

# Special Notice

*Intended audience: Certain manufacturing operations, renewable energy storage facilities, and clean fuel producers*

**July 1, 2022**

## Sales and use tax deferral program for clean energy investment projects

Beginning July 1, 2022, a new sales and use tax deferral program is available for eligible investment projects in clean technology manufacturing, clean alternative fuels production, and renewable energy storage.

### What qualifies?

An eligible investment project with costs of at least \$2 million in either qualified buildings or qualified machinery and equipment, or both, for any of the following new, renovated, or expanded:

- Certain manufacturing operations (see definition below).
- Facilities to store electricity generated from renewable sources.
- Production facilities for clean fuel, renewable hydrogen, and green electrolytic hydrogen.

The certificate may only be used to make purchases of materials and equipment, labor, or services to be incorporated in the eligible investment project at the location listed on the certificate.

### Applying for the deferral

Applications must be made prior to the initiation of construction. Applications will not be accepted after June 30, 2032. Certificates will not be issued after Jan. 1, 2033. The application can be found at [dor.wa.gov](http://dor.wa.gov) under [Deferral forms.](#)

### Paying deferred taxes

A certificate holder must begin paying deferred taxes two years after project completion, and

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annually for nine subsequent years. Annual payments are 10% of the deferred taxes.

100% of the deferred local sales and use taxes must be paid.

The deferral recipient may receive a reduction of the state sales and use taxes owed as follows:

- 50% reduction if the Department of Labor and Industries (L&I) certifies that the project includes procurement and contracts with women, minority, or veteran owned businesses, and entities that have a history of complying with federal and state wage and hour laws, apprenticeship utilization, and preferred entry workers living in the project construction area.
- 75% reduction if, in addition to meeting the 50% standard, the project compensates workers at prevailing wages determined by local collective bargaining.
- 100% reduction if L&I certifies that the project is developed under a community workforce agreement or project labor agreement.

## Other program requirements

Meaningful construction on an eligible investment project must begin within two years of receiving a deferral certificate. If the investment project is not complete within five years from the issue of the deferral certificate, or if the department finds the project is not eligible for the tax deferral due to alternative use, then all or a portion of the deferred tax is immediately due and payable based on a declining schedule.

The deferral recipient must file Annual Tax Performance Reports beginning in the first calendar year after the project is complete and continue filing them through the end of the calendar year in which the final repayment occurs. If the economic benefits of the deferral are passed to a qualified lessee, the lessee must be the one to file annual tax performance reports.

If the recipient files excise tax returns, they must also complete the Buyer's Sales and Use Tax Preference Addendum within the return.

## Definitions

**Green electrolytic hydrogen** means hydrogen produced through electrolysis and does not include hydrogen manufactured using steam reforming or any other conversion technology that produces hydrogen from a fossil fuel feedstock.

**Manufacturing operations** means manufacturing tangible personal property exclusively incorporated as an ingredient or component of or used in the generation of:

- Passenger cars, light duty trucks, medium duty passenger vehicles, buses, commercial vehicles as defined in RCW 46.04.140, or motorcycles that emit no exhaust gas from the onboard source of power, other than water vapor.
- Charging and fueling infrastructure for electric, hydrogen, or other vehicle types that emit no exhaust gas from the onboard source of power, other than water vapor.

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- Renewable and green electrolytic hydrogen, including preparing renewable and green electrolytic hydrogen for distribution or converting it to a green hydrogen carrier.
- Clean fuel with associated greenhouse gas emissions not exceeding 80% of the 2017 levels established under RCW 70A.535.020 or its successor statute under chapter 70A.535 RCW.
- Electricity from renewable resources.
- Storage facilities as defined below.

**Meaningful construction** means an active construction site, where excavation of a building site, laying of a building foundation, or other tangible signs of construction are taking place and that clearly show a progression in the construction process at the location designated by the taxpayer in the deferral application. Planning, permitting, or land clearing before excavation of the building site does not constitute “meaningful construction.”

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

**Qualified buildings** mean construction of new structures, and expansion or renovation of existing structures for the purpose of increasing floor space or production capacity, used for manufacturing, including plant offices and warehouses or other buildings for the storage of raw materials or finished goods if the facilities are an essential or an integral part of a factory, mill, plant, or laboratory used for manufacturing.

**Qualified machinery and equipment** mean all new industrial fixtures, equipment, and support facilities that are an integral and necessary part of a manufacturing operation. “Qualified machinery and equipment” include: Computers; software; data processing equipment; laboratory equipment; manufacturing components such as belts, pulleys, shafts, and moving parts; molds, tools, and dies; operating structures; and all equipment used to control, monitor, or operate the machinery.

**Renewable resource** has the same meaning as in RCW 82.08.816.

**Storage facility** means a facility that: (a) Accepts electricity as an energy source and uses a chemical, thermal, mechanical, or other process to store energy for subsequent delivery or consumption in the form of electricity; or (b) Stores renewable hydrogen, green electrolytic hydrogen, or green hydrogen carrier for subsequent delivery or consumption.

## More information

[2SHB 1988](#), Chapter 185, Laws of 2022 – Sales and use tax deferral certain investment projects.

## Questions?

For questions about deferrals, please email [DORDeferrals@dor.wa.gov](mailto:DORDeferrals@dor.wa.gov) or call our Deferral Program Lead at 360-534-1443.

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