

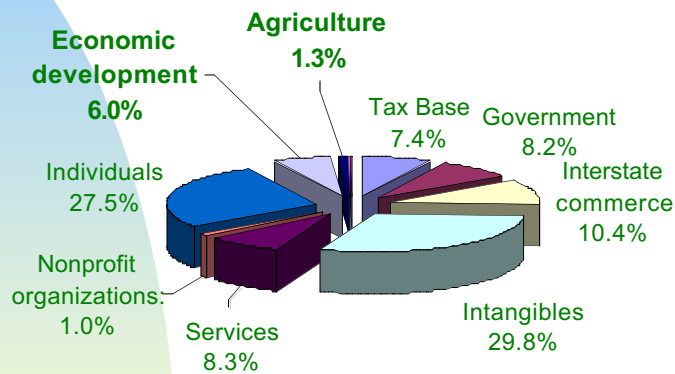
Washington Tax Incentives



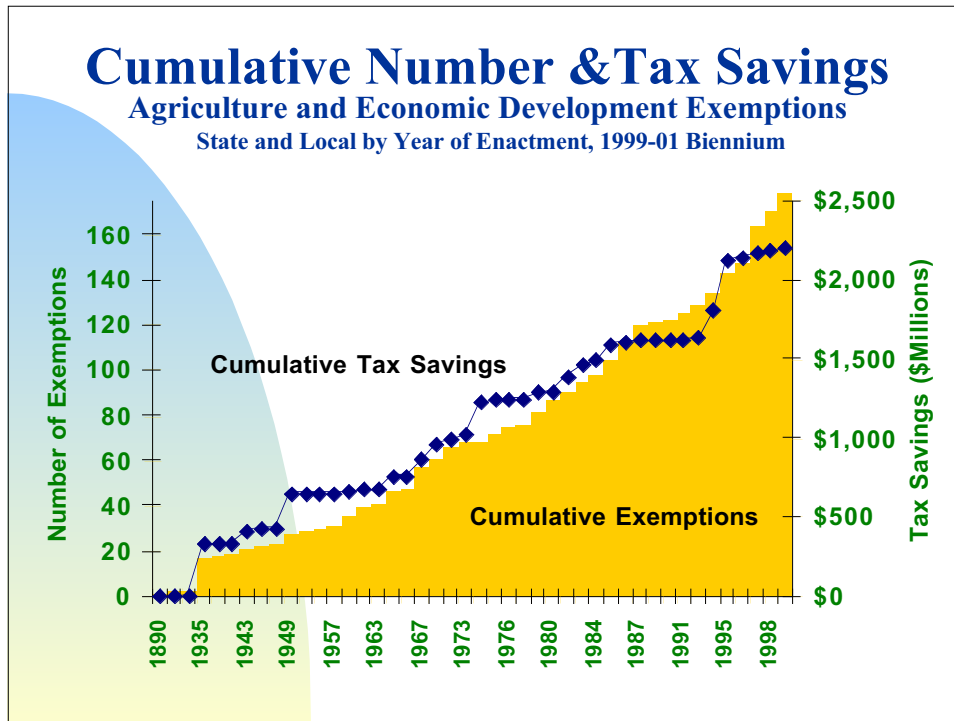
**Department of Revenue
State of Washington**

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dor.wa.gov/Statistical_Reports/

Exemptions by Category State and Local, 1999-01 Biennium



Percentage of \$45.9 billion in total tax savings



Statewide Incentives

	Objective	Target
M&E Sales/Use Tax Exemption	Level playing field; retention/expansion; family wage jobs	Manufacturing; R&D; Testing
R&D B&O Credit	Encourage early stages of research; high wage high-skilled jobs	R&D
R&D Sales/Use Tax Deferral	Encourage research; create jobs; spur manufacturing	R&D
Warehouse/Grain Elevator Sales/Use Tax	Facility location; increase global and regional trade; jobs	Wholesaling, warehousing, and distribution

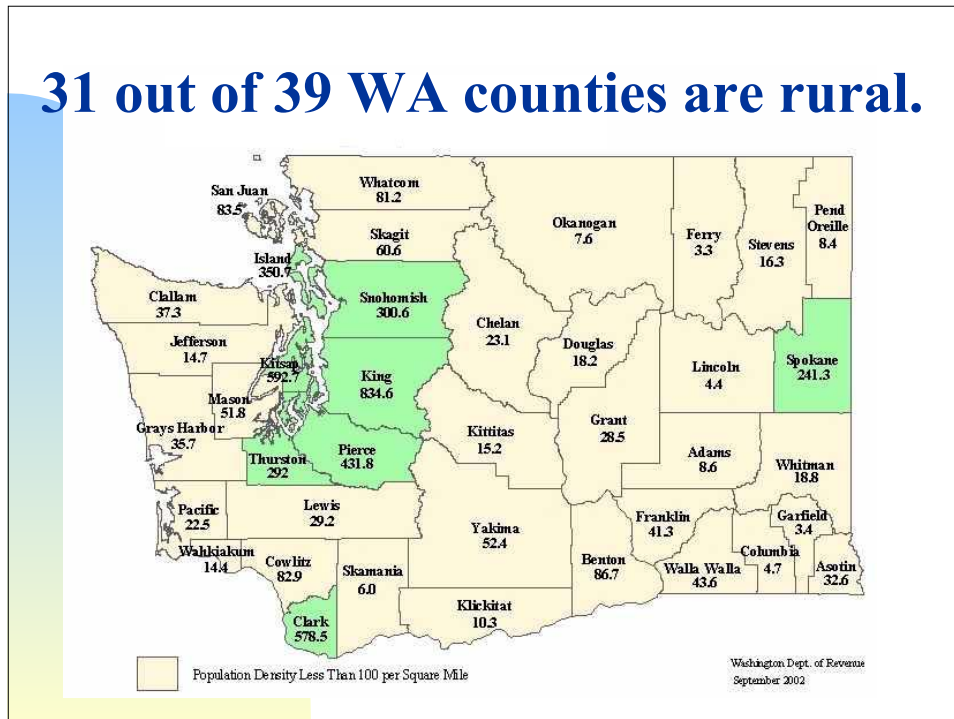
Geographically Targeted Incentives

	Objective	Target
Sales & Use Tax Deferral Rural Counties/CEZ	Family wage jobs	Manufacturing; R&D; Testing
Rural B&O Credit (Mfg; R&D) - rural Counties/CEZs	Family wage jobs	Manufacturing; R&D
Rural Software B&O Credit	Rural job creation; skills	Software and programming
Rural Helpdesk B&O Credit	Rural job creation; skills	Help desk technology

VERY targeted special interest incentives (Some examples)

Type	Description	Year	State Impact (\$000)
B&O Tax Exemptions	Conditioning of seed	1998	\$997
Retail Sales Tax Exemptions	Semen	1965	478
B&O Tax Exemptions	Hay cubing	1997	446
Retail Sales Tax Exemptions	Fruit/veg. packing	1988	376
Fuel Taxes	Crop dusting	1982	210
Retail Sales Tax Exemptions	Pollination agents	1993	36
Retail Sales Tax Exemptions	Anodes & cathodes	1996	21,004
B&O Tax Differential Rates	Travel agents	1975	10,645
Retail Sales Tax Exemptions	Precious bullion	1985	4,485

31 out of 39 WA counties are rural.



Before Enactment of Incentive

- Manufacturing Tax Study, 1994
 - ◆ WA 10th highest tax burden (12 states) for new branch investment
 - ◆ WA taxes rank highest for
 - ✦ Food products
 - ✦ Petroleum products
 - ✦ Primary metals
 - ✦ Instruments
 - ◆ Exempting sales/use tax on M&E reduces burden to 3rd



Before Enactment of Incentive (cont.)

- High Technology R&D
 - ◆ Biotechnology pays 66% of profits in Washington business taxes.
 - ◆ Biotechnology profit margins are among the slimmest of services industries at 3.2%
 - ◆ High tech employment grew by 20% between 1988 and 1991, one of the fastest growing sectors in Washington State.
 - ◆ Washington's B&O tax disadvantages high tech firms who spend on R&D.



Before Enactment of Incentive (cont.)

- Warehouse Tax Study, 1996
 - ◆ WA 6th highest tax burden (8 states) for wholesaling firms with high exports.
 - ◆ Exempting sales/use tax reduces burden on high-export wholesalers to 4th.

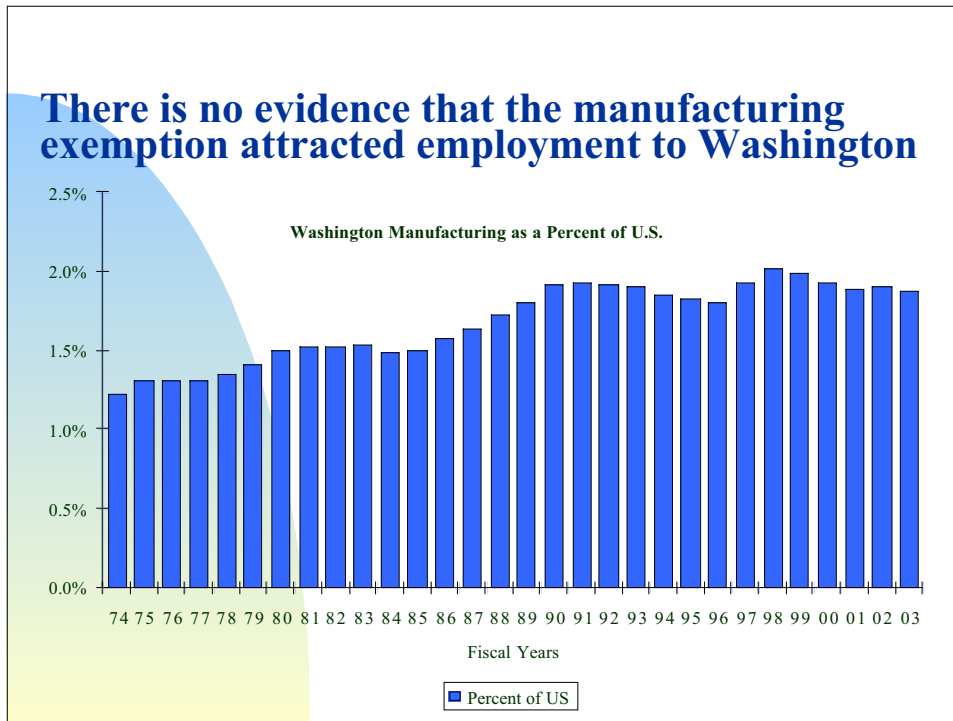
Expiring Tax Incentives

<u>Program</u>	<u>Expiration</u>	<u>Date of</u>		
		<u>Participants</u>	<u>2003-05</u>	<u>2005-07</u>
B&O credit for R&D	12/31/2004	500	\$16,900	\$75,900
Sales tax ex. for R&D	07/01/2004	60	61,800	139,800
B&O credit, water	07/01/2004	58	504	651
Environ. Remediation	07/01/2003	400	8,316	8,708
Rural sales tax ex.	07/01/2004	70	16,300	36,800
B&O credit, software	12/31/2003	25	15	27
B&O credit, help-desk	12/31/2003	30	300	500

After Enactment: Job Creation

Based on surveys of taxpayers taking the credits

	Tax Savings (\$000)	Year	New Jobs	Average Wage
R&D B&O Credit	\$24,200	1999	1,200	\$80,000
Rural Sales & Use Tax Deferral/Jobs Credit	\$19,200	1994	3,800	\$29,000



**After Enactment:
Investment, Diversification**

- High Tech R&D Study, 2000
 - ◆ 44% of firms expanded operations in WA
 - ◆ New products worth \$10.4 billion annually
- Rural Area Programs, 1996:
 - ◆ \$2.1 billion projected investment over 10 years
 - ◆ One-half of firms reported new products