/use tax deferred.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information that would be reported for calendar year 2006 would include only projects that were operationally completed during 2006. While applications for the program were received during 2006, none of the projects have yet been completed. Therefore, the descriptive statistics tables would indicate no participation to date, since no firm has yet completed an eligible project. As a result, the statistical tables have not been prepared.

Chapter Seven

BUSINESS AND OCCUPATION TAX CREDIT FOR
AIRCRAFT PREPRODUCTION EXPENDITURES

This B&O tax credit was established in 2006, effective July 1, 2006; it is codified as RCW 82.04.4487. The tax credit is scheduled to expire on July 1, 2024.

RCW 82.04.4461, adopted in 2003, established a similar credit for preproduction expenses devoted to development of a commercial aircraft or component parts; the tax credit applied to developmental expenses made prior to actually manufacturing an airplane or components. That credit statute was adopted in 2003 and did not require filing of an annual survey. The 2003 credit was targeted to firms that actually manufacture or assemble a commercial airplane or its components. The program in RCW 82.04.4487 is directed toward other companies who do not actually manufacture such an aircraft or its components but incur similar preproduction expenses related to manufacturing of a commercial aircraft or components. Eligible preproduction expenditures include R&D, design and engineering activities in relation to development of a commercial aircraft, product line, or model, including development, testing, and certification of prototypes.

Pursuant to RCW 82.32.635, taxpayers claiming this B&O tax credit are to file a survey annually. Based on the data reported, the Department must compile summary statistics on the program and report annually to the Legislature. The following data are required to be included in the descriptive statistics report for this tax incentive:

- Dollar amount of tax credit taken.
- Qualified expenditures for aircraft preproduction.
- Taxable amount against which the credit is claimed.
- Number of new products or research projects resulting from the expenditures.
- Number of trademarks, patents, or copyrights associated with the R&D activities.
- Credits that were assigned to another firm (none were reported).
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment. However, because of the limited number of respondents, the breakdowns by firm size and wage bands are not shown. Since this credit was effective on July 1, 2006, the data reflect only the second half of calendar year 2006.

**Table 7.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS**

**Aircraft Preproduction Expenditures
B&O Tax Credits Claimed by Size of Employment
Calendar Year 2006**

Total Washington Employment of Participants	Number of Firms Claiming B&O Tax Credits	Total B&O Tax Credits Claimed	B&O Taxable Income for which Credit is Claimed	Total Qualified Expenditures by Participants
Fewer than 50	D	D	D	D
50 - 250	D	D	D	D
More than 250	D	D	D	D
TOTAL	4	\$ 199,722	N.A.	\$ 14,418,289

D = Unable to disclose due to small number of beneficiaries.

Chapter Seven

Table 7.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Aircraft Preproduction Expenditures
Total Washington Employment of Participants by Size of Employment
Calendar Year 2006

Size of Washington Employment	Number of Firms Claiming B&O Tax Credit	Total Employment in Washington of Firms Claiming B&O Credits	Percentage of Jobs that are:*		
			Full-time	Part-time	Temporary
Fewer than 50	D	D	D	D	D
50 - 250	D	D	D	D	D
More than 250	D	D	D	D	D
TOTAL	4	280	86.9%	3.6%	0.8%

*Percentages may not add to 100% because not all survey respondents provided complete information.
D = Unable to disclose due to small number of beneficiaries.

Table 7.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Aircraft Preproduction Expenditures
Employment and Employee Benefits by Wage Band
Calendar Year 2006

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	D	D	D	D
\$30,000 - \$60,000	D	D	D	D
\$60,000 or more	D	D	D	D
TOTAL	280	230	230	199

*Total does not agree with Table 3.3 due to incomplete reporting by survey respondents.
D = Unable to disclose due to small number of beneficiaries.

Chapter Seven

Table 7.4
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Aircraft Preproduction Expenditures
New Products and Innovations Developed by Participants
Calendar Year 2006

Size of Washington Employment	Number of Firms Claiming B&O Tax Credits	Innovations by Participants		Evidence of Innovations		
		New Products or Processes	New Research Projects	Trademarks	Patents	Copyrights
Fewer than 50	D	N.R.	N.R.	N.R.	N.R.	N.R.
50 - 250	D	N.R.	N.R.	N.R.	N.R.	N.R.
More than 250	D	N.R.	N.R.	N.R.	N.R.	N.R.
TOTAL	4	N.R.	N.R.	N.R.	N.R.	N.R.

N.R. = not reported

Chapter Eight

BUSINESS AND OCCUPATION TAX RATE REDUCTION
FOR REPAIR OF COMMERCIAL AIRCRAFT

The original preferential B&O tax rate for firms that repair commercial airplanes was adopted in 2003, effective August 1, 2003; it was codified as RCW 82.04.250(3). The 2003 tax rate reduction was scheduled to expire on July 1, 2006. The reduced business tax was provided for firms that are certified by the Federal Aviation Administration to repair commercial airplanes. The rate was 0.275 percent instead of the regular retailing rate of 0.471 percent.

Then, in 2006, the statute was amended. The expiration date was extended to July 1, 2011. The reduced tax rate was increased to 0.2904 percent so that it was consistent with other B&O tax rate incentives.

Also, firms that utilize the preferential rate were directed to complete an annual survey which forms the basis for this report (RCW 82.32.640). The following data are required to be included in the descriptive statistics report for this tax incentive:

- Dollar amount of reduced B&O tax due to the preferential rate.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment. However, because of the small number of respondents, the breakdown of firm size and wage bands is not indicated.

Chapter Eight

Table 8.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

B&O Tax Rate Reduction for Firms That Repair Commercial Aircraft
Reduction in B&O Tax Claimed by Size of Employment
Calendar Year 2006

<u>Total Washington Employment of Participants</u>	<u>Number of Firms Claiming Reduced B&O Tax</u>	<u>Total Reduction in B&O Tax Reported</u>
Fewer than 50	D	D
50 - 250	D	D
More than 250	D	D
TOTAL	3	\$ 33,745

D = Unable to disclose due to small number of beneficiaries.

Table 8.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

B&O Tax Rate Reduction for Firms That Repair Commercial Aircraft
Total Washington Employment of Participants by Size of Employment
Calendar Year 2006

<u>Size of Washington Employment</u>	<u># of Firms Claiming Reduced B&O Tax</u>	<u>Total Employment in Washington of Firms Claiming Reduced B&O Tax</u>	<u>Percentage of Jobs that are:*</u>		
			<u>Full-time</u>	<u>Part-time</u>	<u>Temporary</u>
Fewer than 50	D	D	D	D	D
50 - 250	D	D	D	D	D
More than 250	D	D	D	D	D
TOTAL	3	225	97.7%	2.3%	0.0%

*Percentages may not add to 100% because not all survey respondents provided complete information.

D = Unable to disclose due to small number of beneficiaries.

Table 8.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

**B&O Tax Rate Reduction for Firms That Repair Commercial Aircraft
Employment and Employee Benefits by Wage Band
Calendar Year 2006**

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	D	D	D	D
\$30,000 - \$60,000	D	D	D	D
\$60,000 or more	D	D	D	D
TOTAL	225	200	200	166

*Total does not agree with Table 4.2 due to incomplete reporting by survey respondents.
D = Unable to disclose due to small number of beneficiaries.

Chapter Nine

BUSINESS AND OCCUPATION TAX RATE REDUCTION
FOR TIMBER AND WOOD PRODUCTS

A preferential B&O tax rate for the timber industry was adopted in 2006, effective July 1, 2006; it is codified as RCW 82.04.260(12). The reduced business tax is provided for firms that extract timber, manufacture timber into timber or wood products, or make wholesale sales of timber or timber or wood products. The tax rate was reduced from the regular 0.484 percent manufacturing/wholesaling rate to 0.4235 percent for the first year (Fiscal Year 2007) and then to 0.2904 percent starting on July 1, 2007. This rate remains in effect until the end of Fiscal Year 2024.

Firms that utilize this preferential rate were directed to complete an annual survey which forms the basis for this report (RCW 82.32.630). The following data are required to be included in the descriptive statistics report for this tax incentive:

- Dollar amount of reduced B&O tax due to the preferential rate.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment.

Because of the July 1, 2006, effective date for the program, the data shown below reflect only the latter six months of calendar year 2006. While nearly 600 firms took advantage of the lower tax rate, only 323 taxpayers submitted a survey. The Department is continuing to research the other transactions.

Chapter Nine

Table 9.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

B&O Tax Rate Reduction for Manufacturing Timber & Wood Products
Reduction in B&O Tax Claimed by Size of Employment
Calendar Year 2006

<u>Total Washington Employment of Participants</u>	<u>Number of Firms Claiming Reduced B&O Tax</u>	<u>Total Reduction in B&O Tax Reported</u>	
Fewer than 50	268	\$	392,011
50 - 250	41	\$	387,860
More than 250	14	\$	1,049,682
TOTAL	323	\$	1,829,553

Table 9.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

B&O Tax Rate Reduction for Manufacturing Timber & Wood Products
Total Washington Employment of Participants by Size of Employment
Calendar Year 2006

<u>Size of Washington Employment</u>	<u>Number of Firms Claiming Reduced B&O Tax</u>	<u>Total Employment in Washington of Firms Claiming Reduced B&O Tax</u>	<u>Percentage of Jobs that are:*</u>		
			<u>Full-time</u>	<u>Part-time</u>	<u>Temporary</u>
Fewer than 50	268	2,055	86.9%	8.3%	4.8%
50 - 250	41	4,741	94.1%	3.9%	1.9%
More than 250	14	14,190	98.9%	0.9%	0.5%
TOTAL	323	20,986	96.7%	2.3%	1.2%

*Percentages may not add to 100% because not all survey respondents provided complete information.

Chapter Nine

Table 9.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS
B&O Tax Rate Reduction for Manufacturing Timber & Wood Products
Employment and Employee Benefits by Wage Band
Calendar Year 2006

Wage Bands	Total Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	3,558	2,154	1,912	1,356
\$30,000 - \$60,000	12,316	9,814	9,572	9,651
\$60,000 or more	5,104	4,862	4,811	4,647
TOTAL	20,978	16,830	16,295	15,654

*Total does not agree with Table 4.2 due to incomplete reporting by survey respondents.

Chapter Ten

BUSINESS AND OCCUPATION TAX CREDIT
FOR WORK FORCE TRAINING EXPENDITURES

A B&O tax credit for training costs was established in 2006, effective June 7, 2006. The credit is codified as RCW 82.04.449 and is scheduled to expire on July 1, 2016. It enables employers to take a credit of up to one-half of their expenditures for customized training at community and technical colleges in Washington, pursuant to the program established in RCW 28B.67.030. The program requires that participating employers increase their employment in this state by at least 75 percent of the number of employees who are enrolled in the training program.

The statute also established an annual reporting requirement for program participants (RCW 82.32.650). Taxpayers claiming the B&O tax credit are to file an annual survey. Based on the data reported, the Department must compile summary statistics on the program and report annually to the Legislature. The following data are required to be included in the descriptive statistics report for this tax incentive:

- Dollar amount of tax credit taken.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information that would be reported for calendar year 2006 would include only credits taken during the second half of calendar year 2006. However, no firm has yet reported the tax credit and therefore statistical tables have not been prepared.

Chapter Eleven

BUSINESS AND OCCUPATION TAX EXEMPTION
FOR MANUFACTURERS OF DAIRY PRODUCTS

A parallel exemption to the exemption for fruit and vegetable processors (Chapter Two) was adopted in 2006 for firms that manufacture dairy products – RCW 82.04.4268. Also exempt are wholesale sales of such products if they are transported directly out of state by the purchaser. The exemption for dairy products was effective on July 1, 2006.

The exemption for dairy products will expire on July 1, 2012. At that time, income from manufacturing of these items will return to the preferential B&O tax rate classification of 0.138 percent.

RCW 82.32.610 established accountability provisions for the dairy products exemption. The purpose of this process is to obtain information on the utilization of the tax incentive so that the Legislature can evaluate the effectiveness of the program. Codified as RCW 82.32.610, this section requires firms that utilize the tax exemption to file an annual survey with the Department. Based on the information submitted, the Department is required to report data on the program as summary descriptive statistics.

The following data are required to be included in the descriptive statistics report:

- Dollar amount of tax exemption taken.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information specified above is contained in the following tables of this chapter. Due to the limited number of respondents, the breakdowns by size of firm and wage bands are not shown. Because of the effective date of the statute, the data reported herein represent only the second half of calendar year 2006.

Table 11.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Manufacturers of Dairy Products
B&O Tax Exemptions Claimed by Size of Employment
Calendar Year 2006

<u>Total Washington Employment of Participants</u>	<u>Number of Firms Claiming B&O Tax Exemption</u>	<u>Total B&O Tax Exemption Claimed</u>
Fewer than 50	D	D
50 - 250	D	D
More than 250	D	D
TOTAL	4	\$ 371,732

D = Unable to disclose due to small number of beneficiaries.

Table 11.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Manufacturers of Dairy Products
Total Washington Employment of Participants by Size of Employment
Calendar Year 2006

<u>Size of Washington Employment</u>	<u>Number of Firms Claiming B&O Tax Exemption</u>	<u>Total Employment in Washington of Firms Claiming B&O Exemption</u>	<u>Percentage of Jobs that are:*</u>		
			<u>Full-time</u>	<u>Part-time</u>	<u>Temporary</u>
Fewer than 50	D	D	D	D	D
50 - 250	D	D	D	D	D
More than 250	D	D	D	D	D
TOTAL	4	924	95.2%	2.5%	2.4%

*Percentages may not add to 100% because not all survey respondents provided complete information.

D = Unable to disclose due to small number of beneficiaries.

**Table 11.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS**

**Manufacturers of Dairy Products
Employment and Employee Benefits by Wage Band
Calendar Year 2006**

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	D	D	D	D
\$30,000 - \$60,000	D	D	D	D
\$60,000 or more	D	D	D	D
TOTAL	924	868	871	772

D = Unable to disclose due to small number of beneficiaries.

Chapter Twelve

BUSINESS AND OCCUPATION TAX EXEMPTION
FOR MANUFACTURERS OF SEAFOOD PRODUCTS

Similar to the exemption for producers of dairy products (Chapter Eleven), an equivalent exemption was also adopted in 2006 for firms that manufacture seafood products – RCW 82.04.4269. Also exempt are wholesale sales of such products if they are transported directly out of state by the purchaser. The exemption for seafood products was effective on July 1, 2006.

The exemption for seafood products will expire on July 1, 2012. At that time income from manufacturing of these items will return to the preferential B&O tax rate classification of 0.138 percent.

RCW 82.32.610 established accountability provisions for the seafood products exemption. The purpose of this process is to obtain information on the utilization of the tax incentive so that the Legislature can evaluate the effectiveness of the program. Codified as RCW 82.32.610, this section requires firms that utilize the tax exemption to file an annual survey with the Department. Based on the information submitted, the Department is required to report data on the program as summary descriptive statistics.

The following data are required to be included in the descriptive statistics report:

- Dollar amount of tax exemption taken.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits – medical, dental and retirement - by wage band.

The information specified above is contained in the following tables of this chapter. Due to the limited number of respondents, the breakdowns by size of firm and wage bands are not shown. Because of the effective date of the statute, the data reported herein represents only the second half of calendar year 2006.

Table 12.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Manufacturers of Seafood Products
B&O Tax Exemptions Claimed by Size of Employment
Calendar Year 2006

<u>Total Washington Employment of Participants</u>	<u>Number of Firms Claiming B&O Tax Exemption</u>	<u>Total B&O Tax Exemption Claimed</u>
Fewer than 50	D	D
50 - 250	D	D
More than 250	D	D
TOTAL	4	\$ 294,018

D = Unable to disclose due to small number of beneficiaries.

Table 12.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Manufacturers of Seafood Products
Total Washington Employment of Participants by Size of Employment
Calendar Year 2006

<u>Size of Washington Employment</u>	<u>Number of Firms Claiming B&O Tax Exemption</u>	<u>Total Employment in Washington of Firms Claiming B&O Exemption</u>	<u>Percentage of Jobs that are:*</u>		
			<u>Full-time</u>	<u>Part-time</u>	<u>Temporary</u>
Fewer than 50	D	D	D	D	D
50 - 250	D	D	D	D	D
More than 250	D	D	D	D	D
TOTAL	4	1,583	60.6%	0.3%	39.1%

*Percentages may not add to 100% because not all survey respondents provided complete information.

D = Unable to disclose due to small number of beneficiaries.

Table 12.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Manufacturers of Seafood Products
Employment and Employee Benefits by Wage Band
Calendar Year 2006

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	D	D	D	D
\$30,000 - \$60,000	D	D	D	D
\$60,000 or more	D	D	D	D
TOTAL	1,583	1,148	1,145	728

D = Unable to disclose due to small number of beneficiaries.

Appendix

2006 ANNUAL SURVEY
(due March 31, 2007)



2006 Annual Survey for Tax Incentive Programs Preferential Rates/Credits/Exemptions/Deferrals

Department of Revenue Tax Registration Number _____ - _____ - _____	UBI Number used with Department of Employment Security (if this number differs from DOR Tax Registration Number) _____ - _____ - _____				
Name of Business as Registered	Contact Person				
Mailing Address – Street	City	State	Zip Code		
Phone Number ()	Employment Security Reference Number(s)				
<p>Tax Incentive taken (check all boxes that apply):</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Rural County Sales & Use Tax Deferral <input type="checkbox"/> High Technology Sales & Use Tax Deferral <input type="checkbox"/> Tax Exemptions for Fruit and Vegetable Processors <input type="checkbox"/> High Technology Business & Occupation Tax Credit <input type="checkbox"/> Aerospace B&O Credit for Preproduction Spending </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> FAR part 145 repair station B&O Tax Reduction <input type="checkbox"/> Dairy Products B&O Exemption <input type="checkbox"/> Seafood Products B&O Exemption <input type="checkbox"/> Customized Employment Training Credit <input type="checkbox"/> Timber Tax Incentives <input type="checkbox"/> Biotechnology & Medical Device Mfg. Sales & Use Tax Deferral </td> </tr> </table>				<input type="checkbox"/> Rural County Sales & Use Tax Deferral <input type="checkbox"/> High Technology Sales & Use Tax Deferral <input type="checkbox"/> Tax Exemptions for Fruit and Vegetable Processors <input type="checkbox"/> High Technology Business & Occupation Tax Credit <input type="checkbox"/> Aerospace B&O Credit for Preproduction Spending	<input type="checkbox"/> FAR part 145 repair station B&O Tax Reduction <input type="checkbox"/> Dairy Products B&O Exemption <input type="checkbox"/> Seafood Products B&O Exemption <input type="checkbox"/> Customized Employment Training Credit <input type="checkbox"/> Timber Tax Incentives <input type="checkbox"/> Biotechnology & Medical Device Mfg. Sales & Use Tax Deferral
<input type="checkbox"/> Rural County Sales & Use Tax Deferral <input type="checkbox"/> High Technology Sales & Use Tax Deferral <input type="checkbox"/> Tax Exemptions for Fruit and Vegetable Processors <input type="checkbox"/> High Technology Business & Occupation Tax Credit <input type="checkbox"/> Aerospace B&O Credit for Preproduction Spending	<input type="checkbox"/> FAR part 145 repair station B&O Tax Reduction <input type="checkbox"/> Dairy Products B&O Exemption <input type="checkbox"/> Seafood Products B&O Exemption <input type="checkbox"/> Customized Employment Training Credit <input type="checkbox"/> Timber Tax Incentives <input type="checkbox"/> Biotechnology & Medical Device Mfg. Sales & Use Tax Deferral				

You must file this survey with the Department of Revenue by **March 31, 2007.**

If your business received a Rural County, High Technology, or Biotech & Medical Device Manufacturer tax deferral:

Your survey is due for the year in which the deferral project was certified by the Department of Revenue as operationally complete, and for the seven subsequent calendar years in which use requirements must be met. **If you do not file a survey by March 31, 2007, we must declare 12.5% of the total deferred taxes to be immediately due and payable.**

If your business claimed a High Technology B&O Tax Credit for calendar year 2006:

If you do not file a 2006 annual survey by March 31, 2007, your 2007 B&O credit will be denied, and any hi-tech credits taken in 2007 will be disallowed.

If your business took the Tax Exemption for Fruit and Vegetable, Seafood, or Dairy Processors for the first time:

You must submit an annual survey for 2005 and 2006. **If you do not submit both annual surveys by March 31, 2007, we must declare the amount of tax exempted due immediately.** The amount of taxes due is calculated using a rate of 0.138 percent of the amount exempted during 2006 under this program.

If your business took the Customized Employment Training Credit for the first time:

You must submit an annual survey for 2005 and 2006. **If you do not submit both annual surveys by March 31, 2007, we must declare the amount of taxes credited for the previous calendar year to be due immediately.**

If your business took the FAR part 145 Repair Station B&O Tax reduction:

You must submit an annual survey for 2006. **If you do not submit an annual survey by March 31, 2007, we must declare the amount of tax reduced due immediately.** The amount of taxes due is calculated using a rate of 0.2904 percent of the amount exempted during 2006 under this program.

If your business took any of the Timber Tax incentives:

You must submit an annual survey for 2005 and 2006. **If you do not submit both annual surveys by March 31, 2007, we must declare the amount of taxes reduced for the previous calendar year to be due immediately.**

If your business took the Aerospace B&O Credit for Preproduction Spending:

You must submit an annual survey for 2006. **If you do not submit an annual survey by March 31, 2007, we must declare the amount of taxes against which a credit is claimed due immediately.**

If your business is not required to file the survey on-line, you may complete and mail back the enclosed survey, otherwise go to the department's online survey, which is located at <http://dor.wa.gov/>. To access the survey, click on the "E-file and Online Services" icon and log in, or sign up for Online Services if you are a new user.

The information you provide for the survey is confidential under provisions of RCW 82.32.330. However, information on the amount of tax incentives taken is not subject to the provisions and may be disclosed to the public upon request.

If circumstances beyond your control arise you may request an extension **prior to the due date**. To request an extension, call (360) 570-3265 and press 6.

You are required to make a good faith effort to substantially respond to all survey questions. If a question does not apply to your business, answer the question using zero (0). Please do not use "various" or "please contact for further information" to respond to questions.

This survey is confidential under provisions of RCW 82.32.330. However, information on the amount of tax incentive taken is not subject to the confidentiality provisions of RCW 82.32.330 and may be disclosed to the public upon request.

Questions About Amount of Tax Incentive Taken

1a. High Technology Business and Occupation Tax Credit (RCW 82.04.4452):

What was the amount of credit claimed for calendar year 2006? \$ _____

If this credit was assigned, who was it assigned from? Company name _____

Assignor's Tax Registration Number _____

1b. Tax Deferrals for Investment Projects in Rural Counties (Chapter 82.60 RCW):

What was the amount of tax deferral taken for the investment project? \$ _____

If you are a lessee, who is your lessor? Company name _____

Lessor's Tax Registration Number _____

1c. Tax Deferrals for High Technology Businesses (Chapter 82.63 RCW):

What was the amount of tax deferral taken for the investment project? \$ _____

If you are a lessee, who is your lessor? Company name _____

Lessor's Tax Registration Number _____

- 1d. B&O tax exemption for persons engaged in the business of canning, preserving, freezing, processing, or dehydrating fresh fruits and vegetables (RCW 82.04.4266):
 What was the amount of exempted B&O tax? \$ _____
- 1e. If you took the Aerospace B&O Credit for Preproduction Spending (RCW 82.04.4487), what was the amount of credit claimed for calendar year 2006? \$ _____
 How much were your qualified preproduction development expenditures for calendar year 2006?
 \$ _____
 If this credit was assigned, who was it assigned from? Company name _____
 Assignor's Tax Registration Number _____
- 1f. If you received a preferential rate under (RCW 82.04.250), tax on retailers of FAR part 145 repair station, what was the amount of tax you saved? \$ _____
- 1g. If you took the B&O tax exemption for manufacturing or selling dairy products (RCW 82.04.4268), how much tax was exempted in 2006? \$ _____
 How much B&O tax was paid between January 1, 2006 and June 30, 2006? \$ _____
- 1h. If you took the B&O tax exemption for manufacturing or selling seafood products (RCW 82.04.4269), how much tax was exempted in 2006? \$ _____
 How much B&O tax was paid between January 1, 2006 and June 30, 2006? \$ _____
- 1i. If you took the B&O tax credit for customized employment training (RCW 82.04.449), how much tax was credited in 2006? \$ _____
 How much B&O tax was paid between January 1, 2006 and June 30, 2006? \$ _____
- 1j. If you took the reduced rates for timber extracting, manufacturing, processor for hire, or selling at wholesale (RCW 82.04.260), what was the amount of tax you saved between July 1 and December 31, 2006?
 \$ _____
 How much B&O tax was paid between January 1, 2006 and June 30, 2006? \$ _____
- 1k. If you took the tax deferral for biotechnology products and/or medical device businesses (RCW 82.75), how much tax was deferred for your investment project(s) in 2006? \$ _____
 If you are a lessee, who is your lessor? Company name _____
 Lessor's Tax Registration Number _____
2. For businesses taking the High Technology B&O Tax Credit:
- 2a. What was the amount spent on qualified research and development during calendar year 2006?
 \$ _____
- 2b. What was the total B&O taxable amount reported on your State Excise Tax Return(s) in 2006? \$ _____

WAGE BANDS	Total Number of Employment Positions	Total Number Enrolled in Medical Plan(s)	Total Enrolled in Dental Plan(s)	Total Enrolled in Retirement Plan(s)
Less than \$30,000				
\$30,000 - \$59,999				
\$60,000 or more				

(The taxable amount is the gross minus deductions. Do not include any taxable amounts that were credited by the Multiple Activities Tax Credit (MATC).)

Questions About Employment

3. How many employees did you have in Washington State on December 31, 2006? _____
 Of the total number of employment positions, what percentage are:
 Full-time: _____ %
 Part-time: _____ %
 Temporary: _____ %
4. Complete the following table based on the employees you had in Washington State on December 31, 2006:
5. How many people did you hire through temporary staffing firms? _____
6. Of the total in question 5, what were the top 3 occupations hired? _____
7. What was the average length of temporary employment reported in question 5?
 0 - 30 days 31 - 60 days 61 - 90 days 91 days - 1 year over 1 year Not Applicable
8. How many people did your company employ worldwide (including Washington State) on December 31, 2006?

- 9a. What percentage of total employees worked in research and development (R&D) in Washington State on December 31, 2006? _____ %
- 9b. What percentage of total employees worked in research and development (R&D) worldwide (including Washington) on December 31, 2006? _____ %
10. How many new employment positions did your firm create in Washington State during calendar year 2006?

11. What percentage of the new Washington employment positions created during calendar year 2006 were filled, at the time of hire, by residents of Washington State?
 _____ % of all new positions filled by **Washington residents**
12. Has your firm moved a business activity from out-of-state into Washington, expanded an existing business activity, or created new business activity in Washington during 2006?
 _____ YES, moved an activity from out-of-state into Washington

- _____ YES, expanded an existing activity in Washington
- _____ YES, created a new business activity in Washington
- _____ NO, Skip to question 15

13. How many employees did your firm add to these activities or facilities? (If none, enter "0".)

Note: The total number of employees must equal the total number of employees in question 10.

Number of employees you moved into Washington State:

- _____ Research employees
- _____ Manufacturing employees
- _____ Distribution employees
- _____ Administrative employees

Number of employees you added in the **expansion of your existing business activity**:

- _____ Research employees
- _____ Manufacturing employees
- _____ Distribution employees
- _____ Administrative employees

Number of employees you hired for your **newly created business activity** in Washington State:

- _____ Research employees
- _____ Manufacturing employees
- _____ Distribution employees
- _____ Administrative employees

14. What percent of the employees from question 13 were residents of Washington State at the time of hiring?

_____ % employees who were Washington residents

15. Has your firm moved any Washington activities out of Washington State during calendar year 2006?

_____ YES, moved activities to an out-of-state location

If NO, **SKIP TO QUESTION 17**

16. How many employees were moved out of Washington State?

- _____ Research employees
- _____ Manufacturing employees
- _____ Distribution employees
- _____ Administrative employees

17. If you received a deferral for an investment project, enter the total number of employees located at the investment project by deferral certificate number. This includes projects that are operationally complete and still have part of their eight year use requirements left. (If necessary, attach an additional page to respond to this question)

Certificate number _____ Total number of employees _____

18. If you took the B&O tax exemption for canning, preserving, freezing, processing, or dehydrating fresh fruits and vegetables complete the following chart:

Questions About Patents, Trademarks and Copyrights

19. How many United States patents granted to your firm in calendar year 2006 were associated with new (or potential) products developed from the research and development for which you received a tax credit or deferral (at any time)?

_____ Advanced Computing
 _____ Advanced Materials
 _____ Biotechnology
 _____ Electronic Device Technology
 _____ Environmental Technology
 _____ Other areas (describe) _____

20. List the United States patent registration numbers for patents granted in calendar year 2006. Do not include pending patents. (If necessary, attach an additional page to respond to this question.)

21. How many United States trademarks were registered by your firm during calendar year 2006 by category?

_____ Advanced Computing
 _____ Advanced Materials
 _____ Biotechnology
 _____ Electronic Device Technology

	ESD Q1 Report	ESD Q2 Report	ESD Q3 Report	ESD Q4 Report
Total Employment				
Average Hourly Wage Paid to Season/Temporary Employees				

_____ Environmental Technology
 _____ Other areas (describe) _____

22. What was the number of United States copyrights that were issued to your firm during calendar year 2006 by category?

_____ Advanced Computing

- _____ Advanced Materials
- _____ Biotechnology
- _____ Electronic Device Technology
- _____ Environmental Technology
- _____ Other areas (describe) _____

23. Of United States copyrights reported in question 22, which Federal Copyright classifications were they in?

- _____ Literary works
- _____ Visual Arts
- _____ Performing Arts
- _____ Sound Recording
- _____ Mask Works
- _____ Serials & Periodicals
- _____ Other areas (describe) _____

Questions About Your Business Activities

24. If you took the High Technology B&O Tax Credit or the Tax Deferral for High Technology Business, what percentage of the research and development performed in Washington during calendar year 2006 was in the following areas:

- _____ % Advanced Computing
- _____ % Advanced Materials
- _____ % Biotechnology
- _____ % Electronic Device Technology
- _____ % Environmental Technology
- _____ % Other areas (describe) _____

25. If you took the Tax Deferral for Investment Projects in Rural Counties describe the products manufactured at the investment project site during calendar year 2006:

26. If you took the B&O tax exemption for canning, preserving, freezing, processing, or dehydrating fresh fruits and vegetables; or selling dairy or seafood products, describe the products sold for which the exemption was claimed during calendar year 2006.

27. Did the research and development for which your firm received (at any time) a tax credit or a deferral result in a new product, new service, new process, new project or support an on-going project during calendar year 2006? If yes, how many? (Complete table)

28. What percentage of all numbers reported in question 27 were produced or distributed during 2006 by your firm's Washington State based employees? _____%

If 100% SKIP TO QUESTION 30.

29a. Approximately what percentage of all your products or services were produced or distributed by other firms in Washington State? _____%

29b. Approximately what percentage of the material or service inputs to your firm were provided by other firms in Washington State? _____%

30. Have you ever purchased manufacturing machinery and equipment tax exempt under the Manufacturing Machinery and Equipment Exemption (RCW 82.08.02565 and 82.12.02565)?

_____ If YES, please answer questions 31 and 32.

_____ **If NO, SKIP TO QUESTION 33**

31. Estimate the retail value of all machinery and equipment purchased in calendar year 2006 using the Manufacturer's Sales and Use Tax Exemption?

\$ _____ retail value

32. Approximately what percentage of the exempt equipment purchased during calendar year 2006 was used more than half the time for research and development?

_____ % used for research and development

CLASSIFICATION	New Products	New Services	New Processes	New Projects	On-going Projects
Advanced Computing					
Advanced Materials					
Biotechnology					
Electronic Device Technology					
Environmental Technology					
Other area (describe)					

33. If you took the High Technology B&O Tax Credit or Tax Deferrals for High Technology, please estimate the retail value of sales made during calendar year 2006. This includes all new products, services, or processes that resulted from the credit or deferral programs, since you began using the credit or deferral. The estimated value should include sales made by your firm and through other firms. \$ _____

34. Has your firm acquired or merged with another company during calendar year 2006? Has your company reorganized during calendar year 2006? If you answer yes to either question, please provide the company name(s) and taxpayer registration number(s). (If necessary, attach an additional page to respond to this question).

a. Company Name _____

Taxpayer Registration Number _____

b. Company Name _____

Taxpayer Registration Number _____

c. Company Name _____

Taxpayer Registration Number _____

d. Company Name _____

Taxpayer Registration Number _____

e. Company Name _____

Taxpayer Registration Number _____

Comments:

Comments (continued):

In the case of a person taking less than ten thousand dollars of the High Technology Business and Occupation (B&O) tax credit under RCW 82.04.4452, the Timber Tax Incentives under RCW 82.04.260, Aerospace B&O Credit for Preproduction Spending RCW 82.04.4487, or the FAR part 145 B&O tax reduction RCW 82.04.250, during the period covered by the survey, the person may request the Department to treat the tax credit amount as confidential under RCW 82.32.330. If you would like to make this request, check the box below and type the name of the business owner, corporate officer, partner, guardian, executor, receiver, administrator who authorized the request and date below.

Check for non-disclosure request

Enter Name: _____

Date: _____

Instructions for Filing Survey

An annual survey must be completed and filed by March 31, 2007 by each person who participated in the following programs during calendar year 2006:

Rural County Sales & Use Tax Deferral	RCW 82.60
High Technology Sales & Use Tax Deferral	RCW 82.63
Tax Exemptions for Fruit and Vegetable Processors	RCW 82.04.4487
High Technology Business & Occupation Tax Credit	RCW 82.04.4452
Aerospace B&O Credit for Preproduction Spending	RCW 82.04.4487
FAR part 145 repair station B&O Tax Reduction	RCW 82.04.250
Dairy Products B&O Tax Exemption	RCW 82.04.4268
Seafood Products B&O Tax Exemption	RCW 82.04.4269
Customized Employment Training Credit	RCW 82.04.449
Timber Tax Incentives	RCW 82.04.260
Biotechnology & Medical Device Mfg. Sales & Use Tax Deferral	RCW 82.75

If your business is not required to file the survey on-line, go to <http://dor.wa.gov/>, click on Forms, then click on alphabetical. Then choose either the 2006 or 2005 survey.

If you are required to file electronically, go to <http://dor.wa.gov/>. To access the survey, click on the “E-file and Online Services” icon and log in, or sign up for Online Services if you are a new user.

A person is participating in a deferral program if the investment project is operationally complete and person has any deferred taxes yet to be waived. If the economic benefits of a deferral are passed to a lessee, the lessee must complete the annual survey and the lessor is not required to complete the annual survey. If you are filing the annual survey for the Biotechnology & Medical Device manufacturer deferral you must file the survey electronically. The survey is not filed until received by the department in an electronic format.

If you are taking the Tax Exemption for Fruit and Vegetable Processors, Seafood Products, Dairy Products, Customized Employment Training, or Timber exemptions/credits for the first time, you must submit two annual surveys. One survey covers calendar year 2005 and the second survey covers calendar year 2006. If you are filing the annual survey for any of the above exemptions/credits you must file the survey electronically. The survey is not filed until received by the department in an electronic format.

If you have taken the High Technology B&O Tax Credit, Aerospace B&O Credit for Preproduction Spending, or FAR part 145 Repair Station B&O tax reduction you must file the survey electronically.

Failure to file a completed survey will result in loss of incentives, credits, or reduced rates. For more information on failure to file, refer to RCW 82.32.590, 82.32.645, 82.60.070, or 82.63.020.

If you have any questions on completion of this survey, or for help with electronic filing, please call the Special Programs division at (360) 570-3265 and press 6, then 3.

If you are not filing the report electronically, you must either mail or fax reports to the Special Programs Division at the address or fax number shown below:

Department of Revenue
Special Programs Division
Post Office Box 47477
Olympia, WA 98504-7477
Fax: 360-586-2163

Instructions for Completing Survey

Company Information

It is important that you state all of the company information requested at the beginning of the report.

Department of Revenue Tax Registration Number: State the company's Department of Revenue Taxpayer Registration Number. This number is available from your Excise Tax Return.

Employment Security Department UBI Number: State the company's Employment Security Department Unified Business Identifier (UBI) number. If you do not have a Washington State Employment Security UBI number you should write N/A on this line.

Name of Business as Registered /Contact Person: State the name of the business as registered with the Department of Revenue and the name of a person we may contact if we have any questions.

Mailing Address. State the mailing address we should mail this form to each year.

Phone Number. State the phone number of the contact person named above.

Employment Security Department Reference Number: State all Employment Security Department (ESD) Reference numbers used on ESD Quarterly Tax Reports you use to report unemployment insurance taxes. This number can be found on line 6 of the ESD Quarterly Tax Report (Form 5208A).

Tax Incentive Taken. Check the applicable box(es).

Questions About Amount of Tax Incentive Taken

- 1a.** State the total amount of the High Technology B&O Tax Credit claimed on your Excise Tax Return(s) during calendar year 2005. If a credit was assigned, in whole or part, from another taxpayer, state the taxpayer's name and tax registration number (TRN) as registered with DOR.
- 1b.** State the total amount of tax deferred for all investment projects in rural counties that have not met all program requirements, and currently have deferred tax yet to be waived. Do not include tax deferrals that have been completely waived because all program requirements have been met. If you are a lessee who has received the benefit of a tax deferral from a lessor, state the lessor's name and tax reporting account number as registered with the DOR.
- 1c.** State the total amount of tax deferred for all investment projects for high technology businesses that have not met all program requirements, and currently have deferred tax yet to be waived. Do not include tax deferrals that have been completely waived because all program requirements have been met. If you are a lessee who has received the benefit of a tax deferral from a lessor, state the lessor's name and tax registration number (TRN) as registered with the DOR.
- 1d.** For persons claiming the Fruit and Vegetable Processing Tax Exemption, state the total amount of tax exempted in 2006 that you would have otherwise had to pay. For persons filling out the 2005 survey, state the total amount of B&O Tax paid in 2005.
- 1e.** State the total amount of the B&O Tax Credit for Preproduction Spending claimed on you Excise Tax Return(s) during calendar year 2006. How much did you spend on preproduction development in 2006? If a credit was assigned, in whole or part, from another taxpayer, state the taxpayer's name and tax reporting number (TRN) as registered with DOR.
- 1f.** What was the amount of tax you saved as a result of your preferential rate as a FAR part 145 repair station? (taxable amount reported in 2006 on line 3 multiplied by .00484 minus taxable amount reported in 2006 on line 3 multiplied by .00275)
- 1g.** For persons claiming the Dairy Products Tax Exemption and filling out the 2006 survey, state the total amount of tax exempted for July 1 through December 31 that you would have otherwise had to pay in the first blank. (taxable amount from manufacturing or selling dairy products for July 1 through December 31, 2006 multiplied by .00138) Then, fill out the total amount of B&O tax paid from January 1 through June 30, 2006 in the second blank. (taxable amount from manufacturing or selling dairy products for January 1 through June 30, 2006 multiplied by .00138) For the 2005 survey, enter "0" for the first blank, then state the total amount of B&O tax paid in 2005 in the second blank. (taxable amount from manufacturing or selling dairy products for January 1 through December 31, 2006 multiplied by .00138)
- 1h.** For persons claiming the Seafood Products Tax Exemption and filling out the 2006 survey, state the total amount of tax exempted for July 1 through December 31 that you would have otherwise had to pay in the first blank. (taxable amount from manufacturing or selling seafood products for July 1 through December 31, 2006 multiplied by .00138) Then, fill out the total amount of B&O tax paid from January 1 through June 30, 2006 in the second blank. (taxable amount from manufacturing or selling seafood products for January 1 through June 30, 2006 multiplied by .00138) For the 2005 survey, enter "0" for the first blank, and then state the total amount of B&O tax paid in 2005 in the second blank. (taxable amount from manufacturing or selling seafood products for January 1 through December 31, 2006 multiplied by .00138)

- 1i. For persons claiming the Customized Employment Training and filling out the 2006 survey, state the total amount of credit in 2006. For the 2005 survey, enter "0" for this question.
- 1j. For persons claiming any of the Timber Tax Exemptions and filling out the 2006 survey, state the total amount of tax exempted for July 1 through December 31 that you would have otherwise had to pay in the first blank. (taxable amount from any timber products taxes exempted for July 1 through December 31, 2006 multiplied by the tax rate that would have been paid) Then, fill out the total amount of B&O tax paid from January 1 through June 30, 2006 in the second blank. (taxable amount of timber products for January 1 through June 30, 2006 multiplied by the tax rate that would have been paid) For the 2005 survey, enter "0" for the first blank, and then state the total amount of B&O tax paid in 2005 in the second blank. (taxable amount of timber tax products for January 1 through December 31, 2005 multiplied by the tax rate that would have been paid)
- 1k. State the total amount of tax deferred for all investment projects for Biotechnology Products and Medical Device Manufacturing that have not met all program requirements, and currently have deferred tax yet to be waived. Do not include tax deferrals that have been completely waived because all program requirements have been met. If you are a lessee who has received the benefit of a tax deferral from a lessor, state the lessor's name and tax reporting number (TRN) as registered with the DOR.

Questions About Employment

- 2a. For persons who have claimed the High Technology B&O Tax Credit, state the total amount of research and development spending for the calendar year. This includes operating expenses such as wages and benefits, supplies, and computer expenses directly incurred in qualified research and development. Do not include capital costs and overhead.
- 2b. Persons who have claimed the High Technology B&O Tax Credit need to report the gross income and value of products subject to B&O tax reported on the Excise Tax Return during the 2006 calendar year, excluding any credit taken for the Multiple Activities Tax Credit (MATC).
3. State the total number of employees employed by your company in Washington State on December 31, 2006.
A person may use their fourth quarter wage and hour report filed with the Employment Security Department to complete the questions regarding employment.

State the percentage of those employees that are employed in full-time, part-time, and temporary employment positions. In order for a position to be treated as full-time or part-time, the employer must intend for the position to be filled for at least 52 consecutive weeks or 12 consecutive months, excluding any leaves of absence. A full-time position is a position that requires the employee to work, excluding overtime hours, 35 hours per week for 52 consecutive weeks, 455 hours a quarter, or 1,820 hours during a period of 12 consecutive months. A part-time position is a position in which the employee may work less than the hours required for a full-time position. A temporary position is a position that is intended to be filled for period of less than 52 consecutive weeks or 12 consecutive months. Positions in seasonal employment are temporary positions.
4. Of the total number of employment positions stated in question 3, state the total number of employees enrolled in medical plans, dental plans, and retirement plans provided by your company according to three wage bands (less than \$30,000, \$30,000 to \$59,999, \$60,000 or more). Wages means compensation paid to an individual for personal services, whether denominated as wages, salary, commission, or otherwise as reported on the W-2 forms of employees. Stock options granted as compensation to employees are wages to the extent they are reported on the W-2 forms of the employees and are taken as a deduction for federal income tax purposes by the employer
5. Report persons working for your firm that you obtained through temporary staffing firms for the year ending December 31, 2006.
6. Report the top 3 occupations you hired from temporary staffing firms.
7. For the persons obtained through temporary staffing firms reported in question 5, report the average duration of their employment at your business for the year ending December 31, 2006. If the duration exceeds one year, chose the box title "over 1 year"
8. How many people are employed worldwide, including Washington State employees.
9. Of the total number of employees stated in question 8, what percentage work in research and development in Washington State and what percentage work in research and development worldwide (including Washington State employees).
10. State the total number of new employment positions that were created in Washington State during calendar year 2006.

11. Of the total number of new employment positions stated in question **10**, what percentage were Washington State residents.
12. Has your firm moved any activities into Washington State, or expanded or built a new facility in Washington State during calendar year 2006? Answer all statements that apply.
13. State the number of employees in each category for each statement checked "yes" in question **12**.
14. State the percentage of all employees in question **13** that were Washington State residents.
15. Did your firm move any activities out of Washington State during calendar year 2006? Check the statement if the answer is yes.
16. If you reported that you moved any activities out of Washington State in question **15**, state the number of employees in each category that relocated out of the state because the activity moved.
17. If you were approved for a deferral that is operationally complete, state the deferral certificate number(s) and total number of employees associated with each certificate.
18. If you are claiming the Tax Exemption for Fruit and Vegetable Processing, state the number of employees reported in your firm's quarterly wage and hour reports to the Employment Security Department and the average wage paid to temporary and seasonal employees per quarter.

Questions About Patents, Trademarks, and Copyrights

19. State the number of United States patents, for which your business received during calendar year 2006 that were associated with new or potential products resulting from research and development, for which a deferral or credit was received at any time. See RCW 82.63.010 for definitions of the various categories.
20. List the United States patent registration numbers for the patents received in 2006.
21. State the number of United States trademarks issued to your firm during calendar year 2006 by category.
22. State the number of United States copyrights issued to your firm during calendar year 2006 by category.
23. State how the Federal Copyrights, from question **22**, were classified.
24. If you are taking the High Technology B&O Tax Credit or the Tax Deferral for High Technology Businesses, state the percentage of activity performed in any of the research and development activities.
25. If you are taking the Tax Deferral for Investment Projects in Rural Counties, describe the products manufactured at any sites in Washington that received a tax deferral for investments in rural counties.
26. If you are claiming the Tax Exemption for Fruit and Vegetable Processing or Dairy and Seafood Products, describe the products sold for which the exemption was claimed during 2006.
27. Did the research and development for which your firm received a tax credit result in a new product, service, new process, project, or support on-going research? If yes, state the number of new products, services, processes, projects, and on-going research projects by classification in the matrix. If "no," enter zero.
28. State the percentage of new products, processes, services, or projects that resulted from the credit or deferral programs that were produced or distributed by your firm's Washington State employees (from question **27**).
- 29a. State the percentage of new products, processes, services, or projects that were produced or distributed by other firms within Washington State.
- 29b. State the percentage of new products, processes, services, or projects that had material or service inputs from other companies in Washington State.
30. Mark "yes" if you ever used the Manufacturer's Sales and Use Tax Exemption Certificate for machinery and equipment used in manufacturing, research and development, or a testing operation, to purchase machinery and equipment. If "no," skip to question 33.
31. If you used the Manufacturer's Sales and Use Tax Exemption Certificate for machinery and equipment used in manufacturing during calendar year 2006, estimate the retail value of all machinery and equipment purchased.
32. State the percentage of machinery and equipment purchased during calendar year 2006 (from question **31**) that was used for more than half the time in research and development.
33. State the estimated retail value of sales made during calendar year 2006 of all new products, services or processes that resulted from the high technology B&O credit or high technology deferral programs, since you began using the credit or deferral. The estimated dollar value should include sales made by your firm and

through other firms. For example, if you receive royalties for a product, what would you consider the retail value of that product to be (you receive 10% on each product sold and have been paid \$1,000,000 through 2006 the value would be $\$1,000,000 / .10 = \$10,000,000$).

- 34.** Has your firm acquired or merged with another company during calendar year 2006? Has your company reorganized during calendar year 2006? If you can answer yes to either question, please state the company name and taxpayer reporting account number for the acquired, merged, or predecessor company? (If necessary, attach an additional page to respond to this question).