

# Special Notice

*Intended audience: Manufacturing and research and development companies locating in rural counties.*

**June 30, 2022**

## **Sales and use tax deferral for manufacturing and research and development in qualifying counties**

Effective July 1, 2022, persons conducting manufacturing and research and development activities in certain designated counties can apply for a sales and use tax deferral for certain investment projects.

### **What qualifies?**

Qualified buildings and qualified machinery and equipment located in counties with a population of less than 650,000 at the time of application.

### **How do I apply?**

You must submit an application before initiation of construction or purchase of machinery and equipment.

Applications will not be accepted after June 30, 2032.

### **Are there any restrictions?**

Yes. The amount of sales/use tax that can be deferred is limited to \$400,000 per person.

### **Deferral program requirements**

The recipient of a deferral certificate must begin meaningful construction on an eligible investment project within two years of receiving the certificate.

If the recipient does not begin meaningful construction within two years of receiving the deferral

certificate, the certificate is invalid and taxes are due immediately.

An Annual Tax Performance report must be filed by May 31 of the year after the investment project is certified as operationally complete and for the next seven years.

Buyers must also complete the Buyer's Sales and Use Tax Preference Addendum when filing their excise tax returns.

The lessor of an eligible investment project is only eligible for a deferral if either of the following are true:

- The underlying ownership of the building, machinery, or equipment vests exclusively with the person receiving the economic benefit of the deferral.
- The economic benefit of the deferral is passed to the lessee as provided in section 8 of ESB 5901.

## Do I have to pay the deferred taxes?

No. You do not have to repay the deferred taxes unless one of the following occurs:

- The project is not operationally complete within five years of the issuance of the certificate.
- The project is used in a non-qualifying manner at any time during the deferral period.

## Definitions

**Initiation of construction** means means the date that a building permit is issued. The term does not include soil testing, site clearing and grading, site preparation, or any other related activities that are initiated before the issuance of a building permit for the construction of the foundation of the building.

**Investment project** means an investment in qualified buildings or qualified machinery and equipment, including labor and services rendered in the planning, installation, and construction of the project.

**Manufacturing** means the same as defined in [RCW 82.04.120](#) and also includes activities performed by research and development laboratories and commercial testing laboratories, and the conditioning of vegetable seeds.

**Meaningful construction** means an active construction site, where excavation of a building site, laying of a structure 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 application for deferral.

**Qualified buildings** means construction of new structures, and expansion or renovation of existing structures for the purpose of increasing floor space or production capacity used for manufacturing or research and development activities, including plant offices and warehouses or other facilities

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for the storage of raw material or finished goods if such facilities are an essential or an integral part of a factory, mill, plant, or laboratory used for manufacturing or research and development.

**Qualified machinery and equipment** means all new industrial and research fixtures, equipment, and support facilities that are an integral and necessary part of a manufacturing or research and development operation.

**Research and development** means the development, refinement, testing, marketing, and commercialization of a product, service, or process before commercial sales have begun, but only when such activities are intended to ultimately result in the production of a new, different, or useful substance or article of tangible personal property.

## More information

[ESB 5901](#) Manufacturing and Research and Development Sales and Use Tax Incentive Program for Designated Counties.

## 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.