

**DESCRIPTIVE STATISTICS
FOR TAX INCENTIVE PROGRAMS**

**2006 Report Covering
Activity During Calendar Year 2005**

A Report to the Legislature

Washington State Department of Revenue
Cindi L. Holmstrom, Director

September 1, 2006

September 1, 2006

TO: The Honorable Jim McIntire
Chair, House Finance Committee

The Honorable Margarita Prentice
Chair, Senate Ways and Means Committee

FROM: Cindi L. Holmstrom, Director

SUBJECT: DESCRIPTIVE STATISTICS, 2006

This report is presented to you and your committees pursuant to various accountability statutes which require annual reporting of the results of the surveys submitted by participants in selected tax incentive programs. This 2006 report covers activity during calendar year 2005 for taxpayers in four programs:

B&O tax exemption for fruit and vegetable processors;
B&O tax credit for R&D spending by high technology firms;
Sales/use tax deferral/exemption for investments in rural counties; and
Sales/use tax deferral/exemption for investments by high technology firms.

The tables in the report present the information that is required by statute. The purpose of the descriptive statistics is not to evaluate the programs or determine their effectiveness but simply to relay the information as reported by taxpayers.

For 2005 there were a total of 891 participants in these programs (participants in multiple program are counted more than once). Total reported employment of these firms was 209,770 (again there is double counting for the jobs data). For the two B&O tax incentives, the reduction in revenue amounted to \$22.4 million. The two sales tax deferral/exemption programs total \$123.4 million in reduced state and local sales tax receipts.

The taxpayer survey was administered by our Special Programs Division and the report was compiled by the Research Division. If you have any questions, please do not hesitate to contact Mary Welsh, Assistant Director of the Research Division, at (360) 570-6076.

cc: Members, Senate Ways & Means Committee
Members, House Finance Committee
Victor Moore, Director, Office of Financial Management
Marty Brown, Legislative Director, Office of the Governor
Jim Schmidt, Senior Forecast Analyst, Office of Financial Management

TABLE OF CONTENTS

		<u>Page</u>
Chapter 1	Descriptive Statistics for Tax Incentive Programs: Executive Summary.....	1
	Table 1.1 Comparison of Programs.....	2-3
	Table 1.2 Participation by Year	5
	Table 1.3 Tax Savings by Year	6
	Table 1.4 Total Jobs by Year.....	7
Chapter 2	B&O Tax Exemption - Fruit & Vegetable Processors	9
	Table 2.1 Exemptions Claimed.....	10
	Table 2.2 Total Employment & Job Type, 2005.....	11
	Table 2.3 Employment & Benefits by Wage Bands, 2005	12
	Table 2.4 Total Employment & Job Type, 2004.....	13
	Table 2.5 Employment & Benefits by Wage Bands, 2004	14
Chapter 3	B&O Tax Credit - High Tech R&D Spending	15
	Table 3.1 Income, Credits Claimed & Expenditures	16
	Table 3.2 Credits Claimed by Technology Type.....	17
	Table 3.3 Total Employment & Job Type.....	18
	Table 3.4 Employment & Benefits by Wage Bands	19
	Table 3.5 New Products & Innovations.....	20
Chapter 4	Sales Tax Deferral/Exemption - Rural Counties	21
	Table 4.1 Deferrals Claimed.....	23
	Table 4.2 Total Employment & Job Type.....	24
	Table 4.3 Employment & Benefits by Wage Bands	25
	Table 4.4 New Products & Innovations.....	26
Chapter 5	Sales Tax Deferral/Exemption - High Tech Investment.....	27
	Table 5.1 Deferrals Claimed.....	29
	Table 5.2 Deferrals Claimed by Technology Type.....	30
	Table 5.3 Total Employment & Job Type.....	31
	Table 5.4 Employment & Benefits by Wage Bands	32
	Table 5.5 New Products & Innovations.....	33
Appendix	2005 Annual Survey - filed by March 31, 2006.....	35

Chapter One

DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PROGRAMS:
EXECUTIVE SUMMARY

This is the second in a series of annual reports to the Legislature by the Washington State Department of Revenue. It results from various accountability statutes which require the Department to compile data from annual surveys filed by firms that participate in selected tax incentive programs.

This report covers activity during calendar year 2005. Taxpayers that utilized these incentives were required to file a survey by March 31, 2006, and the data reported herein are a synopsis of those surveys. It should be noted that the Department made a concerted effort to notify known participants, including sending of reminders and direct contacts with firms. However, the statutory reporting schedule allows insufficient time for follow-up auditing and verification of the data that was reported on the surveys. Since this report is not intended as an evaluation of the incentive programs, the data that are presented are simply the information that was reported by participants.

The 2006 Descriptive Statistics report comprises four programs:

- B&O tax exemption for fruit/vegetable processors
- B&O tax credit for high tech research and development spending
- Sales tax deferral/exemption for manufacturers in rural counties
- Sales tax deferral/exemption for high tech research and development investments.

There are an additional nine tax incentive programs which will be added to the descriptive statistics report starting with the 2007 or 2008 editions. These statutes were adopted by the Legislature in the past several years, but the accountability statutes are not effective until after the 2006 report. Basic information for all 13 programs is illustrated in Table 1.1 on the following two pages.

Following the overview table are three summary tables which contain basic data on these programs since the inception of the annual reporting requirements. Information for the newer programs will be added as they come "on-line." Table 1.2 indicates that the B&O tax credit for research and development spending had the most participants in 2005 with 535 firms. The rural county sales tax deferral/exemption program had fewer than half as many participants at 238. For the high tech sales tax deferral/exemption there were 76 firms that reported during 2005. The new B&O exemption for processors of fruit and vegetables had 42 participants in the initial six months that it was effective. It should be noted that some firms participated in more than one program, so the overall participant counts are not additive.

**Table 1.1
COMPARISON OF TAX INCENTIVE PROGRAMS**

Overview of Programs Requiring Annual Descriptive Statistics

<u>Tax Incentive Program</u>	<u>Statutory References</u>		<u>Program Dates</u>	
	<u>Tax Incentive</u>	<u>Accountability</u>	<u>1st Effective</u>	<u>Expires</u>
B&O TAX RATE REDUCTIONS:				
Aircraft repair	82.04.250(3)	82.32.640	08/01/2003	07/01/2011
Manuf. timber/wood	82.04.260(12)	82.32.630	07/01/2006	06/30/2024
B&O TAX EXEMPTIONS/DEDUCTIONS:				
Fruit & vegetables	82.04.4266	82.32.610	07/01/2005	07/01/2012
Dairy products	82.04.4268	82.32.610	07/01/2006	07/01/2012
Seafood products	82.04.4269	82.32.610	07/01/2006	07/01/2012
B&O TAX CREDITS:				
High tech R&D	82.04.4452	82.04.4452	01/01/1995	01/01/2015
Workforce training	82.04.449	82.32.650	06/07/2006	07/01/2016
Aircraft, pre-production	82.04.4487	82.32.635	07/01/2006	07/01/2024
SALES TAX EXEMPTIONS/DEFERRALS:				
Rural Counties	82.60.040	82.60.070	07/01/1985	07/01/2010
High tech R&D	82.63.030	82.63.020	01/01/1995	01/01/2015
Fruit & vegetables	82.74.030	82.74.040	07/01/2007	07/01/2012
Dairy & seafood	82.74.030	82.74.040	07/01/2007	07/01/2012
Biotech manufacturing	82.75.030	82.32.645	07/01/2006	01/01/2017

**Table 1.1 (Cont.)
COMPARISON OF TAX INCENTIVE PROGRAMS**

Overview of Programs Requiring Annual Descriptive Statistics

Annual Survey		Summary of Tax Incentive
First Report	Electronic Submission	
2007	Yes	Rate of 0.2904% for firms certified by FAA to repair commercial aircraft.
2007	Yes	Rate of 0.2904% (FY 2007 = 0.4235%) for processing timber/manuf. wood products.
2006	Yes	Exemption for income from processing fresh fruit & vegetables if sold out of state.
2007	Yes	Exemption for income from manufacturing dairy products if sold out of state.
2007	Yes	Exemption for income from manufacturing raw seafood products if sold out of state.
2005	Yes	Credit for expenditures on R&D by firms in five high tech areas.
2007	No	50% of payments by employers who participate in customized employment training.
2007	Yes	Tax credit for pre-production costs related to manufacturing commercial aircraft.
2005	No	Deferral/exemption for manufacturing or R&D facilities in rural counties or CEZs.
2005	No	Deferral/exemption for R&D/pilot scale manuf. facilities by firms in five high tech areas.
2008	Yes	Deferral/exemption for facilities to process and store fresh fruit & vegetables.
2008	Yes	Deferral/exemption for facilities to manufacture and store dairy & seafood products.
2007	No	Deferral/exemption for facilities to manufacture biotech products or medical devices.

Next, the aggregate revenue impacts are shown in Table 1.3. The dollar amounts for the B&O tax exemptions and credits represent taxes that would otherwise have been paid during the calendar year. In contrast, the sales/use tax figures reflect the total state and local tax amounts that were deferred (and presumably will be exempt if qualifying criteria continue to be met) over the eight-year reporting period. Sales tax deferral/exemption participants first report in the year following the year in which the project was certified as operationally complete; they continue to report for the following seven years, as well. Thus, the information for these programs is not additive over time, because the same sales tax impact data and employment information is repeated for the following seven years to assure continued eligibility for the eventual exemption. As a result, the 2006 surveys include sales tax deferral projects completed in calendar years 1998 through 2005.

The dollar totals for the high technology programs in Tables 3.2 and 5.2, which provide a breakdown by type of technology, did not match with the total reported dollar amounts claimed as shown in Tables 3.1 and 5.1, because some reporters failed to indicate the specific technology on their surveys.

The program with the largest impact on tax receipts was the high tech sales tax deferral/exemption with a total revenue cost of \$65.9 million. Close behind was the rural county sales tax deferral/exemption with an aggregate impact of \$57.5 million. (As noted above, the dollar amount of the sales tax deferral/exemptions for a particular investment is reported each year up to a total of eight years. Also, both sales tax programs include local sales tax impacts.) The B&O tax credit cost a reported \$19.8 million and the impact of the B&O tax exemption for fruit and vegetable processors amounted to \$2.6 million (last six months of calendar year 2005).

Table 1.4 summarizes the total employment of tax incentive participants. These are NOT new jobs associated with the expansion of the firm. Rather, they are the total in-state jobs reported by firms who claimed the incentive. As with the total count of participants, the employment information is not additive because some firms reported total employment under more than one incentive program. There was some discrepancy in the reported number of jobs, particularly for firms with fewer than 50 employees. This may have been due to sole proprietors failing to count owners of the firm as employees. Also, the numbers did not exactly match when broken down by size of firm and by wage band.

The most jobs were associated with the high tech sales tax deferral/exemption, comprising 87,073 jobs for the firms that utilized the tax incentives in 2005. Following closely was the high tech B&O tax credit with 83,261 jobs. The rural county sales tax deferral/exemption totaled 29,853 jobs, and processors of fruit and vegetables taking the B&O tax exemption reported a total of 9,583 jobs.

Chapter One

The remainder of the report consists of one chapter for each of the four programs. These chapters start with background information about the tax incentive, followed by tables which contain more detailed information as specified by statute.

Table 1.2
SUMMARY OF DESCRIPTIVE STATISTICS BY PROGRAM
Participation in Tax Incentive Programs by Calendar Year

Program	Statute	Number of Participants				
		2004	2005	2006	2007	2008
B&O RATE REDUCTIONS:						
Aircraft repair	82.04.250(3)	n.a.	n.a.	#	#	#
Manuf. timber/wood	82.04.260(12)	n.a.	n.a.	#	#	#
B&O EXEMPTIONS/DEDUCTIONS:						
Fruit & vegetables	82.04.4266	32	42	#	#	#
Dairy products	C. 354, S. 1	n.a.	n.a.	#	#	#
Seafood products	C. 354, S. 2	n.a.	n.a.	#	#	#
B&O CREDITS:						
High tech R&D	82.04.4452	557	535	#	#	#
Workforce training	C. 112, S. 5	n.a.	n.a.	#	#	#
Aircraft, pre-production	C. 117, S. 3	n.a.	n.a.	#	#	#
SALES TAX EXEMPTIONS/DEFERRALS:						
Rural Counties	82.60	256	238	#	#	#
High tech R&D	82.63	92	76	#	#	#
Fruit & vegetables	82.74.030	n.a.	n.a.	n.a.	#	#
Dairy & seafood	82.74.030	n.a.	n.a.	n.a.	#	#
Biotech manufacturing	C. 178, S. 4	n.a.	n.a.	#	#	#

n.a. = not applicable, because program does not yet require descriptive statistics.
 # = data to be added in future years.

Table 1.3
SUMMARY OF DESCRIPTIVE STATISTICS BY PROGRAM

Tax Savings Associated with Tax Incentive Programs by Calendar Year

<u>Program</u>	<u>Statute</u>	<u>Tax Savings (\$ in millions)</u>				
		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
B&O RATE REDUCTIONS:						
Aircraft repair	82.04.250(3)	n.a.	n.a.	#	#	#
Manuf. timber/wood	82.04.260(12)	n.a.	n.a.	#	#	#
B&O EXEMPTIONS/DEDUCTIONS:						
Fruit & vegetables	82.04.4266	n.a.	\$2.6	#	#	#
Dairy products	C. 354, S. 1	n.a.	n.a.	#	#	#
Seafood products	C. 354, S. 2	n.a.	n.a.	#	#	#
B&O CREDITS:						
High tech R&D	82.04.4452	\$25.3	\$19.8	#	#	#
Workforce training	C. 112, S. 5	n.a.	n.a.	#	#	#
Aircraft, pre-production	C. 117, S. 3	n.a.	n.a.	#	#	#
SALES TAX EXEMPTIONS/DEFERRALS:						
Rural Counties	82.60	\$58.2	\$57.5	#	#	#
High tech R&D	82.63	\$82.8	\$65.9	#	#	#
Fruit & vegetables	82.74.030	n.a.	n.a.	n.a.	#	#
Dairy & seafood	82.74.030	n.a.	n.a.	n.a.	#	#
Biotech manufacturing	C. 178, S. 4	n.a.	n.a.	#	#	#

n.a. = not applicable, because program does not yet require descriptive statistics.

= data to be added in future years.

Table 1.4
SUMMARY OF DESCRIPTIVE STATISTICS BY PROGRAM

Total Jobs for Tax Incentive Program Participants by Calendar Year

<u>Program</u>	<u>Statute</u>	<u>Number of Total Jobs in Washington Reported by Participants</u>				
		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
B&O RATE REDUCTIONS:						
Aircraft repair	82.04.250(3)	n.a.	n.a.	#	#	#
Manuf. timber/wood	82.04.260(12)	n.a.	n.a.	#	#	#
B&O EXEMPTIONS/DEDUCTIONS:						
Fruit & vegetables	82.04.4266	5,674	9,583	#	#	#
Dairy products	C. 354, S. 1	n.a.	n.a.	#	#	#
Seafood products	C. 354, S. 2	n.a.	n.a.	#	#	#
B&O CREDITS:						
High tech R&D	82.04.4452	83,959	83,261	#	#	#
Workforce training	C. 112, S. 5	n.a.	n.a.	#	#	#
Aircraft, pre-production	C. 117, S. 3	n.a.	n.a.	#	#	#
SALES TAX EXEMPTIONS/DEFERRALS:						
Rural counties	82.60	28,562	29,853	#	#	#
High tech R&D	82.63	71,589	87,073	#	#	#
Fruit & vegetables	82.74.030	n.a.	n.a.	n.a.	#	#
Dairy & seafood	82.74.030	n.a.	n.a.	n.a.	#	#
Biotech manufacturing	C. 178, S. 4	n.a.	n.a.	#	#	#

n.a. = not applicable, because program does not yet require descriptive statistics.

= data to be added in future years.

Chapter Two

BUSINESS AND OCCUPATION TAX EXEMPTION
FOR FRUIT AND VEGETABLE PROCESSORS

The newest tax incentive to be added to the annual descriptive statistics report is the B&O tax exemption for firms that process fresh fruit and vegetables. This was established in 2005 (ESHB 2221, adopted as Chapter 513, Laws of 2005) and is codified as RCW 82.04.4266. The exemption became effective on July 1, 2005.

The legislation totally exempts from B&O tax income derived from canning, preserving, freezing, processing, or dehydrating fruit and vegetables. Also exempt are wholesale sales of such products if they are transported directly out of state by the purchaser.

The following year the Legislature added a termination date to the exemption. Under EHB 3159 (Section 3, Chapter 354, Laws of 2006), the B&O exemption for processing of fresh fruit and vegetables will expire on July 1, 2012. At that time income from processing of these items will return to the tax rate of 0.138 percent which the industry was subject to prior to July 1, 2005. NOTE: The 2006 legislation also provided the same exemption for processing of dairy and seafood products; these tax incentives will be added to the annual descriptive statistics report in 2007.

Section 3 of ESHB 2221 established accountability provisions for the fruit and vegetable tax exemption. The purpose of this process is to obtain information on the utilization of the tax incentive, so that the Legislature can evaluate the effectiveness of the program. Codified as RCW 82.32.610, this section requires firms that utilize the tax exemption to file an annual report with the Department. Based on the information submitted, the Department is required to report data on the program as summary descriptive statistics; this chapter is the initial response to that directive. Because the exemption was effective on July 1, 2005, the information covers only the last half of calendar year 2005.

The following data are required to be included in the descriptive statistics report:

- Dollar amount of tax exemption taken.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits by wage band:
 - medical, dental, and retirement.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment.

The accountability statute requires that data for this program also be included for the year prior to the first use of this tax incentive. Thus, Tables 2.4 and 2.5 repeat the same information in the prior two tables for calendar year 2004.

Table 2.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Fruit and Vegetable Processors
B&O Tax Exemptions Claimed by Size of Employment
Calendar Year 2005

<u>Total Washington Employment of Participants</u>	<u>Number of Firms Claiming B&O Tax Exemption</u>	<u>Total B&O Tax Exemption Claimed</u>
Fewer than 50	17	\$ 1,284,523
50 - 250	16	\$ 262,871
More than 250	9	\$ 1,009,344
TOTAL	42	\$ 2,556,738

Table 2.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Fruit and Vegetable Processors
Total Washington Employment of Participants by Size of Employment
Calendar Year 2005

Size of Washington Employment	Number of Firms Claiming B&O Tax Exemption	Total Employment in Washington of Firms Claiming B&O Exemption	Percentage of Jobs that are:*		
			Full-time	Part-time	Temporary
Fewer than 50	17	226	68.9%	24.7%	0.7%
50 - 250	16	1,647	74.8%	12.0%	13.2%
More than 250	9	7,710	73.2%	17.8%	9.1%
TOTAL	42	9,583	73.3%	16.9%	9.6%

*Percentages may not add to 100% because not all survey respondents provided complete information.

Table 2.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Fruit and Vegetable Processors
Employment and Employee Benefits by Wage Band
Calendar Year 2005

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	6,083	3,260	2,979	3,179
\$30,000 - \$60,000	2,765	2,617	2,452	2,357
\$60,000 or more	576	564	553	540
TOTAL	9,424	6,441	5,984	6,076

*Total does not agree with Table 2.2 due to incomplete reporting by survey respondents.

Table 2.4
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Fruit and Vegetable Processors
Total Washington Employment of Participants by Size of Employment
Calendar Year 2004 (Prior Year Employment Data)

Size of Washington Employment	Number of Firms Claiming B&O Tax Exemption in CY 2004	Total 2004 Employment in Washington of Firms Claiming B&O Exemption	Percentage of 2004 Jobs that are:*		
			Full-time	Part-time	Temporary
Fewer than 50	17	198	72.9%	17.0%	2.0%
50 - 250	16	1,110	75.5%	11.9%	12.6%
More than 250	9	4,366	80.2%	2.6%	17.2%
TOTAL	42	5,674	79.0%	4.9%	15.8%

*Percentages may not add to 100% because not all survey respondents provided complete information.

Table 2.5
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Fruit and Vegetable Processors
Employment and Employee Benefits by Wage Band
Calendar Year 2004 (Prior Year Employment Data)

Wage Bands	2004 Washington Employment by Wage Bands*	Number of Total Jobs in Washington in 2004 with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	3,304	1,882	1,810	1,391
\$30,000 - \$60,000	2,027	1,998	1,866	1,704
\$60,000 or more	309	279	274	264
TOTAL	5,640	4,159	3,950	3,359

*Total does not agree with Table 2.4 due to incomplete reporting by survey respondents.

Chapter Three

BUSINESS AND OCCUPATION TAX CREDIT
FOR RESEARCH AND DEVELOPMENT EXPENDITURES
BY HIGH TECHNOLOGY FIRMS

The "high tech" B&O tax credit was established in 1994, effective January 1, 1995. It consists of a two-part program: a B&O tax credit and a sales tax deferral/exemption. Data on the sales tax incentive is presented in Chapter Five. The B&O tax credit is codified as RCW 82.04.4452. It provides a tax credit of up to \$2 million annually for eligible expenditures by firms that are engaged in one or more of the following areas of high technology:

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

The credit is allowed for eligible expenditures on research and development (R&D) in excess of 0.92 percent of the firm's taxable income. The percentage threshold was based on national average expenditures for R&D. The calculation procedure to determine the credit amount was revised in 2004 and again in 2005. The firm first determines its qualified R&D expenditures pursuant to RCW 82.04.4452(9)(b). These include wages and benefits paid to employees, compensation to proprietors or partners, supplies and computer costs for research and development activities; it does not include capital costs such as for land or structures. Eligible R&D activities are those performed to discover technological information and to translate technological information into new or improved products, processes, techniques, formulas, inventions, or software.

Next, the firm subtracts an amount equal to 0.92 percent of the firm's taxable income multiplied by the firm's average tax rate. An additional calculation applies for credits taken starting in calendar year 2007; this provides a statutory alternative to the average tax rate and is phased in from 0.75 percent to 1.5 percent by 2010.

Originally, the tax credit program was to expire at the end of 2004. As a result of a 2004 amendment, the expiration date was moved to January 1, 2015.

The 2004 amendment also established an annual reporting requirement for program participants. Taxpayers claiming the B&O tax credit are to file a survey annually. Based on the data reported, the Department must compile summary statistics on the

Chapter Three

program and report annually to the Legislature. The following data are required to be included in the descriptive statistics report for this tax incentive:

- Dollar amount of tax credit taken.
- Qualified expenditures for research and development.
- Taxable amount against which the credit is claimed.
- Number of new products or research projects resulting from the expenditures.
- Number of trademarks, patents, or copyrights associated with the R&D activities.
- Credits that were assigned to another firm (none were reported).
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits by wage band:
 - medical, dental, and retirement.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment.

**Table 3.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS**

**High Technology Firms
B&O Tax Credits Claimed by Size of Employment
Calendar Year 2005**

Total Washington Employment of Participants	Number of Firms Claiming B&O Tax Credits	Total B&O Tax Credits Claimed	B&O Taxable Income for which Credit is Claimed	Total Qualified Expenditures by Participants
Fewer than 50	385	\$ 3,836,333	\$ 740,144,192	\$ 391,292,594
50 - 250	105	\$ 5,089,421	\$ 1,557,686,263	\$ 570,529,587
More than 250	45	\$ 10,873,094	\$ 7,752,564,174	\$ 4,209,921,317
TOTAL	535	\$ 19,798,848	\$ 10,050,394,629	\$ 5,171,743,498

Chapter Three

Table 3.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

High Technology Firms
B&O Tax Credits Claimed by Category of Technology
Calendar Year 2005

Category of High Technology	Number of Firms Claiming B&O Tax Credits*	Total B&O Tax Credits Claimed*	B&O Taxable Income for which Credit is Claimed*	Total Qualified Expenditures by Participants*
Advanced Computing	279	\$ 8,028,316	\$ 2,757,853,076	\$ 3,214,721,374
Advanced Materials	34	\$ 437,645	\$ 409,419,257	\$ 69,148,534
Biotechnology	71	\$ 2,800,279	\$ 709,778,773	\$ 556,903,016
Electronic Devices	169	\$ 4,182,954	\$ 3,530,183,397	\$ 591,779,611
Environmental	39	\$ 2,439,166	\$ 1,491,402,031	\$ 497,639,453
Other or Not Specified	37	\$ 1,223,739	-	\$ 130,576,685
TOTAL	629	\$ 19,112,099	\$ 8,898,636,534	\$ 5,060,768,673

*Totals do not agree with Table 3.1 due to incomplete reporting by survey respondents, and some firms reported under multiple technology categories.

Table 3.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

High Technology Firms
Total Washington Employment of Participants by Size of Employment
Calendar Year 2005

Size of Washington Employment	Number of Firms Claiming B&O Tax Credit	Total Employment in Washington of Firms Claiming B&O Credits	Percentage of Jobs that are:*		
			Full-time	Part-time	Temporary
Fewer than 50	385	5,452	87.7%	6.8%	3.4%
50 - 250	105	11,900	92.9%	2.2%	5.0%
More than 250	45	65,909	90.1%	2.7%	6.5%
TOTAL	535	83,261	90.5%	2.9%	6.1%

*Percentages may not add to 100% because not all survey respondents provided complete information.

**Table 3.4
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS**

**High Technology Firms
Employment and Employee Benefits by Wage Band
Calendar Year 2005**

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	5,629	3,578	3,476	2,552
\$30,000 - \$60,000	17,951	16,014	15,866	13,062
\$60,000 or more	59,727	55,213	55,101	48,581
TOTAL	83,307	74,805	74,443	64,195

*Total does not agree with Table 3.3 due to incomplete reporting by survey respondents.

Table 3.5
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

High Technology Firms
New Products and Innovations Developed by Participants
Calendar Year 2005

Size of Washington Employment	Number of Firms Claiming B&O Tax Credits	Innovations by Participants		Evidence of Innovations		
		New Products or Processes	New Research Projects	Trademarks	Patents	Copyrights
Fewer than 50	385	2,488	1,275	218	284	53
50 - 250	105	1,345	954	30	250	8
More than 250	45	1,131	5,986	113	1,098	195
TOTAL	535	4,964	8,215	361	1,632	256

Chapter Four

SALES/USE TAX DEFERRAL/EXEMPTION
FOR INVESTMENTS IN RURAL COUNTIES

The oldest of the tax incentive programs to be included in the annual descriptive statistics reporting process is the deferral/exemption of retail sales/use tax allowed for manufacturers investing in rural counties. Adopted in 1985 and codified as Chapter 82.60 RCW, the original program was oriented toward economically distressed counties and community empowerment zones (CEZs).

County eligibility was originally determined by high rates of unemployment. In 1999, the criterion was changed to one of population density. Since this change, investment occurring in counties with an average population density of less than 100 residents per square mile qualified for the incentive. Subsequently, the definition of eligible counties was amended in 2004 to include Island County. Presently, 32 counties are included in the program - all except the following: Clark, King, Kitsap, Pierce, Snohomish, Spokane, and Thurston. In addition, five CEZs in noneligible counties are included in the program.

Initially, the program was scheduled to expire after six years on June 30, 1991; this date was extended several times, so that now applications for the program will not be accepted on or after July 1, 2010.

Applications for the deferral/exemption of state and local retail sales and use tax may be made by manufacturers and firms engaged in R&D for investments in the eligible areas. Investments include the construction of new structures or major expansions of existing facilities to be used for manufacturing or R&D activities, as well as machinery used for these purposes. Similar to the high tech sales tax deferral/exemption program, the deferred tax on facilities or machinery which continues to be used for qualifying purposes does not need to be repaid. This change to an outright exemption was made in 1994, although earlier amendments had waived the repayment requirement in certain circumstances.

In 2004 the current accountability provisions were added. Taxpayers taking the sales tax deferral/exemption were required to file an annual survey containing specified information. The survey must be filed by March 31 of the year after which the investment project is certified by the Department as being operationally complete. Thereafter, the taxpayer must also file the survey in each of the subsequent seven years. Based on this data, the Department was directed to compile the summary statistics which are presented in this report.

Chapter Four

Listed below are the specific elements to be included in the annual descriptive statistics report for the rural county sales tax deferral/exemption:

- Dollar amount of sales/use tax deferred.
- Number of new products or research projects developed.
- Number of trademarks, patents, or copyrights associated with the activities.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits by wage band:
 - medical, dental, and retirement.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment.

It should be remembered that the data reported for the sales tax deferral/exemption is not additive over time. This is due to the requirement for firms to report information for completed projects initially in the year after the project is complete, plus reports in each of the following seven years. Thus, the information reported for calendar year 2005 includes projects completed in each of the years from 1998 through 2005.

Table 4.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

**Investments by Manufacturers & R&D Firms in Rural Counties
 Retail Sales/Use Tax Deferrals Claimed by Size of Employment
 Calendar Year 2005**

<u>Total Washington Employment of Participants</u>	<u>Number of Firms Claiming Sales Tax Deferrals</u>	<u>Total State/Local Sales Tax Deferrals Taken</u>
Fewer than 50	130	\$ 12,388,148
50 - 250	82	\$ 23,924,388
More than 250	26	\$ 21,189,719
TOTAL	238	\$ 57,502,255

Table 4.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS
Investments by Manufacturers & R&D Firms in Rural Counties
Total Washington Employment of Participants by Size of Employment
Calendar Year 2005

Size of Washington Employment	# of Firms Claiming Sales Tax Deferrals	Total Employment in Washington of Firms Claiming Sales Tax Deferrals	Percentage of Jobs that are:*		
			Full-time	Part-time	Temporary
Fewer than 50	130	2,118	83.2%	10.5%	2.6%
50 - 250	82	9,458	87.6%	6.4%	5.2%
More than 250	26	18,277	88.3%	6.1%	5.5%
TOTAL	238	29,853	87.7%	6.5%	5.2%

*Percentages may not add to 100% because not all survey respondents provided complete information.

Table 4.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments by Manufacturers and R&D Firms in Rural Counties
Employment and Employee Benefits by Wage Band
Calendar Year 2005

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	14,451	8,311	7,248	5,968
\$30,000 - \$60,000	11,853	10,721	9,110	9,066
\$60,000 or more	3,410	3,264	2,836	3,028
TOTAL	29,714	22,296	19,194	18,062

*Total does not agree with Table 4.2 due to incomplete reporting by survey respondents.

Table 4.4
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments by Manufacturers & R&D Firms in Rural Counties
New Products and Innovations Developed by Participants by Size of Employment
Calendar Year 2005

Size of Washington Employment	# of Firms Claiming Sales Tax Deferrals*	Innovations by Participants		Evidence of Innovations		
		New Products	New Research Projects	Trademarks	Patents	Copyrights
Fewer than 50	129	636	4	13	0	0
50 - 250	82	18	7	7	5	0
More than 250	26	46	204	4	19	0
TOTAL	237	700	215	24	24	0

*Total does not agree with Tables 4.1 and 4.2 due to incomplete reporting by survey respondents.

Chapter Five

SALES/USE TAX DEFERRAL/EXEMPTION
FOR INVESTMENTS BY HIGH TECHNOLOGY FIRMS

The other part of the 1994 program to encourage high technology activities in Washington was a deferral of state and local retail sales and use taxes on construction of facilities and purchase of eligible machinery by firms engaged in the same five areas of high technology as the B&O tax credit (Chapter Three). These activities are:

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

Expenditures eligible for the deferral are the construction of facilities in which research and development activities are conducted, as well as pilot scale manufacturing plants - not the actual full-scale manufacturing facilities. Acquisition of machinery necessary to conduct the R&D activities also qualifies for the deferral.

The 1994 statute, which is codified as Chapter 82.63 RCW, allowed only a deferral of the sales/use tax liability. Repayment was to commence the third year following completion of the facility with repayments occurring over the subsequent five years. Different repayment schedules were provided for a cancer research institute and firms that develop drugs or biological products which required FDA licensing. The following year a provision was added which basically turned the deferral into an exemption, because the deferred taxes did not need to be repaid if the facility and/or machinery continued to be used for qualified R&D purposes for at least the following seven years.

The original law provided the deferral/exemption only for a ten-year period. In 2004 the expiration date was extended to January 1, 2015.

The 1994 statute directed the Department to perform three assessments of the program; reports were produced in 1997, 2000, and 2003. This requirement was amended in 2004 and the current accountability provisions were added. Now taxpayers taking the sales tax deferral/exemption must file an annual survey containing specified information. The survey must be filed by March 31 of the year after which the investment project is certified by the Department as being operationally complete. Thereafter, the taxpayer must also file the survey in each of the subsequent seven

years. Based on this data, the Department compiles the summary statistics which are presented in this report.

Listed below are the specific elements to be included in the annual descriptive statistics report for the high tech sales tax deferral/exemption:

- Dollar amount of sales/use tax deferred.
- Number of new products or research projects developed.
- Number of trademarks, patents, or copyrights associated with the R&D activities.
- Total jobs for program participants.
- Percentage breakdown of total jobs: full-time, part-time, and temporary.
- Total jobs for program participants according to annual wages paid:
 - Less than \$30,000
 - \$30,000 to \$59,999
 - \$60,000 or more.
- Number of jobs that receive employer-provided benefits by wage band:
 - medical, dental, and retirement.

The information specified above is contained in the following tables of this chapter. Although not required by statute, some of the tables provide a breakdown of program participants by size of firm, based on total Washington employment.

The data reported for the sales tax deferral/exemption are not additive over time. This is due to the requirement for firms to report initially in the year after the project is complete, plus reports in each of the following seven years. Thus, the information reported for calendar year 2005 includes projects completed in each of the years from 1998 through 2005.

Table 5.1
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments in R&D by High Technology Firms
Retail Sales/Use Tax Deferrals Claimed by Size of Employment
Calendar Year 2005

<u>Total Washington Employment of Participants</u>	<u>Number of Firms Claiming Sales Tax Deferrals</u>	<u>Total State/Local Sales Tax Deferrals Taken</u>
Fewer than 50	28	\$ 6,275,963
50 - 250	28	\$ 6,881,032
More than 250	20	\$ 52,768,366
TOTAL	76	\$ 65,925,361

Table 5.2
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments in R&D by High Technology Firms
Retail Sales/Use Tax Deferrals Claimed by Category of Technology
Calendar Year 2005

<u>Category of High Technology</u>	<u>Number of Firms Claiming Sales Tax Deferrals*</u>	<u>Total State/Local Sales Tax Deferrals Taken*</u>
Advanced Computing	28	\$ 30,567,274
Advanced Materials	4	\$ 564,835
Biotechnology	30	\$ 22,167,609
Electronic Devices	15	\$ 6,261,360
Environmental	D	D
Other or Not Specified	4	\$ 1,091,062
TOTAL	81	\$ 60,652,140

D = not disclosable; amounts included in the "other" category.

*Totals do not agree with Table 5.1 due to incomplete reporting by survey respondents, and some firms reported under multiple technology categories.

Table 5.3
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments in R&D by High Technology Firms
Total Washington Employment of Participants by Size of Employment
Calendar Year 2005

Size of Washington Employment	Number of Firms Claiming Sales Tax Deferrals	Total Employment in Washington of Firms Claiming Sales Tax Deferrals	Percentage of Jobs that are:*		
			Full-time	Part-time	Temporary
Fewer than 50	28	448	88.5%	4.4%	2.9%
50 - 250	28	3,172	91.9%	5.9%	2.2%
More than 250	20	83,453	73.1%	13.3%	13.5%
TOTAL	76	87,073	73.9%	13.0%	13.1%

*Percentages may not add to 100% because not all survey respondents provided complete information.

Table 5.4
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments in R&D by High Technology Firms
Employment and Employee Benefits by Wage Band
Calendar Year 2005

Wage Bands	Washington Employment by Wage Bands*	Number of Total Jobs in Washington with Employer-Provided Benefits		
		Medical	Dental	Retirement
Less than \$30,000	20,228	5,546	5,784	5,361
\$30,000 - \$60,000	18,844	17,462	17,795	15,652
\$60,000 or more	47,988	44,265	44,420	40,049
TOTAL	87,060	67,273	67,999	61,062

*Total does not agree with Table 5.3 due to incomplete reporting by survey respondents.

Table 5.5
DESCRIPTIVE STATISTICS FOR TAX INCENTIVE PARTICIPANTS

Investments in R&D by High Technology Firms
New Products and Innovations Developed by Participants by Size of Employment
Calendar Year 2005

Size of Washington Employment	Number of Firms Claiming Sales Tax Deferrals	Innovations by Participants		Evidence of Innovations		
		New Products or Processes	New Research Projects	Trademarks	Patents	Copyrights
Fewer than 50	28	19	25	8	15	-
50 - 250	28	74	120	21	138	-
More than 250	20	971	5,444	105	929	55
TOTAL	76	1,064	5,589	134	1,082	55

Appendix

2005 ANNUAL SURVEY (due March 31, 2006)

Link to Annual Survey for Tax Deferral Program.

<http://dor.wa.gov/content/forms/alphalisting/default.aspx>.