

Tax Incentives Overview

November 2016

General manufacturing

Machinery and equipment (M&E) sales/use tax exemption

Available to

- Manufacturers and processors for hire performing manufacturing and research and development (R&D)
- Testing operation for a manufacturer and processor for hire

Qualifying activity

Purchase of qualifying machinery and equipment used directly for manufacturing, research and development, or testing operations.

Reporting/documentation

- Completion of *Buyers' Retail Sales Tax Exemption Certificate* or *Manufacturers' Sales and Use Tax Exemption Certificate for Vendor*
- No application
- No Annual Survey or Annual Report
- Electronic filing not required

Rural county/Community Empowerment Zone (CEZ)

Rural county/CEZ business and occupation (B&O) tax credit for new employees

Available to

Manufacturers, R&D laboratories, and commercial testing facilities located in rural counties or within a CEZ.

Qualifying activity

Creating new employment positions/increase in-state employment by 15 percent.

Credit amount

- \$2,000 credit/position with annual wages/benefits of \$40,000 or less
- \$4,000 credit/position with annual wages/benefits of more than \$40,000

Reporting/documentation

- A *Rural Area Application for B&O Tax Credit on New Employees* must be filed within 90 days of filling the first qualified position
- Annual Letter/Report due by the last day of the month after the four consecutive full calendar quarter period for which a credit is earned
- Electronic filing not required

Contents

- General manufacturing..... 1
- Rural county/Community Empowerment Zone (CEZ) 1
- High unemployment county/Community Empowerment Zone (CEZ) 2
- Warehouses..... 2
- Food processing/manufacturing..... 2
- High technology 3
- Aerospace..... 3
- Biofuels..... 4
- Renewable energy/green industry 4
- Other incentives 5

Purchases of server equipment and power infrastructure for use in eligible data centers – sales/use tax exemption

Available to

Owner of an eligible data center in a rural county with a combined square footage of at least 100,000 square feet and tenants of an eligible data center.

The data center must have a building permit to construct, renovate, or expand the data center issued between:

- April 1, 2010 and June 30, 2011
- April 1, 2012 and June 30, 2015
- July 1, 2015 and June 30, 2025

Qualifying activity

Purchases of eligible:

- Server equipment and labor to install in an eligible data center
- Power infrastructure, and labor and services to construct, install, repair, alter, or improve eligible power infrastructure and survey

Reporting/documentation

- Submit *Application for Sales Tax Exemption for Purchases by Data Centers* prior to purchases of server equipment or power infrastructure
- Revenue will issue a *Certificate for Sales Tax Exemption for Purchases by Data Centers* to qualifying businesses
- Annual Report and Annual Survey due by May 31 of the following the year

High unemployment county/ Community Empowerment Zone (CEZ)

High unemployment county sales/use tax deferral/waiver for manufacturing facilities

Available to

Manufacturers, persons conditioning vegetable seeds, research and development and commercial testing for manufacturers in a qualifying county or in a CEZ. Qualifying counties are those counties with an unemployment rate at least 20 percent higher than the statewide rate based on a three-year average published by the Employment Security Department.

Qualifying activity

Certain construction and equipment purchases for new and expanding businesses.

Reporting/documentation

- *High Unemployment County Application for Sales and Use Tax Deferral* or *High Unemployment County Application for Sales and Use Tax Deferral for Lessor* must be filed before a building permit is issued or business takes possession of machinery and equipment
- Maintain a qualified activity at the site of the investment project for eight years after certified operationally complete
- Annual Survey filed electronically by May 31 for eight years

Warehouses

Remittance of state sales tax for warehouses, distribution centers, grain elevators, cold storage

Available to

- Wholesalers or third-party warehouse owners who own or operate warehouses, grain elevators, and cold storage warehouses
- Retailers who own or operate distribution centers

Qualifying activity

Construction of a 200,000 square foot warehouse or distribution center or a grain elevator with a 1 million bushel capacity.

Credit amount

A refund of all or part of the state's portion of sales tax (6.5 percent) paid on qualifying construction and material racking/handling equipment.

Reporting/documentation

- *Application For Remittance* filed each quarter
- No Annual Survey or Annual Report
- Electronic filing not required

Food processing/ manufacturing

B&O tax exemption/deduction for manufacturing fresh fruit and vegetables, dairy and seafood products

Available to

Manufacturers of fresh fruit and vegetables, dairy products, and seafood products.

Fresh fruit/vegetables B&O tax exemption

- Manufacturing fruit or vegetable products by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables
- Wholesale sales by the manufacturer when the goods are transported out-of-state by customer in normal course of business

Dairy products B&O tax deduction

- Manufacturing dairy products
- Wholesale or retail sales by the dairy product manufacturer when the goods are transported out-of-state by the customer
- Wholesale sales by the manufacturer to a customer who uses the products as an ingredient in the manufacturing of another dairy product in Washington

Seafood products B&O tax exemption

- Manufacturing seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing by that person
- Wholesale or retail sales by the manufacturer of seafood products that remain in a raw, raw frozen, or raw salted state when the goods are transported out-of-state by customer in normal course of business

Reporting/documentation

- No application
- Annual Survey filed by May 31
- Electronic filing required
- Expires July 1, 2025

Visit our website at dor.wa.gov

High technology

(Also see Aerospace Industry)

Biotechnology and medical device manufacturing sales and use tax deferral/waiver

Available to

Biotechnology and medical device manufacturers.

Qualifying activity

Certain construction and equipment purchases for new and expanding businesses.

Reporting/documentation

- A *Biotechnology Products and Medical Devices Application for Sales/Use Tax Deferral* must be filed and approved before building permit is issued
- Maintain a qualified activity at the site for eight years after certified operationally complete
- Annual Survey filed by May 31 for eight years
- Electronic filing required

Aerospace

Reduced B&O tax rate

Available to

Manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes, non-manufacturers engaged in the business of aerospace product development, certificated FAR repair stations making retail sales, and aerospace tooling manufacturers.

Qualifying activities

- **Manufacturers and processors for hire:** Manufacturing and sales by the manufacturer of commercial airplanes or component parts of commercial airplanes; or tooling especially designed for use in manufacturing commercial airplanes and component parts of commercial airplanes
- **FAR Repair Stations:** Retail sales made by certificated FAR part 145 repair stations
- **Aerospace Non-Manufacturers:** Aerospace product development for others

Reporting/documentation

- No application
- Annual Report and Annual Survey filed by May 31
- Electronic filing required

B&O credit for property/leasehold taxes paid

Available to

Manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes, non-manufacturers engaged in the business of aerospace product development, certificated FAR repair stations making retail sales, and aerospace tooling manufacturers.

Qualifying activities

- **For Manufacturers:** Payment of property/leasehold taxes on new buildings, land, the increased value of renovated buildings, and equipment eligible for the machinery and equipment (M&E) exemption that is used exclusively in manufacturing commercial airplanes or components of such airplanes; or in manufacturing tooling specifically designed for use in manufacturing commercial airplanes or components of such airplanes.
- **For Certificated FAR Part 145 Repair Stations and Aerospace Non-manufacturers:** Payment of property/leasehold taxes on new buildings, land, the increased value of renovated buildings, and qualifying computer equipment and peripherals used exclusively in aerospace product development or in providing aerospace services.

Reporting/documentation

- No application
- Annual Report and Annual Survey filed by May 31
- Electronic filing required

B&O credit for preproduction development expenditures

Available to

Manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes, non-manufacturers engaged in the business of aerospace product development, certificated FAR repair stations making retail sales, and aerospace tooling manufacturers.

Qualifying activity

Expenditures for aerospace product preproduction development.

Credit amount

Equal to amount of qualified expenditures multiplied by 1.5 percent.

Reporting/documentation

- No application
- *Aerospace Credit Affidavit for Preproduction Spending* must be filed each reporting period the credit is taken
- Annual Report and Annual Survey filed by May 31
- Electronic filing required

Sales and use tax exemption for aerospace manufacturers for computer hardware, software, peripherals

Available to

Manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes, non-manufacturers engaged in the business of aerospace product development, certificated FAR repair stations making retail sales, and aerospace tooling manufacturers.

Qualifying activity

Purchases of computer hardware, software, and computer peripherals. Charges for labor and services related to the installation of such equipment.

Reporting/documentation

- Completion of *Buyers' Retail Sales Tax Exemption Certificate for Vendor*
- No application
- Annual Report and Annual Survey filed by May 31
- Electronic filing required

Biofuels

Reduced B&O tax rate for manufacturing wood biomass fuel

Available to

Manufacturers of wood biomass fuel.

Qualifying activity

Manufacturing wood biomass fuel.

Reporting/documentation

- No application
- No Annual Survey or Annual Report
- Electronic filing not required

Renewable energy/green industry

Manufacturers of solar energy system and components of solar energy systems – reduced B&O tax rate

Available to

Manufacturers, manufacturers that sell their product at wholesale, and processors for hire of solar energy systems and specified components of solar energy systems using photovoltaic modules or stirling converters.

Reporting/documentation

- No application required
- Electronic filing required
- Annual Survey filed by May 31

Machinery and equipment used to generate electricity using renewable energy – sales/use tax exemption

Available to

- Anyone that generates electricity using fuel cells, sun, wind, biomass energy, tidal and wave energy, geothermal resources, anaerobic digestion, technology that converts otherwise lost energy from exhaust, or landfill gas
- Anyone that generates solar thermal heat using a solar hot water system or solar collector

Qualifying activities

Solar systems up to 10kW

100 percent sales tax exemption taken at the time of purchase on:

- Machinery and equipment to be used directly in a solar system with a DC Nameplate rating of 10kW or less
- Labor charges to install such equipment

Solar thermal heat

100 percent sales tax exemption taken at the time of purchase on:

- Solar thermal heat system capable of producing no more than 3 million British thermal units per day that use a solar collector or a solar hot water system
- Labor charges to install such equipment

Solar systems greater than 10kW and other qualified renewable energy systems 1kW or greater

- 75 percent refund of sales tax paid on machinery and equipment used directly to generate electricity from the following sources and labor charges to install the same:
- Solar energy systems that produce more than 10kW of electricity
- Energy systems that produce at least 1kW of electricity from the following sources: fuel cells, wind, sun, biomass energy, tidal or wave energy, geothermal resources, anaerobic digestion, technology that converts otherwise lost energy from exhaust, or landfill gas

Reporting/documentation

- Completion of *Buyers' Retail Sales Tax Exemption Certificate for Vendor* on purchases that are 100 percent exempt
- Complete *Application for Sales Tax Refund on Purchases & Installation of Qualified Renewable Energy Equipment* and send to Revenue with proof of tax paid for 75 percent refund
- Annual Survey required by persons applying for 75 percent refund

Energy production using solar, methane, and wind power - renewable energy system cost recovery program

Available to

Individuals, businesses, local government entities that are not in the light and power business or gas distribution business, and participants in a community solar project.

Qualifying activity

Except for a community solar project, participants must generate electricity on their own property with an anaerobic digester, wind generator, or solar energy system and apply to their power company for a payment based on kilowatt-hours (kWh) produced.

Reporting/documentation

- Interested persons should contact their power company and find out if the company participates in the program. Power companies are not required to participate.
- Participant must complete a *Renewable Energy Cost Recovery Certification* or *Community Solar Project Renewable Energy Cost Recovery Certification*
- Completion of *Renewable Energy System Cost Recovery Annual Incentive Payment Application* or *Community Solar Project Renewable Energy System Cost Recovery Annual Incentive Payment Application* due by participants to light and power business by August 1
- No Annual Survey or Annual Report
- Electronic filing not required
- No incentive payments will be paid for kWh generated after June 30, 2020

Hog fuel sales/use tax exemption

Available to

Anyone that purchases hog fuel. "Hog fuel" is defined as wood waste and other wood residuals including forest-derived biomass. Does not include firewood or wood pellets.

Qualifying activity

Purchases of hog fuel to produce electricity, steam, heat, or biofuel.

Reporting/documentation

- Completion of *Buyers' Retail Sales Tax Exemption Certificate* by purchaser of hog fuel for vendor
- Annual Survey filed by May 31

Other incentives

Reduced B&O tax rate for timber extracting and manufacturing

Available to

- Timber extractors and extractors for hire
- Timber manufacturers and processors for hire
- Sellers of standing timber

Qualifying activity

- Extracting timber or extracting timber for hire
- Manufacturing or processing for hire
 - Timber into timber products or wood products, or timber products into other timber products or wood products
- Selling at wholesale
 - Timber extracted by the seller
 - Timber products manufactured by the seller from timber or other timber products
 - Wood products manufactured by the seller from timber or timber products
 - Sales of standing timber apart of land (buyer required to remove timber from land within 30 months)

Reporting/documentation

- No application required
- Annual Survey filed by May 31
- Electronic filing required

Main Street tax credit – B&O tax/public utility tax credit

Available to

All businesses that make qualified cash contributions.

Qualifying activity

Contributions made to approved

- Designated revitalization programs
- Main Street Trust Fund

Credit amount

50 to 75 percent of contribution.

Reporting/documentation

- Application through E-file required before making a contribution
- No Annual Survey or Annual Report
- Electronic filing required

Commuter trip reduction program – B&O tax/public utility tax credit

Available to

Employers and property managers.

Qualifying activity

Employers and property managers who provide commuter trip reduction incentives to or on behalf of their own or other employees.

Credit amount

50 percent of the amount paid to or on behalf of each employee. The credit may not exceed \$60 per employee.

Reporting/documentation

- *Commuter Trip Reduction Credit Annual Application* required in the January following the year applicant made commuter trip reduction incentive payments
- No Annual Survey or Annual Report
- Electronic filing required

Washington customized employment training program – B&O tax credit

Available to

All Washington employers.

Qualifying activity

Payments to the Employment Training Finance Account through the Customized Employment Training Program for customized employee training.

Credit amount

50 percent of the costs of training

Reporting/documentation

- Application with the State Board of Community and Technical Colleges for training allowance
- *Employment Credit Training Worksheet* filed when claiming credit on return
- Annual Survey filed by May 31
- Electronic filing required

International services – B&O tax credit for new employment

Available to

Persons providing international services in designated geographical areas, such as computers, data processing, information, legal, accounting and tax preparation, engineering, architectural, business consulting, business management, public relations and advertising, surveying, geological consulting, real estate appraisal, or financial services.

Qualifying activity

Creating permanent full-time positions in international services located in a Community Empowerment Zone or designated International Services District. International services must be provided to persons domiciled outside or be for use primarily outside the United States.

Credit amount

\$3,000 per qualified position. A credit is earned for up to five years if the position is maintained.

Reporting/documentation

- No application
- No Annual Survey or Annual Report
- Electronic filing not required
- Maintain records necessary to verify eligibility
- Employment records for the previous six years

Hiring unemployed veterans – B&O tax and public utility tax credit

Available to

All Washington employers.

Qualifying activity

Employ a qualified employee for a position located in Washington for at least two consecutive full calendar quarters on or after October 1, 2016 and before June 30, 2022.

Credit amount

- **Individual cap:** 20 percent of the wages and benefits paid to the qualified employee not to exceed \$1,500 for that employee
- **Statewide cap:** \$500,000 per fiscal year
- There is no cap for the business claiming the credit aside from the caps noted above
- Credits may be earned through June 30, 2022
- No credits may be claimed after June 30, 2023

Reporting/documentation

- Credits are claimed electronically through E-file
- You may claim a credit, if the qualified employee has been employed by you for at least two consecutive full calendar quarters
- Annual Survey filed by May 31
- Electronic filing required

Questions?

Names and phone numbers are listed on our website: dor.wa.gov select *Tax incentive programs*.

Call us at 1-800-647-7706 during business hours.



For tax assistance or to request this document in an alternate format, visit <http://dor.wa.gov> or call 1-800-647-7706. Teletype (TTY) users may use the Washington Relay Service by calling 711.