

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
Special Programs Division
(360) 570-3265, press option 6

Helpful links

General Tax Information
<http://dor.wa.gov>

Tax Incentives

Visit our web site dor.wa.gov, under "Quick Clicks" select "Tax Incentive Programs."

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 part 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 1-800-647-7706 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 Survey

An annual survey must be filed by April 30 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 Survey and the applicant (lessor) is not required to complete the Annual Survey. See WAC 458-20-268 (Annual Survey for certain tax adjustments) for more information on the requirements to file annual surveys. The Annual Survey 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.

III. Biotechnology

6. Which area of biotechnology are you engaged in?

- Recombinant DNA techniques
- Biochemistry
- Molecular biology
- Cellular biology
- Genetic engineering
- Cell fusion techniques
- New bioprocesses
- Other bio-based technologies

7. Identify the living organism, or part of an organism utilized in your research and/or development activity:

8. What is your intended result?

- Produce or modify products
- Improve plants or animals
- Develop microorganisms for specific uses
- Identify targets for small molecule pharmaceutical development
- Transform biological systems into useful processes, products, or specific uses

IV. Electronic Device Technology

9. Which area of electronic device technology are you engaged in?

- Microelectronics
- Semiconductors
- Electronic equipment
- Electronic instrumentation
- Radio frequency
- Microwave
- Millimeter electronics
- Optical (electronic) devices
- Optic-electrical devices
- Data communications
- Digital communications
- Imaging devices
- Other electronic device

V. Environmental Technology

10. Which area of environmental technology are you engaged in?

- Assessment and prevention of threats or damage to human health and environment, or environment
- Environmental cleanup
- Alternative energy sources

Yes No

11. For environmental cleanup, is the corrective or remedial action to remove dangerous wastes and dangerous constituent

12. For alternative energy sources, identify the new energy source, or how an existing alternative energy source is improved:

TO BE COMPLETED BY ALL

Research & Development

Answer all questions that pertain to your research and development project. If additional space is needed, please attach additional pages.

13. What is the intended end result for this research and development?

- Product
- Process
- Formula
- Software
- Invention
- Technique
- Other

If other, please explain: _____

Yes No

14. Is this technological information reasonably available to you in published scientific literature, or through industrial or scientific sources?

15. Is the research and development activity performed to discover new technological information?

Briefly describe: _____

Research & Development (continued)

16. How do you plan to protect your discovery?
- Patent
- Copyright
- Other
- Briefly describe: _____
- _____
- | | Yes | No |
|---|--------------------------|--------------------------|
| 17. Is this research and development for a new use for an existing technology?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 18. Are there any changes made to the product other than a different use?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 19. Is this a drug, device or biological product that requires licensing by the Federal Food and Drug Administration? | <input type="checkbox"/> | <input type="checkbox"/> |
| 20. If the product is changed to adapt it to a new use, will you make substantial improvements to the product?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 21. If you are making changes to an existing product, please explain your right to alter this product: | | |
| Own the copyright or patent | <input type="checkbox"/> | |
| Exclusive purchase or license | <input type="checkbox"/> | |
| Non-exclusive purchase or license..... | <input type="checkbox"/> | |
| Other | <input type="checkbox"/> | |
| If other, please explain: _____ | | |
| _____ | | |
| _____ | | |
| 22. Provide additional information to questions 14 - 21 that you think will be helpful in deciding whether to approve your application: | | |
| _____ | | |
| _____ | | |
| _____ | | |

Pilot Scale Manufacturing

Please answer all questions that pertain to your pilot scale manufacturing activity. If additional space is needed, please attach additional pages.

- | | Yes | No |
|--|--------------------------|--------------------------|
| 23. Is the pilot scale manufacturing an extension of research and development that you have completed? | <input type="checkbox"/> | <input type="checkbox"/> |
| 24. Will you be selling these test models?..... | <input type="checkbox"/> | <input type="checkbox"/> |
| 25. Will the sales exceed \$1 million?..... | <input type="checkbox"/> | <input type="checkbox"/> |

Estimated Investment Project Costs

Please include only those costs that will be paid for by the applicant.

26. Structure:
- Will these construction costs be for:
- New Structure
- Expansion or renovation of existing structures to increase floor space or production capacity used for pilot scale manufacturing or qualified research and development.....
- Other.....
- Date building permit will be issued / /
- Construction of new structure(s) \$ _____
- Leasehold improvements paid for by applicant \$ _____
- Expansion or renovation to expand floor space or production capacity \$ _____
- Total Structure Costs**..... \$
27. Machinery and Equipment that is used exclusively for pilot scale manufacturing or qualified research and development. Replacement equipment does not qualify under this program. Please do not include replacement equipment in the equipment costs listed below.
- Date equipment is to be installed / /
- Purchase Price \$ _____
- Lease Contract Price \$ _____
- Fair market value of previously owned machinery and equipment that is new to the State of Washington..... \$ _____
- Total Machinery & Equipment Costs** \$
28. **Total Costs** \$
29. Estimated completion date / /

Apportionment of Structure

If the facility is used partly for research and development and partly for other purposes, the applicable tax deferral shall be determined by apportioning the costs of construction.

30. Percentage of facility devoted to:
- Accounting/Payroll..... %
 - Administration..... %
 - Cafeteria..... %
 - Common Areas..... %
 - Conference & Training Rooms..... %
 - Customer Service..... %
 - Manufacturing..... %
 - Pilot Scale Manufacturing..... %
 - Reception Area..... %
 - Research & Development..... %
 - Sales & Marketing..... %
 - Warehouse..... %
 - Other..... %
- Briefly describe: _____

Total..... 100 %

36. Estimated or Actual Number of New FTEs as a result of this project: _____
37. Estimated or actual average wages of employees related to the project. _____

Use of Facility

All businesses must maintain a qualified activity at the site of the investment project for the year in which the investment project is certified as operationally complete, plus seven additional years.

- Yes No
40. Do you plan to operate this investment project in a qualified manner for 8 years from the time the project is complete?.....
41. If the answer to question 40 is *No*, how long do you plan to operate this investment project with qualified use?

If the research and development activity is not maintained, all or a portion of the deferred taxes outstanding for this investment will be immediately due. The department will assess interest at the rate provided for delinquent excise taxes, but not penalties, retroactively to the date of the deferral.

Audit of Investment Project

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

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

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

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

Please complete the following information if available:

42. Contact person: _____
43. Phone number of contact person: _____
44. Location of audit records: _____

Lessee/Lessor Information

31. Will you lease the facility housing the operation?..... Yes No

Please answer questions 32 through 34 - only if you answered yes to question 31.

32. Name of individual or entity that is paying for construction of the building or improvements:

33. Do the lessee and lessor have 100% same ownership?..... Yes No

If yes, please provide documentation to substantiate the relationship

34. If the answer to question 33 is *No*, has the lessor agreed by written contract to pass the economic benefit of the deferral on to the lessee by any type of payment, credit, or other financial arrangement?.....
(Please attach a completed Lessor's Application and a copy of the lease agreement that passes on the economic benefit of the deferral to the lessee by any type of payment, credit, or other financial arrangement.)

Employment Information

35. Applicant's Average Number of Full Time Equivalents (FTEs) for Previous Calendar Year.
(1820 annualized hours worked = 1 FTE):

Applicant's Entire Business in WA: _____

At This Facility: _____

(continued in next column)

Annual Survey Requirement

By filing this application form, you agreed to complete and submit annual surveys due by March 31st of the year following the calendar year in which the investment project is certified as operationally complete, and the seven succeeding calendar years. RCW 82.63.020(2)(b). Failure to complete and submit annual surveys by their due date will result in portions of deferred tax becoming immediately due. RCW 82.63.045(2)(b).

I certify under penalty of perjury under the laws of the State of Washington that the forgoing is true and correct.

Applicant's Signature

Date

Title

General Instructions

High Technology Application for Sales and Use Tax Deferral (82.63 RCW)

Filing:

This application must be mailed or faxed to the Washington State Department of Revenue **prior to the date a building permit is issued** and/or taking possession of machinery and equipment within Washington State.

Public Disclosure:

Applications and other information received by the department under this chapter are not confidential and are subject to disclosure. Only non-proprietary information is required on this application.

Eligible Investment Project:

Eligible Investment Project means an investment project that (1) initiates a new operation or (2) expands or diversifies a current operation by expanding, renovating, or equipping an existing facility.

Investment Project:

Investment Project means an investment in qualified buildings or qualified machinery and equipment. This includes materials and labor and services (including labor and services rendered in the planning, installation and construction or improvement of the project).

Qualified Buildings:

Qualified Buildings means (1) construction of new structures, and (2) expansion or renovation of existing structures for the purpose of increasing floor space or production capacity used for pilot scale manufacturing or qualified research and development.

Qualified Machinery and Equipment:

Qualified Machinery and Equipment means fixtures, equipment, and support facilities that are an integral and necessary part of a pilot scale manufacturing or qualified research and development operation.

Research and Development:

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 new use for an existing drug, device, or biological product if the new use requires a separate licensing by the FDA under chapter 21. 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.

Pilot Scale Manufacturing:

Pilot scale manufacturing means design, construction, and testing of preproduction prototypes and models in the fields of biotechnology, advanced computing, electronic device technology, advanced materials, and environmental technology other than for commercial sale.

Use Requirements:

All businesses must maintain a qualified activity at the site of the investment project for the year in which the investment project is certified operationally complete plus seven additional years. An annual employee survey due March 31 is also required for every year during the eight year period.

Waiver of Taxes:

If all program requirements have been met, the deferred sales/use tax is waived by the Department of Revenue.

Mail or fax to:

Department of Revenue
Special Programs Division
PO Box 47477
Olympia, WA 98507-7477
FAX: (360) 586-2163

For tax assistance visit <http://dor.wa.gov> or call 1-800-647-7706. To inquire about the availability of this document in an alternate format for the visually impaired, please call (360) 705-6715. Teletype (TTY) users may call 1-800-451-7985.

Laws and Rules

- WAC 458-20-24003
- RCW 82.63
- Expires January 1, 2015
- 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 1-800-647-7706.

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:

Special Programs Division
(360) 570-3265, press option 6

Taxpayer Services
1-800-647-7706

Web Site
dor.wa.gov

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