CHAPTER 2

PARTICIPATION IN THE HIGH TECHNOLOGY TAX INCENTIVE PROGRAMS

This chapter provides information on firms that have participated in the high technology tax incentive programs. High points in this chapter are:

- $204.0 million in B&O tax credit has been taken by 1,311 firms through 2002.
- $323.9 million in sales tax deferrals have been approved for 393 projects through 2002.
- Three of the five technology categories, advanced computing, electronic device technology, and biotechnology, account for 89 percent of the B&O tax credits and nearly 100 percent of the sales and use tax deferrals.
- Eighty-five percent of the credits and virtually all of the deferrals are taken by firms in urban counties, although there is an increase in the level of B&O tax credits taken by rural firms since 1995.
- High tech R&D firms qualify for four other major tax incentives amounting to $441.2 million in the last 12 years.
- Thirty-nine percent of firms taking the B&O tax credit and 27 percent of the firms taking the sales and use tax deferral/exemption report that they are new businesses in Washington. However, very few of them report relocating to Washington because of the incentives.
- Ten percent of the firms taking the credit say they have built new facilities in the past five years.
- Forty-four percent of the firms taking the credit have expanded because of creating a new product or service.

B&O TAX CREDIT FOR R&D BY QUALIFYING TECHNOLOGY

B&O tax credits have been taken by 1,311 firms to date with an average of about 600 firms taking the credit each year. This program has greater participation than the sales tax deferral program because not all high tech firms are embarking on capital expansions. From 1995 through 2002, about $204.0 million in tax credits have been taken. Three of the technology categories account for 85 percent of the credits that have been taken. Advanced computing firms represent 44 percent of the total, electronic device technology 30 percent, and biotechnology 15 percent. Firms in the environmental technology and advanced materials technology categories represent 11 percent of tax credits taken.

Chart 2.A
Percent of B&O Credit Received by Qualifying Technology
Calendar Years 1995-2002

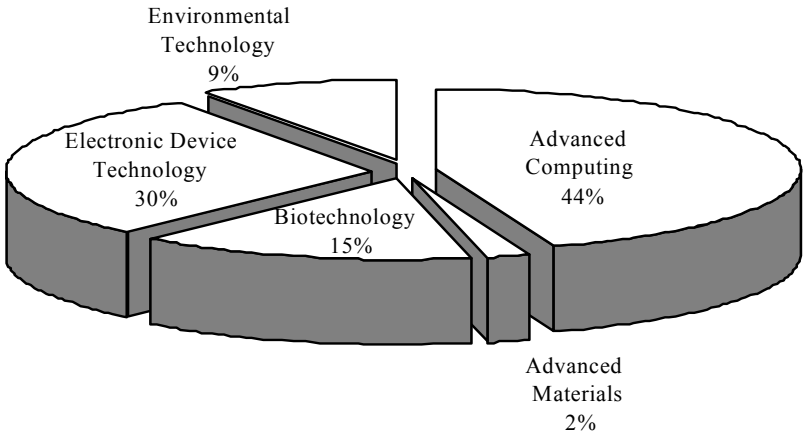


Table 2.1
B&O Credits for R&D by Qualifying Technology

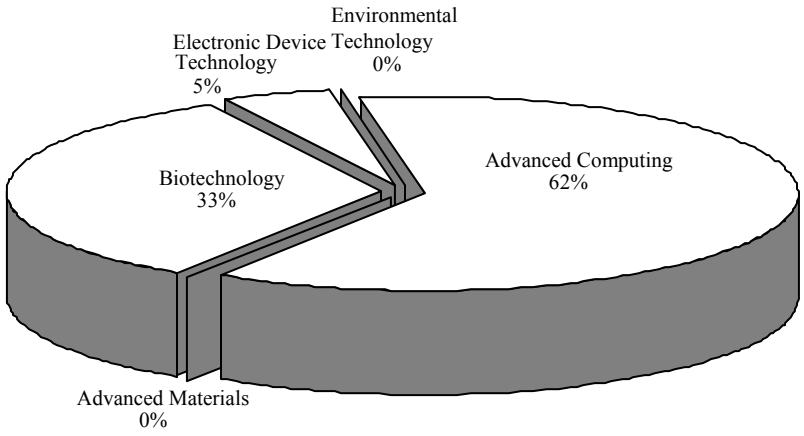
	Advanced Computing	Advanced Materials	Biotechnology	Electronic Device Technology	Environmental Technology	Total	Number of Firms
1995	$8,030,800	$382,100	$2,833,500	$5,750,700	$658,700	$17,655,800	426
1996	10,432,300	411,000	3,354,500	7,046,800	662,300	21,907,000	500
1997	12,132,900	608,800	4,278,500	8,483,500	2,760,400	28,264,200	567
1998	13,543,700	490,600	4,368,200	8,150,400	2,782,300	29,335,200	623
1999	12,623,300	426,600	4,159,600	7,063,000	2,236,200	26,508,700	628
2000	13,304,500	410,100	4,227,300	7,801,800	3,126,000	28,869,700	637
2001	11,397,300	379,100	3,684,100	8,334,800	3,406,800	27,202,000	599
2002	9,987,300	469,900	3,684,400	8,055,200	2,059,300	24,256,000	590
Total	$91,452,100	$3,578,200	$30,590,100	$60,686,100	$17,692,000	$203,998,600	
	Count of Firms By Qualifying Technology						
1995	263	16	38	117	42		
1996	308	21	45	145	43		
1997	355	29	48	168	49		
1998	392	30	57	174	60		
1999	395	28	66	173	60		
2000	391	32	71	175	56		
2001	365	29	71	160	54		
2002	348	30	68	163	54		

Note: Firms may engage in more than one qualifying technology.

SALES AND USE TAX DEFERRAL BY QUALIFYING TECHNOLOGY

The Department has approved 393 applications for the high tech sales and use tax deferral between 1995 and 2002. Project costs estimated by taxpayers on their applications are $3.9 billion to date. The amount of state and local sales/use tax deferred for these project costs is estimated at $323.9 million. Of the approved projects, 314 (40 percent) are complete, accounting for $163.5 million (50 percent) of the estimated deferred tax.

Chart 2.B
Percent of Approved Sales and Use Tax Deferral
by Qualifying Technology
Calendar Years 1995-2002



Almost all of the deferrals are designated for advanced computing (62 percent) and biotechnology facilities (33 percent). Electronic device technology firms are responsible for 5 percent of the deferral projects. The two other areas covered by the program, environmental technology and advanced materials, are represented by only a few projects. Multiple projects per firm are common, with an average of 1.6 projects per firm.

Table 2.2
Approved R&D Projects by Date of Application

Estimated Project Costs

Year	Advanced Computing	Advanced Materials	Biotechnology	Electronic Device	Environmental Technology	Total
1995	$208,938,057	$3,663,024	$33,774,381	$20,367,445	$3,039	$266,745,946
1996	162,565,742	0	157,026,278	18,819,118	0	338,411,138
1997	196,237,486	0	44,268,622	9,229,447	1,163,665	250,899,220
1998	207,009,534	0	28,321,397	13,205,120	0	248,536,051
1999	574,387,419	0	159,107,755	31,078,776	0	764,573,950
2000	308,017,371	0	388,061,382	73,239,036	4,588	769,322,377
2001	326,554,166	0	204,391,385	5,771,064	190,000	536,906,615
2002	469,963,580	0	229,948,986	12,465,000	120,000	712,497,566
Total	$2,453,673,355	$3,663,024	$1,244,900,186	$184,175,006	$1,481,292	$3,887,892,863

Estimated State and Local Sales Tax Deferred or Exempted

Year	Advanced Computing	Advanced Materials	Biotechnology	Electronic Device	Environmental Technology	Total
1995	$16,955,095	$148,874	$2,772,896	$1,558,391	$249	$21,435,505
1996	13,741,541	0	13,060,378	1,570,938	0	28,372,857
1997	16,799,264	0	3,709,660	757,732	100,079	21,366,735
1998	17,036,856	0	2,388,304	1,114,885	0	20,540,045
1999	47,372,440	0	13,381,825	2,606,347	0	63,360,612
2000	25,201,611	0	31,946,499	6,001,033	358	63,149,501
2001	27,217,809	0	17,108,476	485,248	16,150	44,827,684
2002	39,534,795	0	20,170,229	1,106,450	9,240	60,820,714
Total	$203,859,412	$148,874	$104,538,267	$15,201,024	$126,076	$323,873,653

Count of Projects (Excluding Certain Lessors)**

Year	Advanced Computing	Advanced Materials	Biotechnology	Electronic Device	Environmental Technology	Total
1995	22	1	12	6	1	42
1996	8	0	12	11	0	31
1997	22	0	13	2	2	39
1998	19	0	16	7	0	42
1999	28	0	21	11	0	60
2000	33	0	19	12	1	65
2001	18	0	36	9	2	65
2002	11	0	34	3	1	49
Total	161	1	163	61	7	393

**Project count excludes lessors when lessee has also applied for the deferral.

Note: From January through April 2003, an additional 11 projects have been approved with estimated deferred taxes of $5.0 million.

GEOGRAPHIC LOCATION OF PARTICIPANTS IN HIGH TECHNOLOGY TAX INCENTIVES

The data indicate firms located in rural counties are far less likely to engage in qualified high technology R&D spending. In 2002, B&O tax credits taken by high tech firms in rural counties amounted to less than 15 percent of the total credits. However, B&O tax credits taken in rural counties are increasing as a share of the statewide total over the life of the program. In 1995, rural firms received 8.4 percent of the total credits, and in 2002, rural firms received 14.5 percent of the total credits.

Investment in construction and machinery and equipment for R&D and pilot scale manufacturing appears to take place almost exclusively in the urban counties. The definition of a rural county is the same as for the rural tax incentive programs and the rural county 0.08 percent sales tax credit for infrastructure. A county is rural if its population density is less than 100 people per square mile. For the purposes of the following table, Clark, King, Kitsap, Pierce, Snohomish, Spokane and Thurston Counties are defined as nonrural or urban counties. Counties not listed on Tables 2.4, 2.5, and 2.6 do not have any firms receiving the credit or deferral.

Table 2.3

High Tech R&D Incentives by Location in Nonrural and Rural Counties

B&O Credit								
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Urban	$16,166,260	$20,357,231	$24,577,601	$25,486,737	$22,744,739	$24,406,937	$22,388,483	$20,762,306
Rural	1,489,566	1,549,786	3,686,555	3,848,464	3,763,957	4,462,811	4,813,522	3,493,664
Out of state/location unknown	2,226,291	3,175,974	3,948,989	4,220,418	2,515,284	3,117,063	2,458,603	2,276,729
Total	17,655,826	21,907,017	28,264,156	29,335,201	26,508,696	28,869,748	27,202,005	24,255,970
%Rural	8.4%	7.1%	13.0%	13.1%	14.2%	15.5%	17.7%	14.4%
%Urban	91.6%	92.9%	87.0%	86.9%	85.8%	84.5%	82.3%	85.6%

	Sales and Use Tax Deferral (Based on Estimated Project Costs)							
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Urban	$32,221,870	$32,895,903	$22,283,615	$20,154,346	$60,451,888	$62,310,784	$43,783,870	$60,271,927
Rural	166,291	9,000	60,040	0	96,823	10,172	0	0
Total	32,388,161	32,904,903	22,343,655	20,154,346	60,548,711	62,320,956	43,783,870	60,271,927
%Rural	0.5%	0.0%	0.3%	0.0%	0.2%	0.0%	0.0%	0.0%
%Urban	99.5%	100.0%	99.7%	100.0%	99.8%	100.0%	100.0%	100.0%

Note: A rural county is defined as having a population density of less than 100 people per square mile.

Table 2.4
B&O Tax Credits for High Technology R&D by County

COUNTY	1995	1996	1997	1998	1999	2000	2001	2002
Adams	D	D	$0	$0	$0	D	$0	$0
Asotin	D	D	D	D	D	D	D	D
Benton	1,119,956	1,090,783	3,160,357	3,308,880	3,264,459	3,948,833	4,248,944	2,899,998
Chelan	D	D	D	D	D	2,465	D	76,527
Clallam	0	0	D	D	D	D	0	0
Clark	597,903	753,105	1,000,552	842,541	687,770	693,939	642,427	611,844
Cowlitz	0	0	D	D	0	D	D	0
Grant	D	D	D	D	D	0	0	0
Grays Harbor	0	0	0	0	0	0	D	0
Island	19,452	20,214	26,805	14,787	12,107	12,751	D	D
Jefferson	D	D	D	D	D	D	3,381	D
King	10,858,614	13,734,267	15,890,858	16,525,185	16,155,599	17,169,734	16,010,399	15,022,919
Kitsap	115,480	203,579	215,147	216,407	159,664	205,480	128,301	114,461
Kittitas	D	D	D	D	D	D	D	D
Klickitat	D	D	D	D	8,985	D	D	22,481
Lewis	D	D	D	D	D	D	D	D
Mason	0	D	D	D	D	D	0	0
Okanogan	D	D	D	D	0	0	0	D
Pacific	0	0	0	0	0	D	D	5,802
Pend Oreille	0	0	0	0	0	0	0	D
Pierce	70,897	54,821	46,903	56,580	57,215	91,342	99,612	140,376
San Juan	D	D	D	D	D	D	D	D
Skagit	23,176	16,960	28,738	88,308	87,106	72,216	71,669	D
Skamania	0	0	0	0	0	0	D	D
Snohomish	1,849,170	1,898,432	2,806,675	3,052,560	2,758,752	2,624,171	2,530,534	2,168,304
Spokane	410,074	497,021	618,838	529,036	377,509	454,969	456,301	365,339
Stevens	0	0	0	D	0	0	0	0
Thurston	18,378	19,818	22,833	29,224	20,838	37,488	42,594	44,839
Walla Walla	D	D	D	D	D	D	D	D
Whatcom	85,051	92,791	107,503	87,415	73,119	75,142	79,676	78,943
Whitman	D	177,507	208,463	194,429	197,140	243,183	265,505	241,518
Yakima	0	D	D	39,911	D	D	59,932	D

Note: Counties not listed do not have any firms participating in the B&O tax credit for high technology R&D.
D = Data have been withheld to avoid disclosure of information in counties where less than three firms participated.

Table 2.5
Count of Firms Taking the B&O Tax Credit for High Technology R&D by County

COUNTY	1995	1996	1997	1998	1999	2000	2001	2002
Adams	D	D	0	0	0	D	0	0
Asotin	D	D	D	D	D	D	D	D
Benton	9	14	16	19	20	19	18	15
Chelan	D	D	D	D	D	4	D	3
Clallam	0	0	D	D	D	D	0	0
Clark	10	12	12	14	16	15	17	21
Cowlitz	0	0	D	D	0	D	D	0
Grant	D	D	D	D	D	0	0	0
Grays Harbor	0	0	0	0	0	0	D	0
Island	4	4	6	3	4	3	D	D
Jefferson	D	D	D	D	D	D	3	D
King	296	350	385	421	427	433	406	389
Kitsap	6	6	7	12	11	14	12	11
Kittitas	D	D	D	D	D	D	D	D
Klickitat	D	D	D	D	3	D	D	3
Lewis	D	D	D	D	D	D	D	D
Mason	0	D	D	D	D	D	0	0
Okanogan	D	D	D	D	0	0	0	D
Pacific	0	0	0	0	0	D	D	3
Pend Oreille	0	0	0	0	0	0	0	D
Pierce	4	7	6	9	10	11	12	14
San Juan	D	D	D	D	D	D	D	D
Skagit	4	3	4	4	4	5	3	D
Skamania	0	0	0	0	0	0	D	D
Snohomish	48	54	62	66	65	67	58	58
Spokane	13	13	22	20	21	18	21	17
Stevens	0	0	0	D	0	0	0	0
Thurston	4	6	7	7	4	6	5	9
Walla Walla	D	D	D	D	D	D	D	D
Whatcom	5	5	7	4	5	7	7	10
Whitman	D	4	4	5	6	6	6	6
Yakima	0	D	D	3	D	D	3	D

Note: Counties not listed do not have any firms participating in the B&O tax credit for high technology R&D.
D = Data have been withheld to avoid disclosure of information in counties where less than three firms participated.

Table 2.6
Deferred/Exempted Sales and Use Taxes for High Technology R&D Facilities by County

Deferrals Calculated from Original Estimated Project Costs

County	1995	1996	1997	1998	1999	2000	2001	2002	Project Count
Benton		$0	$0	$0	$64,253	$0	$0	$0	1
Clark	1,471,360	0	0	0	0	124,904	97,791	9,240	12
Grant	0	0	0	0	0	624	0	0	1
King	23,965,864	32,607,345	15,073,536	20,154,346	59,087,079	57,858,037	32,197,026	57,605,283	334
Kittitas	990	0	0	0	0	0	0	0	1
Klickitat		0	0	0	0	9,548	0	0	2
Mason	0	0	0	0	8,493	0	0	0	1
Pierce	5,846,000	0	7,173,600	0	0	0	16,150	0	6
San Juan	28,801	0	0	0	1,925	0	0	0	2
Snohomish	938,646	288,558	36,479	0	783,634	4,309,618	10,379,403	2,657,404	36
Spokane	0	0	0	0	581,175	18,225	1,093,500	0	4
Walla Walla	0	0	60,040	0	0	0	0	0	1
Whatcom	136,500	9,000	0	0	22,152	0	0	0	3

Notes: Counties not listed do not have any firms taking the sales and use tax deferral for high technology R&D facilities and pilot scale manufacturing. Amounts are unadjusted by audits.

PARTICIPATION IN MULTIPLE TAX INCENTIVES

Firms receiving the B&O tax credit and sales and use tax deferral for high tech R&D may also be eligible for other tax incentives such the manufacturing machinery and equipment exemption and the rural county incentives. Table 2.7 shows the result of matching firms taking the high tech incentives with their predecessors, successors, and affiliates for 12 years and the level of their participation in other major tax incentives. Deferral amounts are for completed projects only. High tech R&D firms received a total of $441.2 million in tax savings over the last 12 years.

Table 2.7
Qualifying High Tech R&D Firms' Participation in Six Tax Incentive Programs

	R&D B&O Credit	R&D Deferral	Machinery & Equipment Exemption	Rural Deferral	Rural Job Credit	New Manufacturer Deferral	Total Tax Savings
1990	$0	$0	$0	$0	$0	$120,957	$120,957
1991	0	0	0	28,210	0	29,640	57,850
1992	0	0	0	0	0	1,320,646	1,320,646
1993	0	0	0	29,790	1,751	24,223	55,763
1994	0	0	0	0	30,708	2,285,367	2,316,075
1995	17,655,800	212,557	2,697,360	31,903	12,150	390,640	21,000,411
1996	21,907,000	8,362,060	10,961,272	127,438	9,094	0	41,366,864
1997	28,264,200	3,363,203	18,234,241	556,328	79,948	0	50,497,920
1998	29,335,200	14,667,102	13,262,786	624,831	324,281	0	58,214,200
1999	26,508,700	13,873,437	15,769,458	576,796	547,186	0	57,275,576
2000	28,869,700	18,115,328	20,202,683	500,140	356,024	0	68,043,875
2001	27,202,000	33,013,967	15,454,150	614,648	127,047	0	76,411,812
2002	24,256,000	27,143,520	12,596,433	494,000	32,900	0	64,522,854
	$203,998,600	$118,751,175	$109,178,383	$3,584,084	$1,521,089	$4,171,472	$441,204,803

Note: Firms include high tech R&D incentive participants, their predecessors, successors, and affiliates.

DENIALS, CANCELLATIONS, AND REPAYMENT

As of April 2003, 404 projects have been approved and 314 have been completed. The Department denied 88 applications. The two most frequent reasons for denial were: (1) taxpayers did not provide enough information to determine whether they were performing qualified R&D and (2) taxpayers began construction or acquired machinery and equipment prior to the application date. The Department made multiple attempts to verify information before denying applications. Businesses cancelled 15 investment projects approved by the Department, most typically because of a financial decision made by the business.

Table 2.8
Status of R&D Sales and Use Tax Deferral Projects
Calendar Year 1995 - April 2003

Projects approved by the Department		**Projects denied by the Department**	
Completed projects	314	Lacked sufficient information	34
Incomplete projects	75	Project begun prior to application	32
Cancelled by taxpayer	15	Unqualified/Other	22
Total projects approved	404	**Total projects denied**	88

Note: Multiple projects per firm are common with an average of 1.6 projects per firm.

The Department conducts audits of deferred sales and use taxes once projects are operationally complete. Audits have been performed on 206 of the projects amounting to $80.4 million in deferred taxes, almost 25 percent of all deferrals. Thirty-eight projects were totally or partially disqualified in audit. Twenty-six projects were totally disqualified requiring taxpayers to pay all outstanding deferred taxes. The other 12 investment projects were partially disqualified because a portion of the projects were no longer being used in a qualified manner. In these instances, a portion of the deferred tax was repaid. The total amount repaid is $3.8 million.

Table 2.9 shows amounts of deferred sales and use taxes audited and remaining to be audited. Most of the audits have been conducted on projects with application dates in the earlier years of the incentive program. Recipients must notify the Department when projects are operationally complete. There are often several years between project application and completion.

Table 2.9
Audited and Unaudited Deferred Sales and Use Taxes

Application Date	**Audited Amount**	**Unaudited Amount**	**Total**	**Audited Percent**
1995	$21,316,605	$118,900	$21,435,505	99.4%
1996	21,137,954	7,234,903	28,372,857	74.5%
1997	12,890,542	8,476,193	21,366,735	60.3%
1998	3,456,758	17,083,287	20,540,045	16.8%
1999	15,029,522	48,331,090	63,360,612	23.7%
2000	3,348,618	59,800,883	63,149,501	5.3%
2001	3,143,395	41,684,289	44,827,684	7.0%
2002	55,645	60,765,069	60,820,714	0.1%
2003	0	4,986,573	4,986,573	0.0%
Total	$80,379,039	$248,481,187	$328,860,226	24.4%

MOVEMENT AND CONSOLIDATION OF FIRMS IN STATE/EMPLOYMENT OF WASHINGTON RESIDENTS

Taxpayers are asked to complete a survey when first using the high tech B&O tax credit or sales tax deferral programs. Since the programs' inception, surveys from 362 taxpayers using the B&O tax credit and 244 taxpayers using the sales tax deferral program have been received. The one-page survey asks the recipient whether the business is new in Washington and whether the business relocated to Washington as a result of the incentive programs. Of the credit program respondents, 39 percent indicate the business is new in Washington and none indicate a relocation as a result of the program. Of the deferral program survey respondents, 27 percent indicate the business is new in Washington and 3 percent indicate that they were relocating because of the deferral program.

Table 2.10
Reponses of High Tech Incentive Participants to Initial Survey

	B&O Credit	Sales & Use Tax Deferral
Is this a new business in Washington?	39%	27%
Are you relocating your business as a result of this program?	0%	3%
Number of participants responding to initial survey	362	244

Related questions were asked on a survey of credit participants conducted for the 2000 High Technology Study. Results are as follows:

Table 2.11

Responses to 2000 High Tech Credit Survey

	B&O Credit
Percent of FTEs that are WA residents	59%
Percent of firms building a new facility in prior five years	10%
Percent of firms creating a new product or services in prior five years as a result of R&D spending	76%
Percent of firms that expanded in WA State because of creating a new product or service	44%
Number of respondents to 2000 survey	330
Survey response rate	51.6%