

Manufacturing Sales & Use Tax Incentive



Background:

Following a detailed economic study pursued by the AWB in 1994, the 1995 Legislature passed the Manufacturing Machinery and Equipment Sales and Use Tax Exemption. The incentive effectively reduces the purchase price of machinery and equipment by 8.2 percent, providing a stimulus for investment. During the 1996 session, the Legislature included purchases of machinery equipment used by a manufacturer for research and development purposes, and for repairs and replacement parts. The detailed economic analysis was updated in 2000 and recently in 2008. The initial analysis predicted that the economic benefit to the state would more than outweigh the revenue loss. A follow up study performed in 2000 found the benefit was even greater than the original predictions. An update to the 1995 and 2000 study is underway.

Problem:

The manufacturing sales and use tax incentive has not met its full potential as an economic development tool in Washington State for a number of reasons that need to be addressed by lawmakers. The Department of Revenue has established its own interpretation of how to apply the tax incentive that is lacking legislative guidance by an economic development strategy for Washington. This includes, but is not limited to restrictive regulatory interpretations by the agency on the use of computers, prototypes buildings and fixtures. With manufacturing growth at risk nationally, Washington needs an economic development plan to retain, attract and grow a core industry to our economy while using this model to promote other industry segments.

Solution:

Expand the use of the M&E tax incentive as a primary economic development tool for our state:

1. Remove restrictive regulatory processes and interpretations including the majority use test, prototypes, computers, converted-use, buildings and fixtures. Provide the broadest application of the incentive to meet the original intent of the law.
2. Expand the existing M&E tax incentive to include other consumables that go into business inputs.
3. Extend the sales tax exemption on machinery and equipment to additional capital-intensive industries.