CHAPTER 2

DESCRIPTION AND HISTORY OF PROGRAMS

In 1993 the Department of Revenue was asked to study high technology incentives, determine which technologies have the greatest potential for improving high wage research and development jobs, and make recommendations for targeted tax incentives with the goal of increasing the number of high wage jobs involved in research and development. This effort culminated in a report, "Incentives for High Technology," issued by the Research and Legislation and Policy Divisions of the Department on January 10, 1994.

In 1994 the Legislature created the R&D credit and sales and use tax exemption programs covered by this report. Both programs established tax incentives for five technologies. These technologies were based on a list of national critical technologies and industry input on state level initiatives.

High Technology Business and Occupation Tax Credit

The 1994 Legislature established a B&O tax credit for qualified research and development expenditures other than for capital improvement purposes (RCW 82.04.4452). An annual credit of up to $2 million is allowed for businesses that perform research and development in Washington in specified high technology categories and meet the minimum expense requirements. The credit cannot exceed the amount of the business and occupation tax due for the same calendar year. The credit is required to be taken against taxes due for the same calendar year in which the qualified research and development expenditures are incurred.

Any business claiming the credit is required to file an affidavit form prescribed by the Department of Revenue which includes the amount of credit claimed, an estimate of anticipated qualified research and development expenditures, an estimate of the taxable amount, the type of research and development being performed, and other information.

A business must spend at least 0.92 percent (0.0092) of its taxable income (adjusted for the multiple activities credit) upon qualified research and development within Washington. The 0.92 percent threshold was determined as the estimated average percentage of R&D spending for all industries in the state.

The rate for calculating the credit is currently:

Nonprofit corporation/association	0.484 percent (0.00484) of qualified expenses
Proprietary businesses	1.5 percent (0.015) of qualified expenses

During the time covered by this report the tax credit rates were previously 0.515 percent for nonprofit corporations and 2.5 percent for proprietary businesses.

The technology categories are the same as those listed in RCW 82.63.010 for the sales tax deferral/exemption:

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

Definitions of the above categories can be found in RCW 82.63.010. These definitions are as follows:

(1) "Advanced computing" means technologies used in the designing and developing of computing hardware and software, including innovations in designing the full spectrum of hardware from hand-held calculators to super computers, and peripheral equipment.

(2) "Advanced materials" means materials with engineered properties created through the development of specialized processing and synthesis technology, including ceramics, high value-added metals, electronic materials, composites, polymers, and biomaterials.

(3) "Biotechnology" means the application of technologies, such as recombinant DNA techniques, biochemistry, molecular and cellular biology, genetics and genetic engineering, cell fusion techniques, and new bioprocesses, using living organisms, or parts of organisms, to produce or modify products, to improve plants or animals, to develop microorganisms for specific uses, to identify targets for small molecule pharmaceutical development, or to transform biological systems into useful processes and products or to develop microorganisms for specific uses.

(4) "Electronic device technology" means technologies involving microelectronics; semiconductors; electronic equipment and instrumentation; radio frequency, microwave, and millimeter electronics; optical and optic-electrical devices; and data and digital communications and imaging devices.

(5) "Environmental technology" means assessment and prevention of threats or damage to human health or the environment, environmental cleanup, and the development of alternative energy sources.

High Technology Sales/Use Tax Exemption

In 1994 a new sales and use tax deferral program, similar to the distressed area program, was established for research and development expenditures and pilot scale manufacturing facilities in selected high technology activities. The program became effective on January 1, 1995. This program is codified in Chapter 82.63 RCW. Firms using this program must apply for the deferral prior to starting construction. The five research activities that qualify for the program are in the following technology categories:

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

In 1995 the Legislature waived the tax repayment requirement for firms that continue to use the high tech facility for eight years, thus converting the tax deferral into an exemption.

Businesses are eligible for a sales/use tax deferral/exemption if they start new research and development or pilot scale manufacturing operations or expand or diversify a current operation by expanding, renovating or equipping an existing facility anywhere in Washington. However, the exemption does not apply to repair or replacement of high technology equipment, unlike the current sales tax exemption for manufacturing machinery and equipment which does apply to repair and replacement of manufacturing machinery and equipment.