

SPECIAL NOTICE

June 4, 2004

For further information contact:
Telephone Information Center
1-800-647-7706 or (360) 486-2345

Alternate Formats (360) 486-2342
Teletype 1-800-451-7985

**High Technology Business Tax Incentives:
Sales/Use Tax Deferral/Waiver Program & B&O Tax Credit Program Extended and
Revised Small Business Grants Exempted from B&O Tax
ESHB 2546 (Chapter 2, Laws of 2004)**

During the 2004 legislative session, the Legislature passed Engrossed Substitute House Bill 2546 (Chapter 2, Laws of 2004). This bill made substantial changes to tax incentive programs for high technology businesses. This special notice summarizes those changes.

High Tech Sales/Use Tax Deferral/Waiver Program

Effective **June 10, 2004**, the retail sales tax and use tax deferral program for eligible investment projects involving research and development (R&D) or pilot scale manufacturing operations in the fields of advanced computing, advanced materials, biotechnology, electronic device technology and environmental technology is modified as follows:

- ◆ The expiration date for the program is extended to January 1, 2015.
- ◆ Participants in the program must complete an annual survey. The survey is due by March 31 of the year following the year in which the project is certified by the Department of Revenue as operationally complete and each March 31 of the seven succeeding calendar years. If the survey is not completed by the due date, 12.5 percent of the deferred tax will be due for payment immediately.
- ◆ The term “initiation of construction” is defined to mean the date that a building permit is issued. An application for the deferral program must be submitted before the initiation of construction.
- ◆ An owner who leases property to a qualifying business may participate in the deferral program if the benefits of the program are passed to the lessee under a written agreement and the lessee agrees to complete the annual survey.
- ◆ Persons engaged in construction activities for the federal government are not liable for sales and use tax on tangible personal property incorporated into a structure, if the construction project would have qualified for the deferral if undertaken by a private entity.

High Tech B&O Tax Credit Program

Effective **June 10, 2004**, the high technology business and occupation (B&O) tax credit program for research and development (R&D) in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology is modified as follows:

- ◆ The expiration date for the program is extended to January 1, 2015.
- ◆ The way in which the credit is calculated is changed. Because the law change takes place in the middle of a month, for the administrative convenience of both taxpayers and the Department of Revenue, the old method of calculation will apply for taxable activity through the end of June 2004. For taxable activity on and after July 1, 2004, the new method of calculation will be used. The method is described later in this notice.
- ◆ Persons will no longer file a Declaration, Research and Development Credit form (Rev 26 0003) with the tax return in which they are claiming the credit.
- ◆ Persons claiming the credit must file an annual report and must also complete an annual survey. Both of these documents are due by March 31 of the year following any year in which a credit is taken. If a person fails to complete the survey by the due date, that person is not eligible to take the credit for the entire year in which the survey was due.

New Method for Calculating High Tech Research and Development B&O Tax Credit

For taxable periods starting July 1, 2004, the credit is calculated as follows:

1. A business must first determine the greater of:

The amount of its qualified research and development expenditures

or

80% of amounts received by a person other than a public educational or research institution as compensation for the conduct of qualified research and development

2. From this amount, the business subtracts 0.92% of its taxable amount.

3. The credit is determined by multiplying the resulting amount by:

0.484% in the case of a nonprofit corporation or nonprofit association engaging in research and development

or

The person's *average tax rate* for every other person

4. A person's *average tax rate* is the person's total business and occupation tax liability for the reporting period (before determining the amount of this credit) divided by that person's *taxable amount*, for business and occupation tax purposes, for the reporting period.

Small Business Grants Exempted from B&O Tax

Effective **July 1, 2004**, amounts received from federal small business programs in the form of innovation research grants and small business technology grants are exempt from B&O tax.

For detailed information about the **High Tech Sales/Use Tax Deferral/Waiver Program** and the **High Tech B&O Tax Credit Program** see the brochures on our web site at <http://dor.wa.gov/content/taxes/incentives/default.aspx>.

To inquire about the availability of this document in an alternate format for the visually impaired, please call (360) 486-2342. Teletype (TTY) users please call 1-800-451-7985.