

High Technology Sales/Use Tax Deferral

The information contained in this fact sheet is current as of the date of publication and is intended only as general information. It does not cover every aspect of this incentive. Not all possible applications of this program are discussed. This fact sheet does not alter or supersede any administrative regulations or rulings issued by the Department.



Contact information

Washington State
Department of Revenue
367-705-6705
dor.wa.gov

Businesses in the following research and development technology categories may be eligible for a sales/use tax deferral. To be eligible, they must 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. The technology categories are:

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

For more information on categories see “Definitions” on back page.

What is “research and development” for purpose of this deferral?

“Research and development” means activities performed to discover technological information, and technical and nonroutine activities concerned with translating technological information into new or improved products, processes, techniques, formulas, inventions, or software.

The term includes exploration of a new use for an existing drug, device, or biological product if the new use requires separate licensing by the Federal Food and Drug Administration under chapter 21 CFR, as amended.

The term does not include adaptation or duplication of existing products where the products are not substantially improved by application of the technology, nor does the term include surveys and studies, social science and humanities research, market research or testing, quality control, sale promotion and service, computer software developed for internal use, and research in areas such as improved style, taste, and seasonal design.

Requirements

Applications must be filed with the Department of Revenue before a building permit is issued or taking possession of equipment in Washington.

The investment project must be devoted to research and development or pilot scale manufacturing to qualify for the deferral. The investment must consist of machinery and equipment, new structures, and/or expansion or renovation to increase floor space or production capacity. This includes plant offices and other facilities that are an essential or integral part of a structure. The machinery and equipment may be used, but must be new to the state or business. Qualified machinery and equipment means fixtures, equipment and support facilities that are an integral and necessary part of pilot scale manufacturing or qualified research and development operation. This includes computers, software, data processing equipment, laboratory equipment, instrumentation, and other devices used in the process of experimentation to develop a new or improved pilot model, plant process, product, formula, invention or similar property.

Construction costs for a qualified leased building are eligible for the program, provided the benefit of the deferral is passed on to the qualified business in the form of reduced rent OR the underlying ownership of the building, machinery and equipment vests with the same person(s).

If a building is used partly for pilot scale manufacturing or qualified research, and partly for other purposes, the tax deferral will be apportioned on the basis of the cost of the area used for the qualified purposes.

Deferred taxes

Taxes are deferred under this program if the business uses the investment project for qualified research and development or pilot scale manufacturing during the year in which the investment is certified as operationally complete, and the next seven calendar years.

If the investment project is used for any other reason at any time during the calendar year in which the investment is certified as operationally complete, or during the next seven calendar years, the deferred taxes must be repaid immediately according to a prorated schedule. Interest will be assessed on the payments.

The sales or use taxes on machinery or equipment used in manufacturing that could have qualified for the Manufacturers' Sales/Use Tax Exemption at the time of purchase or first use do not have to be repaid.

Application

A copy of the High Technology Application for Sales and Use Tax Deferral is provided in this publication.

Lessors need to complete the High Technology Application for Lessor for Sales and Use Tax Deferral.

Additional applications may be obtained by contacting the Telephone Information Center at 360-705-6705 or from our web site at: dor.wa.gov under "Get a form or publication."

A project that has received any sales/use tax deferral under this or any other deferral program is not eligible for further deferral under this program. A research and development facility can get additional deferral certificates to upgrade to pilot scale manufacturing. Businesses may have more than one project that may qualify for deferral under any of these programs.

The Department of Revenue must approve or deny applications within 60 days. If approved, a Tax Deferral Certificate is issued to the business to provide to vendors and contractors at the time of purchase. If denied, the business may appeal the decision to the Department's Appeals Division.

Use of the deferral certificate

The deferral certificate allows vendors and contractors to sell to approved businesses without charging retail sales tax. Sales and use tax may be deferred on three kinds of expenditures:

1. Qualified buildings
2. Qualified machinery and equipment
3. Labor and services rendered in the planning, installation and construction of the project.

The deferral does not relieve contractors or subcontractors of their obligation to pay tax on the purchase or rental of tools, equipment, and supplies that are not incorporated into the final project, even though the ultimate cost of the tax is passed on to the person making the investment.

Audit of the project

When your application is approved, a deferral certificate will be issued using the estimates from your application. Upon completion of the project, an auditor will verify that you are performing qualified activities at this facility. They will also verify that the approved percentage of your structure and 100 percent of the machinery and equipment are eligible for deferral. The auditor may adjust the allowable deferral based on his or her findings.

To minimize inconvenience and the time it takes to complete an audit, please have the following records for the audit period available for your meeting with the auditor:

- Purchase invoices (i.e., accounts payable, receipts)
- Supporting documentation for the construction, such as construction contracts
- Original Sales and Use Tax Deferral Certificate

Although most audits can be completed with the above records, additional documents may be required during the audit.

Annual tax performance report

An annual report must be filed by May 31 of the year in which the project is certified and for the following seven years. If the economic benefits of the deferral are passed to a lessee, the lessee must agree to complete the Annual Tax Performance Report and the applicant (lessor) is not required to complete the Annual Tax Performance Report. See WAC 458-20-268 for more information on the requirements to file annual reports. It is available online at dor.wa.gov under "Get a form or publication." The applicant is not required to file electronically with the Department of Revenue.

Laws and rules

- WAC 458-20-24003
- RCW 82.63
- Copies of the law and administrative rule are available at dor.wa.gov under “Find a law or rule” or by calling our Telephone Information Center at 360-705-6705.

Definition

Advanced computing

Technologies used in designing and developing computing hardware and software, including innovations in designing the full spectrum of hardware from hand-held calculators to super computers, and peripheral equipment.

Advanced materials

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.

Biotechnology

The application of technologies, such as recombinant DNA techniques, biochemistry, molecular and cellular biology, genetics, including genomics, gene expression 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.

Electronic device technology

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.

Environmental technology

The assessment and prevention of threats or damage to human health or the environment, environmental cleanup, and the development of alternative energy sources.

For more information

If you have questions about the High Technology Sales/Use Tax Deferral incentive, please contact:

Telephone information center
360-705-6705

dor.wa.gov

For tax assistance or to request this document in an alternate format, visit dor.wa.gov or call 360-705-6705. Teletype (TTY) users may use the Washington Relay Service by calling 711.

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