



# Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

JULY 19, 2016

**The Department is no longer taking applications for this program. All five projects allowed by statute have been approved as of March 2016.**

## **Sales and use tax deferral for manufacturers**

Effective September 1, 2015, manufacturers may be eligible for a sales and use tax deferral program for manufacturing facilities. There are a maximum of five projects statewide, and at least two projects must be located in Eastern Washington. Sales and use taxes are deferred on the first \$10 million in costs for eligible buildings, machinery and equipment on each eligible investment project. The recipient must begin paying the deferred taxes in the fifth year after the date the eligible investment project is operationally complete.

The state share of the sales and use tax will be deposited in the Invest in Washington Account. The State Board for Community and Technical Colleges will use the funds for customized training programs, job skills programs, job readiness training and workforce professional development. See Engrossed Substitute Senate Bill 6057 – Part IV, Chapter 6, Laws of 2015.

## **Applying for a deferral certificate**

A manufacturer must submit an application to the Department to determine eligibility for a deferral certificate. Applications for a deferral certificate must be submitted before the initiation of construction of the investment project or acquisition of machinery or equipment. Manufacturers may submit applications beginning September 1, 2015. Deferral certificates are available on a first-in-time basis.

## **Using the deferral certificate**

A manufacturer that has applied for and received a deferral certificate may use the certificate to purchase qualifying buildings and machinery and equipment without paying sales or use tax at the time of purchase. This includes the costs of constructing new structures as well as costs of expansions or renovations of existing structures.

## **Eligibility of lessors**

The lessor or owner of a qualified building is not eligible for a deferral unless:

(1) The underlying ownership of the building, machinery, and equipment vests exclusively in the same person; or

(2)(a) The lessor by written contract agrees to pass the economic benefit of the deferral to the lessee;

(b) The lessee that receives the economic benefit of the deferral agrees in writing with the department to complete the annual survey required under RCW 82.32.585; and

(c) The economic benefit of the deferral passed to the lessee is no less than the amount of tax deferred by the lessor and is evidenced by written documentation of any type of payment, credit, or other financial arrangement between the lessor or owner of the qualified building and the lessee.

### **Repayment of taxes**

The deferred taxes must be repaid beginning five years after the investment project has been certified as operationally completed by the Department. The first payment of ten percent of the deferred taxes will be due on December 31st of the fifth calendar year after such certified date, with subsequent annual payments of ten percent of the deferred taxes due on December 31st for each of the following nine years. All outstanding deferred taxes will become immediately due if the manufacturing activity ceases before all taxes have been repaid.

### **Definitions**

“Eligible investment project” means an investment project for qualified buildings and machinery and equipment on five new, renovated, or expanded manufacturing operations, at least two of which must be located east of the crest of the Cascade mountains. The deferral provided in this section only applies to the state and local sales and use taxes due on the first ten million dollars in costs for qualified buildings and machinery and equipment.

“Qualified buildings” means construction of new structures, and expansion or renovation of existing structures for the purpose of increasing floor space or production capacity, used for manufacturing, including plant offices and warehouses or other buildings for the storage of raw material or finished goods if such facilities are an essential or an integral part of a factory, mill, plant, or laboratory used for manufacturing. If a qualified building is used partly for manufacturing and partly for other purposes, the applicable tax deferral must be determined by apportionment of the costs of construction under rules adopted by the Department.

“Qualified machinery and equipment” means all new industrial fixtures, equipment, and support facilities that are an integral and necessary part of a manufacturing operation. “Qualified machinery and equipment” includes: Computers; software; data processing equipment; laboratory equipment; manufacturing components such as belts, pulleys, shafts, and moving parts; molds, tools, and dies; operating structures; and all equipment used to control, monitor, or operate the machinery.

“Initiation of construction” has the same meaning as in RCW 82.63.010.

## **Reporting requirements**

These are considered new tax preferences subject to additional reporting requirements. (See RCW 82.32.808.) Buyers must report the amount of tax preference received under the "Tax Preference" section of the Department's E-file tax return.

When completing this section of their return, buyers should select the appropriate option from the drop down list of exemptions and enter the purchase price paid on sales for which a deferral was claimed. This addendum must be completed in addition to a buyer's regular reporting responsibilities. Buyers are not required to report the amount of preference received if:

- The tax benefit to a buyer is less than \$1,000 per year; or
- The business files tax returns with the Department on an annual basis.

## **Annual survey required**

A business claiming this tax incentive must electronically submit an annual survey (RCW 82.32.585) to the Department. The first survey must be filed by April 30th of the calendar year following the calendar year in which the investment project is certified by the department as operationally complete, and a survey must be filed by April 30th of each of the seven succeeding calendar years.

## **For more information**

Call our Telephone Information Center at 1-800-647-7706.