



Fact Sheet: High Tech R&D Tax Breaks

In 1994 the Washington legislature passed two tax incentive measures for high technology firms conducting research and development in advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology. Both of these laws are scheduled to expire in 2004. The governor and legislature are considering extending these tax breaks, which would result in a loss of \$93.2 million for state and local government services in the current biennium. In the 2005-07 biennium, the losses from these tax breaks would total \$257 million.

Corporate tax breaks must be considered in the context of the full state budget, which has already seen more than \$2 billion in cuts, including to education, children's health, and health care for low income workers.

The B&O credit: Firms can take a credit of up to \$2 million against their state business and occupation (B&O) tax for R&D expenditures. To qualify, a business must spend at least 0.92% of its taxable income on R&D in Washington. This credit is set to expire on December 31, 2004. From 1995 through 2002, 1,311 firms took the B&O tax credit, costing the state a total of \$204 million. In 2002, 590 firms took \$24.3 million in B&O credits.

The sales tax deferral: Firms may defer sales tax payments on facilities and machinery for R&D, if they are building a new facility or expanding or renovating an existing facility. For each year the facility is in use, 12.5% of the deferred tax is waived, and after 8 years, the tax is entirely forgiven. The sales tax measure expires on July 1, 2004. Firms have taken \$323.9 million in sales tax deferrals for 393 projects since 1995. In 2002, 49 firms took the credit, totaling \$60.8 million. Overall, 85% of the firms that have taken the sales tax credit have been in King County, accounting for 95% of the total deferral.

Have the tax breaks produced new jobs? The Department of Revenue has conducted three studies on the high tech tax incentives, and has not found clear evidence that new jobs have been created in Washington because of the tax breaks. Overall employment grew in the firms benefiting from the tax preferences between 1995 and 2002, but the same rate of growth occurred among high tech firms in all other states as well. Washington's share of the nation's high tech jobs has remained steady at about 2.3% since 1994.

The Public Cost of Continuing High Tech Tax Breaks

	State B&O Credit	Sales Tax		Total
		State	Local Government	
2003-05	\$12.1 million	\$62.9 million	\$18.2 million	\$93.2 million
2005-07	\$63.5 million	\$150 million	\$43.5 million	\$257 million
2007-09	\$70.3 million	\$166.1 million	\$48.2 million	\$284.6 million

Sources:

Washington State Department of Revenue, "High Technology R&D Tax Incentives Study," September 2003, http://www.dor.wa.gov/docs/reports/2003/High_Tech_RandD_Study_2003/stats_contents.asp.

Washington State Office of Financial Management, Fiscal Notes for 2SSB 5531 and SB 5529.