

2005 REPORT ON SELECTED TAX INCENTIVES

Descriptive Statistics for Calendar Year 2004

**High Technology Tax Credit
High Technology Tax Deferral/Exemption
Rural County Tax Deferral/Exemption**

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TO: The Honorable Margarita Prentice, Chair, Senate Ways and Means Committee
The Honorable Jim McIntire, Chair, House Finance Committee

FROM: Cindi L.H. Yates, Director

SUBJECT: TAX INCENTIVE PROGRAMS - ANNUAL DESCRIPTIVE STATISTICS

This is the first in a series of annual reports which present data submitted by taxpayers that participated in certain tax incentive programs during calendar year 2004. This new reporting requirement was established by legislation in 2004 - ESHB 2546 (Sections 2 and 4) and SSB 6240 (Section 7). Programs included in this report are:

High Technology B&O Tax Credit – RCW 82.04.4452
High Technology Sales/Use Tax Deferral/Exemption – Chapter 82.63 RCW
Rural County Sales/Use Tax Deferral/Exemption – Chapter 82.60 RCW

The effectiveness of these incentive programs will be a major focus of the reports to the Legislature which are due on December 1, 2009, pursuant to the same 2004 legislation.

The Department hopes that these statistics will be useful in monitoring the utilization of these incentives. We've attempted to provide tables that can be augmented each year as new reports are received so that by 2009 a long-term picture of the participants will have been established.

The information presented herein was compiled by the Research Division under the direction of Mary Welsh (570-6076). If you, your Committee members, or your staff have any questions about this report, please let us know.

cc: The Honorable Christine O. Gregoire, Governor
Senate Ways and Means Committee Members
House Finance Committee Members

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CHAPTER 1: EXECUTIVE SUMMARY AND SURVEY OVERVIEW

This report addresses three major tax incentive programs which are intended to encourage investment in research and development (R&D) by high technology firms as well as investment by manufacturers in rural areas of Washington. The two “high tech” incentives, including a B&O tax credit and a sales/use tax deferral/exemption for qualified buildings and machinery and equipment, originally dated from 1994. The rural county program consists of a sales/use tax deferral/exemption for qualified buildings and machinery and equipment; it was established in 1985.

In 2004 the Legislature amended the three statutes with the goal of obtaining better information from program participants to enhance legislative oversight. Specifically, the amendments focused on accountability of the participants and improved analysis of the effectiveness of the programs in terms of the impact on the state economy. New reporting requirements were enacted. First, participants in the programs are required to file an annual survey to report basic information relating to their investments and employment (see Appendix for a copy of the 2004 survey). Next, the Department of Revenue was asked to compile the survey submittals into an annual report containing summary statistics of annual survey responses. This report is the first in the series of such annual reports. Finally, two broader analytical reports will be submitted to the Legislature by December 1, 2009 and December 1, 2013 (high tech programs only; a single report is due for the rural county incentive in 2009). These reports will assist in the evaluation of the economic impacts in terms of job creation, expansion of R&D activities and manufacturing, diversification of the state economy, introduction of new products, and related factors.

Principal Observations

These are among the major observations from the surveys submitted by participants who reported completed, audited projects for the deferral programs or claimed the tax credit during 2004:

- The high tech B&O tax credit has the largest number of reporting participants.
- The amount of B&O tax reduction in CY 2004 equaled \$25.4 million for the 557 taxpayers who submitted the survey and claimed the credit.
- The largest revenue impact is associated with the high tech deferral, amounting to \$82.8 million for the 92 firms reporting in 2004.
- The rural county deferral was reported by 256 firms with a total tax reduction of \$58.2 million.
- In general, the participants that paid the highest wages to their employees and offered the most benefits were located in urban counties.

The Survey Process

The 2004 amendments authorize the disclosure of the amount of the tax incentive claimed by specific firms, but the remainder of the information submitted in the annual surveys remains subject to the excise tax confidentiality statute in RCW 82.32.330. Furthermore, the summary descriptive statistics in this report are limited to “no fewer than three taxpayers in any category.” As a result some of the following tables have entries denoting “D” which means that disclosure of the information was restricted to avoid identification of a particular taxpayer.

The information presented in the tables reflects a combination of summarized data from the survey responses and requests for specific types of presentations made by legislative staff. The survey instrument contained 30 questions. However, only those nine questions required in statute were mandatory for participants; the remaining 21 questions were voluntary for participants. As required by the law, the descriptive statistics presented in this report are based on the responses to only the mandatory questions.

It should be noted that these responses do not always reflect all of the potential program participation due to difficulties in identifying the appropriate taxpayer. For example, for the sales/use tax deferral/exemption programs, lessors of real property may qualify for the sales tax benefit from construction on land they own, even though the lessee is the qualifying manufacturing or R&D entity. Also, there can be problems in locating the proper taxpaying entity in situations where the original applicant has either been acquired by another firm or has ceased engaging in business.

Participating Firms

Table 1 provides an overview of survey responses and nonresponses for each of the three programs. The 2004 program amendments provided that if participating firms do not submit an annual survey, then 12.5 percent of the tax benefits received from the tax deferral programs shall be due and payable. Credits taken by nonreporting firms are billed the following year. Overall, there were 61 firms that experienced reduced benefits as a result of not submitting a 2004 survey.

The firms shown in Table 1 count each taxpayer for each program in which the taxpayer participates. Thus, there is some double counting in the total of 905 participants. Table 2 eliminates this double counting by showing the number of taxpayers which participated in only a single program and the number of firms that received benefits from multiple programs. Also, to give an idea of the importance of each of the programs, Table 2 indicates the total employment of participating firms. The B&O tax credit program was the most widely utilized of the incentive programs with 498 participating firms representing a total of 41,844 employees. There were 250 manufacturers that claimed the sales/use tax deferral/exemption for investment in rural counties but did not participate in the other two programs. Their employment totaled 27,669. The 54 firms that participated in both high tech programs or all three incentive programs reported total employment of 41,234.

Table 1
NUMBER OF PARTICIPATING FIRMS BY PROGRAM

Tax Incentive Program	Firms that Submitted A Survey	Firms Losing Benefits for Nonsubmittal
High Tech B&O Tax Credit	557	43
High Tech Sales/use Tax Def./Ex.	92	4
Rural County Sales/use Tax Def./Ex.	256	14
TOTAL PARTICIPANTS	905	61

Table 2
FIRMS PARTICIPATING IN SINGLE OR MULTIPLE PROGRAMS

Tax Incentive Program	Number of Participants	Employment Reported by Participants
<u>Single Program Only</u>		
High Tech B&O Tax Credit	498	41,844
High Tech Sales/use Tax Def./Ex.	38	30,355
Rural County Sales/use Tax Def./Ex.	250	27,669
<u>Multiple Programs</u>		
High Tech Credit & Rural Deferral	5	881
High Tech Deferral & Rural Deferral	0	0
Both High Tech or All Three Programs	54	41,234
TOTAL PARTICIPANTS	845	141,983

CHAPTER 2: HIGH TECHNOLOGY B&O TAX CREDIT

In 1994 the Legislature established a business and occupation (B&O) tax credit for qualified research and development expenditures other than for capital improvement purposes (RCW 82.04.4452). The maximum annual credit is \$2 million per firm for businesses that perform R&D in Washington in five specified high technology categories:

- Advanced Computing
- Advanced Materials
- Biotechnology
- Electronic Device Technology
- Environmental Technology

Under current law the high technology B&O tax credit program will expire on January 1, 2015.

The following tables show the descriptive statistics for firms which reported taking the B&O credit on their 2004 surveys. The first three tables present the amount of tax credit taken and the amount of eligible spending on R&D by the participants. Table 3A organizes the information by major industry. Primary industries are based on the participants' North American Industrial Classification (NAICS). Professional services firms have the largest number of firms and over 40 percent of the employment. However, well over half of the eligible research spending was attributable to firms in the information services sector.

Table 3A
HIGH TECH CREDIT AND RESEARCH SPENDING BY INDUSTRY

Primary Industry	Firm Count	High Tech Credit Taken	Eligible Research Spending	B&O Taxable Income (survey)	Research Spending to Taxable Income	Credit to Taxable Income
Ag, Mining & Construction	5	\$30,422	\$2,660,743	\$20,356,705	13.1%	0.15%
Manufacturing	109	5,101,871	552,630,114	3,733,468,129	14.8%	0.14%
Wholesaling	47	1,799,988	185,342,159	1,828,763,685	10.1%	0.10%
Retailing	47	670,043	122,019,530	155,014,543	78.7%	0.43%
Information Svcs	58	3,322,458	4,079,290,090	1,545,042,200	264.0%	0.22%
Professional Svcs	255	10,219,287	1,203,158,119	2,414,207,298	49.8%	0.42%
Waste Mgmt	18	3,137,728	551,167,758	1,007,106,767	54.7%	0.31%
Healthcare	9	892,208	107,129,228	93,295,352	114.8%	0.96%
Other Services	9	145,376	43,718,877	10,400,052	420.4%	1.40%
Totals	557	\$25,319,381	\$6,847,116,617	\$10,807,654,731	63.4%	0.23%

The final two columns in each of the three tables compares the amount of eligible research spending and the amount of credit taken to the firm's B&O taxable income (gross receipts less eligible exemptions and deductions). The results for Table 3A indicate large differences between firms that take the credit. Firms that have sources of capital which are not subject to B&O tax (income derived from outside the state or from investors) with which to finance R&D activities in this state typically have high ratios of spending to taxable income.

The credit-to-taxable column shows the relative credit rate to taxable activity. Effective in June 2005 the Legislature reduced the calculation of the credit from 1.5 percent to the average tax rate for the firm. This column shows that high levels of research spending and high average tax rates cause the ratio to be high. Conversely, low levels of research and low levels of tax rates cause the ratio to be lower. The typical firm has an average B&O tax rate of 0.69 percent of its taxable income, therefore the average rate of 0.23 percent for this column indicates that one-third of B&O tax liability is eliminated by the credit.

During the 2005 legislative session the credit rate was again changed back to 1.5 percent, but this will be phased in over several years. Thus, the ratios shown in this column of Table 3A in future reports will rise as the phase-in occurs.

Table 3B presents the same information as Table 3A but organized by three categories reflecting firm size based on employment. Table 3C shows the data by geographic region within the state.

Table 3B
HIGH TECH CREDIT AND RESEARCH SPENDING BY EMPLOYMENT SIZE

Employment Size	Firm Count	Washington Employment	High Tech Credit Taken	Eligible Research Spending	B&O Taxable (survey)	Research Spending to Taxable Income	Credit to Taxable Income
<50	397	5,380	\$3,824,942	\$328,455,469	\$586,813,091	56.0%	0.65%
50-250	118	13,228	7,566,385	733,572,126	2,594,426,423	28.3%	0.29%
>250	42	65,351	13,928,054	5,785,089,022	7,626,415,217	75.9%	0.18%
Totals	557	83,959	\$25,319,381	\$6,847,116,617	\$10,807,654,731	63.4%	0.23%

Table 3B indicates that the ratio of research spending relative to B&O taxable income is far greater for smaller and larger firms than it is for mid-size companies. The tax credit is more significant in relation to taxable income for smaller firms.

The geographic breakdown in Table 3C is generally based on the headquarters location of the firm taking the credit. For firms with multiple locations the geographic assignment is determined by the facility with the most employees. Research spending appears to be much more significant as a percentage of firms' taxable income in the urban counties of Western Washington. The percentage is much smaller in the rest of the state. The amount of the credit in relation to taxable income, however, is more similar throughout the state.

Table 3C
HIGH TECH CREDIT AND RESEARCH SPENDING BY REGION IN STATE

Region in State	Firm Count	Washington Employment	High Tech Credit Taken	Eligible Research Spending	B&O Taxable (survey)	Research Spending to Taxable Income	Credit to Taxable Income
Out of State	46	10,546	\$5,073,281	\$623,144,410	\$2,785,128,498	22.4%	0.18%
Rural East	21	10,055	3,966,196	676,657,331	1,424,114,761	47.5%	0.28%
Rural West	22	560	182,990	43,181,279	136,688,255	31.6%	0.13%
Urban East	22	2,053	659,504	63,174,839	320,668,775	19.7%	0.21%
Urban West	446	60,745	15,437,410	5,440,958,758	6,141,054,442	88.6%	0.25%
Totals	557	83,959	\$25,319,381	\$6,847,116,617	\$10,807,654,731	63.4%	0.23%

Rural East - Adams, Asotin, Benton, Chelan, Columbia, Douglas, Ferry, Franklin, Garfield, Grant, Kittitas, Klickitat, Lincoln, Okanogan, Pend Oreille, Stevens, Walla Walla, Whitman and Yakima counties.

Rural West - Clallam, Cowlitz, Jefferson, Grays Harbor, Lewis, Mason, Pacific, San Juan, Skagit, Skamania, Wahkiakum and Whatcom counties.

Urban East – Spokane County.

Urban West - Clark, Island, King, Kitsap, Pierce, Snohomish and Thurston counties.

(Note: The “rural” designation is based on the rural county program criterion of population density less than 100 persons per square mile; it does not include the addition of Island County to the program.)

Table 4
 HIGH TECH CREDIT PARTICIPANTS
 EMPLOYMENT BY STATUS AND INDUSTRY

Primary Industry	Firm Count	Washington Employment	Full-Time Employment Share	Part-Time Employment Share	Temporary Employment Share
Agriculture, Mining and Construction	5	126	97%	3%	0%
Manufacturing	109	15,581	95%	2%	4%
Wholesaling	47	4,106	95%	2%	3%
Retailing	47	1,646	95%	4%	1%
Information Services	58	35,418	91%	0%	8%
Professional Services	255	19,111	89%	8%	3%
Waste Management	18	6,891	99%	0%	0%
Healthcare	9	741	93%	1%	2%
Other Services	9	339	95%	4%	1%
Totals	557	83,959	92%	2%	5%

Tables 4 and 5 contain detailed information on employment for the 557 firms that reported the B&O tax credit. Table 4 provides a breakdown of the nearly 84,000 jobs for these firms according to whether these jobs are full-time, part-time, or temporary. Nearly all positions are reported as working full-time in each of the industries; the percentage is somewhat lower for the service industries. Table 5 contains information relating to benefit programs provided to employees. Overall, nearly 90 percent of the employees received medical and dental coverage, but only 80 percent were covered by a retirement plan. Clearly, employers who paid lower wages also provide a lower level of benefits. The percentage of positions benefiting from medical, dental, and retirement plans at the less than \$30,000 annual wage band were one-half or less of the level for firms that paid high wages.

Table 5
HIGH TECH CREDIT PARTICIPANTS
EMPLOYMENT AND BENEFITS BY WAGE BAND

Wage Bands	Total Employment	Total Enrolled in Medical Plans	Total Enrolled in Dental Plans	Total Enrolled in Retirement Plans
Less than \$30,000 per year	9,014	46.0%	45.6%	34.7%
\$30,000-\$59,999 per year	19,843	90.7%	90.2%	90.7%
\$60,000 or more per year	55,102	95.7%	95.4%	83.7%
Totals	83,959	89.2%	88.9%	80.1%

Table 6 looks at the introduction of new products and new research projects by firms that reported having taken the B&O tax credit during 2004. Of the 557 total credit takers, 358 firms indicated they had developed a total of more than 4,500 new products. Similarly, 415 firms started new research projects numbering nearly 9,700.

Table 6
HIGH TECH CREDIT PARTICIPANTS
NEW PRODUCTS AND PROJECTS BY TECHNOLOGY

Technology	New Products		New Research Projects	
	Firm Count	Product Count	Firm Count	Project Count
Advanced Computing	171	1,383	182	5,495
Advanced Materials	21	762	25	112
Biotechnology	26	843	47	2,981
Electronic Device Technology	106	1,375	112	807
Environmental Technology	17	31	28	105
Other	17	122	21	195
Totals	358	4,516	415	9,695

Finally, Table 7 looks at the result of research and development activities for each of the five specified high technology sectors in terms of the newly obtained patents, copyrights, and trademarks. A total of 1,601 new patents, 708 new copyrights, and 879 new trademarks were reported by participants, led by the advanced computing industry.

Each of these forms of legal protection may have different uses, different levels of significance, and different levels of effort required to acquire them. For example, patents which provide evidence of a uniquely new invention may take several years to obtain. Copyrights may be used for different types of products or services and they may also relate to a patented product as well. A trademark is largely used for marketing and market protection and may not represent an actual new product or service. Trademarks may be created for products and services that also have been patented or copyrighted. Therefore, patents and copyrights tend to demonstrate new inventions better than trademarks do.

Table 7
HIGH TECH CREDIT PARTICIPANTS
PATENTS, COPYRIGHTS, TRADEMARKS BY TECHNOLOGY

Technology	New Patents		New Copyrights		New Trademarks	
	Firm Count	Patent Count	Firm Count	Copyright Count	Firm Count	Trademark Count
Advanced Computing	26	908	18	477	54	726
Advanced Materials	7	10	0	0	6	12
Biotechnology	22	98	0	0	9	27
Electronic Device Technology	39	419	6	218	27	76
Environmental Technology	5	69	D	D	5	9
Other	23	97	5	11	15	29
Totals	122	1,601	31	708	116	879

CHAPTER 3: HIGH TECHNOLOGY SALES/USE TAX DEFERRAL/EXEMPTION

In 1994 the Legislature created a deferral of retail sales and use tax for businesses that construct a new R&D facility or pilot-scale manufacturing facility and acquire equipment or expand, renovate, or equip an existing facility in Washington (Chapter 82.63 RCW). The eligible activities are the same five specified high technology categories as for the high technology B&O tax credit program. While the program is a deferral of sales and use tax, the repayment of tax is waived if the facility is used as a high technology facility for at least eight years. Thus, the deferral can become an outright exemption of the state and local retail sales and use tax liability. For each year that this requirement is met, 12.5 percent of the repayment is waived.

For high technology and rural deferral (Chapter 4) program surveys, only completed projects that have been audited were required to submit a survey. In some cases, firms submitted surveys when the project had not yet been audited or it was not clear that the project had been completed. These surveys were included in this report, because it could not be conclusively determined that the project was not eligible for the incentive.

For the high technology deferral program reports, the tax deferral amounts include both state and local sales and use taxes. Under current law the high technology sales/use tax deferral/exemption program will expire on January 1, 2015.

Table 8A shows the level of deferred tax and employment by major industry for firms that reported completed projects. In terms of the amount of deferred tax, the largest industries are professional services and information services. In terms of employment, health care is also a significant industry.

Table 8A
HIGH TECH DEFERRAL PARTICIPANTS
BY INDUSTRY

Primary Industry Description	Firm Count	Washington Employment	High Tech Deferral Taken
Manufacturing	12	2,825	\$6,724,088
Wholesale	6	1,180	5,309,444
Retail	5	171	366,354
Information Services	6	32,379	24,936,841
Real Estate	3	4	1,965,111
Professional Services	50	5,591	25,947,373
Healthcare	6	29,094	14,587,619
Other	4	345	2,979,042
Totals	92	71,589	\$82,815,872

Table 8B presents the same information as Table 8A, but organized by firm size (based on employment). Although there are fewer participants among larger firms, they clearly represent the majority of the deferral amount and by far the largest share of total employment.

Table 8B
HIGH TECH DEFERRAL PARTICIPANTS
BY EMPLOYMENT SIZE

Employment Size	Firm Count	Washington Employment	High Tech Deferral Taken
<50	42	757	\$12,338,465
50-250	31	3,834	19,322,694
>250	19	66,998	51,154,713
Totals	92	71,589	\$82,815,872

Table 8C repeats the information on the high tech deferral, based on geographic region of the state. These locations are based on the location of the largest project of the firm in cases where a firm has multiple projects in the program. Because of the confidentiality restrictions, responses for the rural areas and the urban-east areas are grouped together. Nonetheless, the urban-west counties dominate the utilization of the high tech deferral program.

Table 8C
 HIGH TECH DEFERRAL PARTICIPANTS
 BY REGION IN STATE

Region in State	Firm Count	Washington Employment	High Tech Deferral Taken
Urban West	88	71,346	\$76,586,146
Other Areas	4	243	6,229,726
Totals	92	71,589	\$82,815,872

Urban West - Clark, Island, King, Kitsap, Pierce, Snohomish, and Thurston counties.

For Table 8C the remaining 32 counties are grouped together because of disclosure requirements.

Table 9 breaks down the reported employment for high tech deferral participants by type of position and by industry. For this program full-time employment varies more by industry than it does for the high tech credit program. For most industries full-time positions represent about 90 percent of all employees. Major exceptions are real estate and health care which have a significantly higher percentage of part-time and temporary employees.

Table 9
 HIGH TECH DEFERRAL PARTICIPANTS
 EMPLOYMENT BY STATUS AND INDUSTRY

Primary Industry	Firm Count	Washington Employment	Full-Time Employment Share	Part-Time Employment Share	Temporary Employment Share
Manufacturing	12	2,825	89%	2%	10%
Wholesale	6	1,180	92%	1%	6%
Retail	5	171	90%	10%	0%
Information Services	6	32,379	90%	0%	9%
Real Estate	3	4	50%	50%	0%
Professional Services	50	5,591	94%	4%	2%
Healthcare	6	29,094	60%	10%	30%
Other	4	345	98%	2%	0%
Totals	92	71,589	78%	5%	17%

Table 10 demonstrates a similar pattern for the high tech deferral program as shown in Table 5 for the high tech credit. Firms that have lower wage employees provide reduced levels of employee benefits as well. Medical, dental, and retirement benefits were received by a substantially lower share of employees for those earning less than \$30,000 per year.

Table 10
HIGH TECH DEFERRAL PARTICIPANTS
EMPLOYMENT AND BENEFITS BY WAGE BAND

Wage Bands	Total Employment	Total Enrolled in Medical Plans	Total Enrolled in Dental Plans	Total Enrolled in Retirement Plans
Less than \$30,000 per year	9,828	36.0%	37.9%	33.7%
\$30,000-\$59,999 per year	19,757	78.2%	79.7%	67.2%
\$60,000 or more per year	42,004	93.9%	94.2%	84.5%
Totals	71,589	81.6%	82.5%	72.7%

For high tech deferral participants there were new products and research projects started for all five of the technology sectors. However, because of the lower number of participants in this program as compared with the high tech credit (Table 6), there were more disclosure issues here. New products and research projects are basically self-defined by the participants, so some of these may be very significant while others may be relatively minor in scope. Nonetheless, it is evident that the deferral program is associated with some level of new product introduction and investment in new research efforts.

Table 11
HIGH TECH DEFERRAL PARTICIPANTS
NEW PRODUCTS AND PROJECTS BY TECHNOLOGY

Technology	New Products		New Projects	
	Firm Count	Product Count	Firm Count	Project Count
Advanced Computing	15	775	16	3,772
Advanced Materials	D	D	3	4
Biotechnology	8	806	22	1,539
Electronic Device Technology	9	74	10	126
Environmental Technology	D	D	D	D
Other	D	D	D	D
Totals	37	1,680	55	5,468

Similarly, participants in the deferral program did indicate new patents, copyrights, and trademarks as evidence of the legal protections sought by program participants. Table 12 also exhibits major disclosure issues because of the relatively small number of these legal protection devices in some industries.

Table 12
 HIGH TECH DEFERRAL PARTICIPANTS
 PATENTS, COPYRIGHTS, TRADEMARKS BY TECHNOLOGY

Technology	New Patents		New Copyrights		New Trademarks	
	Firm Count	Patent Count	Firm Count	Copyright Count	Firm Count	Trademark Count
Advanced Computing	8	759	6	410	8	626
Advanced Materials	D	D	0	0	0	0
Biotechnology	12	73	D	D	6	10
Electronic Device Technology	9	244	0	0	D	D
Environmental Technology	0	0	0	0	0	0
Other	D	D	D	D	D	D
Totals	33	1,091	9	421	21	647

CHAPTER 4: RURAL COUNTY SALES/USE TAX DEFERRAL/EXEMPTION

In 1985 the Legislature created a deferral program for economically distressed areas which has undergone several changes over the years (Chapter 82.60 RCW). In its current configuration, the program provides a deferral of state and local retail sales or use taxes on plant and equipment expenditures in rural counties and community empowerment zones (CEZs). Business activities in manufacturing, computer services, and research and testing facilities qualify for the deferral. While the program is a deferral of sales and use tax, repayment of tax is waived if the facility is used as an eligible facility for eight years. Thus, the deferral becomes an outright exemption if the program requirements are met for at least eight years. For each year that this requirement is met, 12.5 percent of the repayment is waived.

The statute defines “rural” in terms of population density. Qualifying counties are those with a countywide average of no more than 100 persons per square mile (RCW 82.14.370(5)). In addition, counties that are smaller than 225 square miles (Island County) were added to the program in 2002. Presently, 32 counties qualify for the program, plus six community empowerment zones located in King, Kitsap, Pierce, Spokane, and Yakima counties. Investments qualifying for deferral/exemption under the community empowerment zone criterion need not actually be located in the CEZ. Rather, they only need to hire employees who reside within the CEZ.

For rural area deferral program surveys, only completed projects that have been audited were required to submit a survey. In some cases, firms submitted surveys when the project had not been audited or it was not clear that it had been completed. The data from these surveys were included in this report, because it was not possible to determine that these project were not eligible. For the deferral program reports, the tax deferral amounts include both state and local retail sales and use taxes.

Under current law the rural county sales/use tax deferral/exemption program is scheduled to expire on July 1, 2010.

Consistent with the formats displayed above for the two high tech programs, Tables 13A - C present the 2004 survey results for firms in the rural county sales/use tax deferral/exemption program. The first table shows the distribution of participants by industry. Since this program is targeted primarily to manufacturing activities, there is a significant presence for that industry. Well over one-half of the deferred tax amount is attributable to the three manufacturing sectors shown. Wholesaling also has sizeable deferrals under this program, probably by participants that are principally wholesalers but who also have manufacturing components to their business.

Somewhat surprising, compared with the high tech programs, is the amount of rural county deferral that is attributable to mid-size firms. As shown in Table 13 B, nearly one-half of the total deferral amount was reported by companies in the middle employment-size category.

Table 13A
RURAL COUNTY DEFERRAL PARTICIPANTS
BY INDUSTRY

Primary Industry	Firm Count	Washington Employment	Rural Deferral Taken
Agriculture	10	2,217	\$2,363,262
Construction	13	330	2,703,560
Non-durable Manufacturing	38	7,633	6,448,372
Durable Manufacturing	42	4,981	13,533,050
Metals & Machinery Manufacturing	52	8,285	12,519,358
Wholesale	38	2,557	13,097,050
Retail	16	686	2,130,443
Transportation & Warehousing	4	265	1,091,480
Real Estate	15	555	2,437,705
Professional Services	4	167	83,350
Waste Management	3	258	171,561
Other	21	628	1,598,962
Totals	256	28,562	\$58,178,153

Table 13B
RURAL COUNTY DEFERRAL PARTICIPANTS
BY EMPLOYMENT SIZE

Employment Size	Firm Count	Washington Employment	Rural Deferral Taken
<50	153	2,214	\$10,896,389
50-250	78	9,045	26,418,272
>250	25	17,303	20,863,492
Totals	256	28,562	\$58,178,153

For the deferral program geographic breakdown reports, as summarized in Table 13C, the locations are based on the location of the largest project of the firm. The reason that some projects are located in urban regions is because they are eligible under the community empowerment zone portion of the program.

Table 13C
 RURAL COUNTY DEFERRAL PARTICIPANTS
 BY REGION IN STATE

Region in State	Firm Count	Washington Employment	Rural Deferral Taken
Rural East	80	8,545	\$18,892,754
Rural West	146	15,938	31,131,401
Urban East	5	107	329,363
Urban West	25	3,972	7,824,635
Totals	256	28,562	\$58,178,153

Rural East - Adams, Asotin, Benton, Chelan, Columbia, Douglas, Ferry, Franklin, Garfield, Grant, Kittitas, Klickitat, Lincoln, Okanogan, Pend Oreille, Stevens, Walla Walla, Whitman and Yakima counties.

Rural West - Clallam, Cowlitz, Grays Harbor, Jefferson, Lewis, Mason, Pacific, San Juan, Skagit, Skamania, Wahkiakum and Whatcom counties.

Urban East – Spokane County.

Urban West - Clark, Island, King, Kitsap, Pierce, Snohomish, and Thurston counties.

(Note: The “rural” designation is based on the rural county program criterion of population density less than 100 persons per square mile; it does not include the addition of Island County to the program.)

More variation among industries in the types of employment positions for rural county deferrals is indicated than for the high tech programs. From Table 14 full-time employment is evident in a smaller share of all jobs, especially for agriculture and warehousing/transportation.

Table 15 indicates a similar pattern of employment benefits as for the high tech programs, with significantly lower benefits offered by smaller companies.

The rural county deferral program is not specifically targeted toward new products and research projects, although firms engaged in R&D may participate. Responses noted in Table 16 indicated some new products and new research efforts. However, disclosure issues were evident due to the small number of responses for some categories.

Table 14
 RURAL COUNTY DEFERRAL PARTICIPANTS
 EMPLOYMENT BY STATUS AND INDUSTRY

Primary Industry	Firm Count	Washington Employment	Full-Time Employment Share	Part-Time Employment Share	Temporary Employment Share
Agriculture	10	2,217	59%	31%	11%
Construction	13	330	97%	3%	1%
Non-durable Manufacturing	38	7,633	88%	5%	8%
Durable Manufacturing	42	4,981	98%	1%	1%
Metals & Machinery Manufacturing	52	8,285	91%	1%	7%
Wholesale	38	2,557	95%	3%	2%
Retail	16	686	96%	3%	1%
Transportation & Warehousing	4	265	50%	50%	0%
Real Estate	15	555	90%	7%	2%
Professional Services	4	167	96%	4%	0%
Waste Management	3	258	99%	1%	0%
Other	21	628	75%	22%	3%
Totals	256	28,562	89%	6%	6%

Table 15
 RURAL COUNTY DEFERRAL PARTICIPANTS
 EMPLOYMENT AND BENEFITS BY WAGE BAND

Wage Bands	Total Employment	Total Enrolled in Medical Plans	Total Enrolled in Dental Plans	Total Enrolled in Retirement Plans
Less than \$30,000 per year	14,369	59.7%	49.5%	40.2%
\$30,000-\$59,999 per year	11,392	92.1%	87.5%	76.1%
\$60,000 or more per year	2,801	92.6%	88.5%	83.5%
Totals	28,562	75.8%	68.5%	58.8%

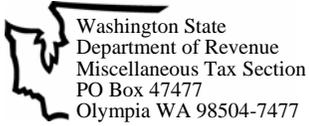
Table 16
 RURAL COUNTY DEFERRAL PARTICIPANTS
 NEW PRODUCTS AND PROJECTS BY TECHNOLOGY

Technology	New Products		New Projects	
	Firm Count	Product Count	Firm Count	Project Count
Advanced Computing	4	16	4	90
Advanced Materials	D	D	D	D
Biotechnology	D	D	D	D
Electronic Device Technology	D	D	3	47
Environmental Technology	D	D	D	D
Other	9	33	7	32
Totals	19	64	18	222

Although firms engaged solely in research and development may participate in the rural county deferrals, this program has typically been utilized more by regular manufacturing businesses because it is directed more towards job creation. As a result, the number of new product innovations associated with this program has been less than the high tech programs which are specifically targeted for R&D and development of new products. According to the 2004 survey, for firms participating in the rural county deferral program there were ten patents, one copyright, and fifteen trademarks issued in 2004. However, disclosure restrictions preclude divulging the number of firms or industry characteristics of these firms. As a result, data similar to that shown in Tables 7 and 12 for the other programs have not been included for the rural county incentive.

APPENDIX

**2004 ANNUAL SURVEY FOR
HIGH TECHNOLOGY B&O TAX CREDIT,
TAX DEFERRAL PROGRAM FOR HIGH TECHNOLOGY
BUSINESSES, TAX DEFERRAL PROGRAM FOR
INVESTMENT PROJECTS IN RURAL COUNTIES**



2004 Annual Survey for High Technology B&O Tax Credit, Tax Deferral Program for High Technology Businesses, Tax Deferral Program for Investment Projects in Rural Counties

Department of Revenue Taxpayer Reporting Account Number _____ - _____ - _____			
Name of Business as Registered		Contact Person	
Mailing Address – Street	City	State	Zip Code
Phone Number ()	Employment Security Reference Number (s)		
UBI Number used with Department of Employment Security (if differs from DOR Taxpayer Reporting Account Number) _____ - _____ - _____	Total statewide employment as reported to Employment Security		
Tax Incentive taken (check all boxes that apply): <input type="checkbox"/> High-Tech B&O Tax Credit <input type="checkbox"/> High-Tech Deferral (Chapter 82.63 RCW) <input type="checkbox"/> Rural Deferral (Chapter 82.60 RCW)			

You must file this survey with the Department of Revenue by **March 31, 2005**.

If a deferral recipient fails to file a survey by March 31, 2005, the Department must, pursuant to law, declare 12.5% of the total deferred taxes to be immediately due and payable.

If a person taking the High Technology B&O Tax Credit fails to file a survey, pursuant to law, the person is not eligible to take the credit during calendar year 2005. If a person has already taken the credit during calendar year 2005, the Department must, pursuant to law, declare the amount of taxes for which the credit was taken to be immediately due and payable.

If you have any questions on completion of this survey, please call (360) 570-3265 and press 6, then 3.

RCW 82.04.4452 (High Technology B&O Tax Credit), 82.63.020 (tax deferral for high technology businesses), and 82.60.070 (tax deferral for investment projects in rural counties) specifies that the following information must be provided to the Department. If a deferral recipient fails to file a survey, the Department must, pursuant to law, declare 12.5% of the total deferred taxes to be immediately due and payable. If a person taking the High Technology B&O Tax Credit fails to file a survey, pursuant to law, the person is not eligible to take the credit during calendar year 2005. If a person has already taken the credit during calendar year 2005, the Department must, pursuant to law, declare the amount of taxes for which the credit was taken to be immediately due and payable.

1a.	High Technology Business and Occupation Tax Credit (RCW 82.04.4452): \$ _____ amount of credit claimed for calendar year 2004
	If this credit is assigned, who is it assigned from? Company name _____
	Tax Reporting Account Number _____
1b.	Tax Deferrals for Investment Projects in Rural Counties (Chapter 82.60 RCW): \$ _____ amount of tax deferral taken for the investment project
	If you are a lessee, who is your lessor? Company name _____
	Tax Reporting Account Number _____
1c.	Tax Deferrals for High Technology Businesses (Chapter 82.63 RCW): \$ _____ amount of tax deferral taken for the investment project
	If you are a lessee, who is your lessor? Company name _____
	Tax Reporting Account Number _____
2.	For persons taking the high technology business and occupation tax credit:
2a.	What was the amount of qualified research and development expenditures during calendar year 2004 \$ _____
2b.	What was the total amount subject to tax imposed in Chapter 82.04.4452 required to be reported on the person's Excise Tax Returns during the year in which the credit is claimed, less any taxable amount for which a credit is allowed under RCW 82.04.440. \$ _____
3.	What was the total number of employment positions in Washington State: _____ on December 31, 2004
	Of the total number of employment positions, what percentage are:
	Full-time: _____ %
	Part-time: _____ %
	Temporary: _____ %
4.	Complete the following table to indicate the total number of employment positions on December 31, 2004 and the number of employment positions that have employer-provided medical, dental and retirement benefits on December 31, 2004 by wage band:

WAGE BANDS	Total Number of Employment Positions	Total 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				

5.	Did the research and development for which your firm received a tax credit or a deferral result in a new product or new research project during calendar year 2004?		
	CLASSIFICATION	Number of New Products	Number of New Projects
	Advanced Computing		
	Advanced Materials		
	Biotechnology		
	Electronic Device Technology		
	Environmental Technology		
	Other area (describe)		
6.	What was the number of United States patents your firm received associated with new (or potential) products that resulted from research and development for which you received a tax credit or deferral during calendar year 2004?		
	_____ Advanced Computing		
	_____ Advanced Materials		
	_____ Biotechnology		
	_____ Electronic Device Technology		
	_____ Environmental Technology		
	_____ Other areas (describe) _____		
7.	What was the number of United States copyrights that were issued to your firm during calendar year 2004 by category?		
	_____ Advanced Computing		
	_____ Advanced Materials		
	_____ Biotechnology		
	_____ Electronic Device Technology		
	_____ Environmental Technology		
	_____ Other areas (describe) _____		
8.	Of United States copyrights reported in question 7, which Federal Copyright classifications were they in?		
	_____ Literary works		
	_____ Visual Arts		
	_____ Performing Arts		
	_____ Sound Recording		
	_____ Mask Works		
	_____ Serials & Periodicals		
	_____ Other areas (describe) _____		
9.	How many United States trademarks were registered by your firm during calendar year 2004 by category?		
	_____ Advanced Computing		
	_____ Advanced Materials		
	_____ Biotechnology		
	_____ Electronic Device Technology		
	_____ Environmental Technology		
	_____ Other areas (describe) _____		

10.	What was the total number of people employed by your company worldwide, on December 31, 2004 (including Washington State employment)? _____	
11.	What percent of your total employment was in research and development (R&D) on December 31, 2004?	
	_____ % of total employment working in research and development in Washington State	
	_____ % of total employment working in research and development worldwide (including Washington)	
12.	If you received a deferral for an investment project, state the total number of employment positions located at the investment project by deferral certificate number: (If necessary, attach an additional page to respond to this question)	
	Certificate number _____	Total number of employment positions _____
	Certificate number _____	Total number of employment positions _____
	Certificate number _____	Total number of employment positions _____
	Certificate number _____	Total number of employment positions _____
13.	How many new employment positions were created in your firm, during calendar year 2004, in Washington State?	
	_____ Number of new positions created last year in Washington State	
14.	What percent of the new Washington employment positions created during calendar year 2004 were filled, at the time of hire, by residents of Washington State?	
	_____ % of all new positions filled by Washington residents	
15.	Has your firm moved any activity from out of state <u>into</u> Washington State, or expanded or built a new facility in Washington State, during calendar year 2004?	
	_____ YES, moved an activity from out of state	
	_____ YES, expanded a facility	
	_____ YES, built a new facility	
	If NO, SKIP TO QUESTION 18	
16.	How many employees did your firm add to these activities or facilities? (If none, write in "0".)	
	Moved _____	Number of research employees moved into Washington State
	_____	Number of manufacturing employees moved into Washington State
	_____	Number of distribution employees moved into Washington State
	_____	Number of administrative employees moved into Washington State
	Expanded _____	Number of research employees added in expansion in Washington State
	_____	Number of manufacturing employees added in expansion in Washington State
	_____	Number of distribution employees added in expansion in Washington State
	_____	Number of administrative employees added in expansion in Washington State

23.	List the United States patent registration numbers for patents received in calendar year 2004. (If necessary, attach an additional page to respond to this question)		
24.	What would you estimate to be the final value of all the new products, services, or processes during calendar year 2004 that resulted from the research and development spending that your firm received a tax credit for, or investment project that you received a deferral for, since you started using these incentives?		
	\$ _____ final value		
25.	What percentage of these new products, services, or processes were produced or distributed during calendar year 2004 by your firm using your firms Washington State based employees? _____% If 100% SKIP TO QUESTION 27.		
26.	What percent of the production or distribution during calendar year 2004 was done by other firms in Washington State? _____ % contracted work done in Washington State		
27.	Since your firm first became involved in the High Technology Research and Development Business and Occupation (B&O) Tax Credit (RCW 82.04.4452), or Deferral Programs (Chapters 82.60 and 82.63 RCW) has your firm 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 28, 29 and 30. _____ If NO, SKIP TO QUESTION 30		
28.	During calendar year 2004, what would you estimate is the total value of the machinery and equipment that your firm did not pay sales or use tax on because of this exemption? \$ _____ total value		
29.	Approximately what percent of the exempt equipment acquired during calendar year 2004 was used more than half the time for research and development? _____ % used for research and development		
30.	Has your firm acquired or merged with another company during calendar year 2004 that previously claimed the High Technology Tax Credit or received a tax deferral? Has your company reorganized during calendar year 2004? If you can answer yes to either question, please provide the company name(s) and taxpayer reporting account number(s). (If necessary, attach an additional page to respond to this question).		
a.	Company Name _____ Taxpayer Reporting Account Number _____		
b.	Company Name _____ Taxpayer Reporting Account Number _____		
c.	Company Name _____ Taxpayer Reporting Account Number _____		

Instructions for Filing Report

An annual survey must be completed and filed by March 31, 2005 by each person who participated in the following programs during calendar year 2004:

Rural County Sales & Use Tax Deferral/Waiver program	Chapter 82.60 RCW
High Technology Sales & Use Tax Deferral/Waiver program	Chapter 82.63 RCW
High Technology B&O Tax Credit program	RCW 82.04.4452

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 a deferral recipient fails to file a survey by March 31, the Department must, pursuant to law, declare 12.5% of the total deferred taxes to be immediately due and payable.

If a person taking the High Technology B&O Tax Credit fails to file a survey by March 31, pursuant to law, the person is not eligible to take the credit during calendar year 2005. If a person has already taken the credit during calendar year 2005, the Department must, pursuant to law, declare the amount of taxes for which the credit was taken to be immediately due and payable.

You must 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 Report

Company Information

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

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

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).

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.

Total Statewide Employment as reported to Employment Security: State the number of all of your company's Washington employees as reported to Employment Security.

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

Mandatory Questions/Information

- 1a.** State the total amount of the High Technology B&O Tax Credit claimed on your Excise Tax Return(s) during calendar year 2004. If a credit was assigned, in whole or part, from another taxpayer, state the taxpayer's name and tax reporting account number 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 reporting account number as registered with the DOR.
- 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.** For persons who have claimed the High Technology B&O Tax Credit, state the total amount of gross income and value of products subject to B&O tax reported on the Excise Tax Return during the 2004 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, 2004. 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. Temporary positions include persons obtained through temporary agencies.

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. State the number of new products or new research projects in each category that resulted from research and development for which a deferral or credit was received during calendar year 2004.
6. State the number of United States patents received, during calendar year 2004, associated with new or potential products resulting from research and development, for which a deferral or credit was received during calendar year 2004.
7. State the number of United States copyrights issued to your firm during calendar year 2004 by category.
8. State how the Federal Copyrights, from question 7, were classified.
9. State the number of United States trademarks issued to your firm during calendar year 2004 by category.

Additional Questions/Information

10. How many people are employed worldwide, including Washington State employees.
11. Of the total number of employees stated in question 10, what percentage work in research and development in Washington State and what percentage work in research and development worldwide (including Washington State employees).
12. 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.
13. State the total number of new employment positions that were created in Washington State during calendar year 2004.
14. Of the total number of new employment positions stated in question 13, what percentage were Washington State residents.

15. Has your firm moved any activities into Washington State, or expanded or built a new facility in Washington State during calendar year 2004? Answer all statements that apply.
16. State the number of new employees in each category for each statement checked "yes" in question 15.
17. What percentage of all employees in question 16 were Washington State residents.
18. Did your firm move any activities out of Washington State during calendar year 2004? Check the statement if the answer is yes.
19. If you moved any activities out of Washington State, state the number of employees in each category that relocated out of the state because the activity moved.
20. For persons 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. See RCW 82.63.010 for definitions of the various categories.
21. Describe the products manufactured at any sites in Washington that received a tax deferral for investments in rural counties.
22. Did the research and development for which your firm received a tax credit result in a new service, new process, or support on-going research. If yes, state the number of new services, processes, and on-going research projects by classification in the matrix.
23. List the United States patent registration numbers for the patents received in 2004.
24. State the estimated dollar value of sales made during calendar year 2004 of all new products, services or processes that resulted from the credit or 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.
25. State the percentage of new products, processes, or services that resulted from the credit or deferral programs that were produced or distributed by your firm's Washington State employees. (from question 24).
26. State the percentage of new products, processes, or services that were produced or distributed by other firms within Washington State.
27. Have 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?
28. If you used the Manufacturer's Sales and Use Tax Exemption Certificate for machinery and equipment used in manufacturing during calendar year 2004, what was the estimated value of all machinery and equipment purchased?
29. What is the percentage of machinery and equipment purchased during calendar year 2004 (from question 28) that was used for more than half the time in research and development?
30. Has your firm acquired or merged with another company during calendar year 2004 that previously claimed the High Technology Tax Credit or received a tax deferral? Has

your company reorganized during calendar year 2004? 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).