
SENATE BILL 6497

State of Washington 62nd Legislature 2012 Regular Session

By Senators Chase, Nelson, Shin, Kline, Conway, and Kohl-Welles

Read first time 01/26/12. Referred to Committee on Ways & Means.

1 AN ACT Relating to requiring a net benefit to the state to claim
2 the sales and use tax exemption for manufacturing machinery and
3 equipment; and amending RCW 82.08.02565 and 82.12.02565.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 82.08.02565 and 2011 c 23 s 2 are each amended to read
6 as follows:

7 (1)(a) The tax levied by RCW 82.08.020 does not apply to sales to
8 a manufacturer or processor for hire of machinery and equipment used
9 directly in a manufacturing operation or research and development
10 operation, to sales to a person engaged in testing for a manufacturer
11 or processor for hire of machinery and equipment used directly in a
12 testing operation, or to sales of or charges made for labor and
13 services rendered in respect to installing, repairing, cleaning,
14 altering, or improving the machinery and equipment only when the person
15 claiming the exemption can demonstrate that there is a net benefit to
16 the state.

17 (b) Sellers making tax-exempt sales under this section must obtain
18 from the purchaser an exemption certificate in a form and manner

1 prescribed by the department by rule. The seller must retain a copy of
2 the certificate for the seller's files.

3 (2) For purposes of this section and RCW 82.12.02565:

4 (a) "Machinery and equipment" means industrial fixtures, devices,
5 and support facilities, and tangible personal property that becomes an
6 ingredient or component thereof, including repair parts and replacement
7 parts. "Machinery and equipment" includes pollution control equipment
8 installed and used in a manufacturing operation, testing operation, or
9 research and development operation to prevent air pollution, water
10 pollution, or contamination that might otherwise result from the
11 manufacturing operation, testing operation, or research and development
12 operation. "Machinery and equipment" also includes digital goods.

13 (b) "Machinery and equipment" does not include:

14 (i) Hand-powered tools;

15 (ii) Property with a useful life of less than one year;

16 (iii) Buildings, other than machinery and equipment that is
17 permanently affixed to or becomes a physical part of a building; and

18 (iv) Building fixtures that are not integral to the manufacturing
19 operation, testing operation, or research and development operation
20 that are permanently affixed to and become a physical part of a
21 building, such as utility systems for heating, ventilation, air
22 conditioning, communications, plumbing, or electrical.

23 (c) Machinery and equipment is "used directly" in a manufacturing
24 operation, testing operation, or research and development operation if
25 the machinery and equipment:

26 (i) Acts upon or interacts with an item of tangible personal
27 property;

28 (ii) Conveys, transports, handles, or temporarily stores an item of
29 tangible personal property at the manufacturing site or testing site;

30 (iii) Controls, guides, measures, verifies, aligns, regulates, or
31 tests tangible personal property at the site or away from the site;

32 (iv) Provides physical support for or access to tangible personal
33 property;

34 (v) Produces power for, or lubricates machinery and equipment;

35 (vi) Produces another item of tangible personal property for use in
36 the manufacturing operation, testing operation, or research and
37 development operation;

1 (vii) Places tangible personal property in the container, package,
2 or wrapping in which the tangible personal property is normally sold or
3 transported; or

4 (viii) Is integral to research and development as defined in RCW
5 82.63.010.

6 (d) "Manufacturer" means a person that qualifies as a manufacturer
7 under RCW 82.04.110. "Manufacturer" also includes a person that prints
8 newspapers or other materials.

9 (e) "Manufacturing" means only those activities that come within
10 the definition of "to manufacture" in RCW 82.04.120 and are taxed as
11 manufacturing or processing for hire under chapter 82.04 RCW, or would
12 be taxed as such if such activity were conducted in this state or if
13 not for an exemption or deduction. "Manufacturing" also includes
14 printing newspapers or other materials. An activity is not taxed as
15 manufacturing or processing for hire under chapter 82.04 RCW if the
16 activity is within the purview of chapter 82.16 RCW.

17 (f) "Manufacturing operation" means the manufacturing of articles,
18 substances, or commodities for sale as tangible personal property. A
19 manufacturing operation begins at the point where the raw materials
20 enter the manufacturing site and ends at the point where the processed
21 material leaves the manufacturing site. With respect to the production
22 of class A or exceptional quality biosolids by a wastewater treatment
23 facility, the manufacturing operation begins at the point where class
24 B biosolids undergo additional processing to achieve class A or
25 exceptional quality standards. Notwithstanding anything to the
26 contrary in this section, the term also includes that portion of a
27 cogeneration project that is used to generate power for consumption
28 within the manufacturing site of which the cogeneration project is an
29 integral part. The term does not include the preparation of food
30 products on the premises of a person selling food products at retail.

31 (g) "Cogeneration" means the simultaneous generation of electrical
32 energy and low-grade heat from the same fuel.

33 (h) "Research and development operation" means engaging in research
34 and development as defined in RCW 82.63.010 by a manufacturer or
35 processor for hire.

36 (i) "Testing" means activities performed to establish or determine
37 the properties, qualities, and limitations of tangible personal
38 property.

1 (j) "Testing operation" means the testing of tangible personal
2 property for a manufacturer or processor for hire. A testing operation
3 begins at the point where the tangible personal property enters the
4 testing site and ends at the point where the tangible personal property
5 leaves the testing site. The term also includes the testing of
6 tangible personal property for use in that portion of a cogeneration
7 project that is used to generate power for consumption within the
8 manufacturing site of which the cogeneration project is an integral
9 part. The term does not include the testing of tangible personal
10 property for use in the production of electricity by a light and power
11 business as defined in RCW 82.16.010 or the preparation of food
12 products on the premises of a person selling food products at retail.

13 (k) "Net benefit to the state" means the amount of economic benefit
14 to the state in jobs created or retained, plus the amount of increased
15 economic activity directly related to the exemption provided by this
16 section which was claimed, measured by the amount of taxes paid by the
17 increased economic activity claimed, minus the annual amount of
18 taxpayer savings.

19 (i) For purposes of this section, the amount of economic benefit to
20 the state in jobs created or retained must be measured by state and
21 local taxes paid by an employee, which must be calculated as a
22 percentage of the annual wage for each employment position as follows:

23 (A) For an annual wage of less than twenty thousand dollars, the
24 percentage is 17.3 percent;

25 (B) For an annual wage of more than twenty thousand dollars and
26 less than thirty-seven thousand dollars, the percentage is 12.7
27 percent;

28 (C) For an annual wage of more than thirty-seven thousand dollars
29 and less than sixty-two thousand dollars, the percentage is 11.2
30 percent;

31 (D) For an annual wage of more than sixty-two thousand dollars and
32 less than ninety-nine thousand dollars, the percentage is 9.5 percent;
33 and

34 (E) For an annual wage of more than ninety-nine thousand dollars,
35 the percentage is 7.6 percent.

36 (ii) For purposes of this subsection (2), the amount of increased
37 economic activity directly related to the exemption provided in this

1 section claimed must be measured by the increased taxes paid by the
2 taxpayer annually on the activity directly related to this exemption
3 minus the annual amount of taxpayer savings.

4 **Sec. 2.** RCW 82.12.02565 and 2003 c 5 s 5 are each amended to read
5 as follows:

6 The provisions of this chapter (~~shall~~) do not apply in respect to
7 the use by a manufacturer or processor for hire of machinery and
8 equipment used directly in a manufacturing operation or research and
9 development operation, to the use by a person engaged in testing for a
10 manufacturer or processor for hire of machinery and equipment used
11 directly in a testing operation, or to the use of labor and services
12 rendered in respect to installing, repairing, cleaning, altering, or
13 improving the machinery and equipment only when the person claiming the
14 exemption can demonstrate that there is a net benefit to the state.

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