

Special Notice

Intended audience: manufacturers looking to build or expand in counties with high unemployment rates

May 24, 2018

High unemployment county sales and use tax deferral program Eligible counties from July 1, 2018 - June 30, 2020

This special notice updates the list of counties that qualify for the high unemployment county sales and use tax deferral program from July 1, 2018 – June 30, 2020. The Employment Security Department (ESD) updates the list every two years.

What is the high unemployment county sales/use tax deferral program and how does it apply to me?

You can receive a sales/use tax deferral on your purchases of qualifying machinery, equipment and construction for qualified buildings, if you are an approved business that is:

- Located in an eligible county or Community Empowerment Zone (CEZ), and
- Engaged in any of the activities listed below:
 - manufacturing
 - research and development laboratories
 - commercial testing facilities
 - vegetable seed conditioning

When our department verifies that you meet all program requirements, we defer your sales/use tax. This program expires on July 1, 2020.

Which counties are eligible?

A county is eligible if it has an unemployment rate of 20 percent or more above state average. This rate needs to happen the three years before ESD updates or publishes this list.

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Counties that are eligible to receive applications from July 1, 2018 – June 30, 2020 are:

- Adams
- Franklin
- Lewis
- Skamania
- Clallam
- Grant
- Mason
- Stevens
- Columbia
- Grays Harbor
- Okanogan
- Wahkiakum
- Cowlitz
- Jefferson
- Pacific
- Yakima
- Douglas
- Klickitat
- Pend Oreille
- Ferry
- Skagit

If you are a business that makes investment decisions, please note that ESD updates this list every two years; a specific county may not be on the list every two years. Before making a final investment decision based on this program, call our Audit division at (360) 534-1443 to determine a county's eligibility.

Which Community Empowerment Zone (CEZs) are eligible?

The following cities have designated/eligible CEZs:

- Bremerton
- Tacoma
- Duwamish
- White Center
- Spokane
- Yakima

Approved CEZs are continuously eligible and are not re-evaluated annually (RCW 43.31C.020). You can find maps of the approved CEZs on our [website](#):

1. Scroll down the page until you find the heading "Community Empowerment Zone (CEZ) Maps" in black font.
2. Click on the any link in the list underneath the header (i.e. Spokane, Tacoma) to explore more. These places are approved.

How can my business qualify for the deferral program?

To qualify for the program, you must:

- Be located in an eligible county or a CEZ, **and**
- Be engaged in manufacturing activities, the conditioning of vegetable seeds, **or**
- Be engaged in activities performed by research and development laboratories, or commercial testing laboratories. (This only applies when the activities you perform are intended to result in a new, different, or useful substance or article of tangible personal property for sale), **and**
- Invest in one or both of the following activities:
 - construct new structures, or expand or renovate existing structures to increase floor space or production capacity, **and**

- add new industrial and research fixtures, and equipment and support facilities. These need to be essential to manufacturing or research and development operation.

If I get approved, what are my hiring requirements?

The following hiring requirements apply to businesses located in a CEZ.

- You must hire at least one permanent full-time employee for each \$750,000 of investment of deferral you request.
- The employee must be a resident of the CEZ or the county that contains the CEZ when they are hired. You need more than a mailing address to establish that an employee is a resident.
- You cannot hire eligible employees until you file an application with the department.
- You must fill the position by the end of the calendar year following the year that your project is operationally complete.

If your business does not meet the hiring requirements by the end of the second calendar year following the year that your project is operationally complete, you immediately owe all the deferred taxes.

What businesses costs are approved under this program?

Machinery and equipment

To qualify, the machinery and equipment must be new to the business, or be new to the state (you must move the items to Washington from outside the state). Eligible machinery and equipment includes:

- Computers
- Software
- data processing equipment
- laboratory equipment
- molds, tools, and dies
- operating structures
- manufacturing components such as belts, pulleys, shafts, and moving parts
- all equipment used to control or operate the machinery

Construction

The owner or landlord of a building may be eligible for a deferral when:

- The ownership of the buildings, machinery, and equipment belong exclusively to the same person; or the landlord agrees by written contract to pass the economic benefit of the deferral to the lessee.
- The lessee agrees in writing with the department to complete the annual tax performance report (RCW 82.32.534); **and**
- The economic benefit of the deferral passed to the lessee is no less than the amount of tax deferred by the landlord, **and**
- The two parties provide documentation of any type of payment, credit, or financial arrangement between them.

Our department uses all project costs, including labor and services performed in the planning, installation, and construction, to determine the eligible amount. If you use the facility partly for the activities above and partly for other purposes, we will divide the costs of construction to determine your tax deferral.

If you use part of your manufacturing facility as a cogeneration facility that generates power for on-site use, that portion qualifies for a deferral.

How do I apply for the deferral program?

You must file an application with our department before a building permit is issued for the project or your business takes possession of the machinery or equipment. Once you file the application, you can begin construction or take possession of machinery and equipment.

The applications are available on our [website](#) under “Forms & publications.”

1. Select *Forms by name*
2. Select the letter *D*
3. Select *Deferral Forms*
4. Select the applicable *High Unemployment County Application*

Our department must approve or deny your application within 60 days. If we approve your application, you will receive a tax deferral certificate to provide to vendors and contractors at the time of purchase. If we deny your application, you have the right to an informal review of our decision by our department.

You need a deferral certificate to make purchases.

To make qualified purchases without paying sales tax, you need to provide your vendors or subcontractors with a copy of your deferral certificate.

You can purchase the following:

- Construction or expansion of qualified buildings
- Qualified machinery and equipment
- Labor and services used in the planning, installation and construction of the project

You and your subcontractors need to pay sales or use tax on your purchase or rental of tools, equipment, and supplies that are not a permanent part of the final project.

Can I use the deferral certificate to purchase all my machinery and equipment?

No. You need to use the manufacturer’s sales and use tax exemption (M&E) for machinery and equipment you use directly in the manufacturing operation (RCW 82.08.02565, RCW 82.12.02565, WAC 458-20-13601).

These exemptions are separate from the deferral program and do not require an application or annual tax performance report. You should not include equipment that qualifies under the M&E exemption on the deferral application.

For additional information on equipment that qualifies for the M&E exemption, see our [manufacturing industry tax guide](#).

When do I need to file the annual tax performance report?

You must electronically file the report by May 31 of the year following the calendar year in which the investment project was operationally complete. You must continue to file for the seven calendar years after. Before 2016, the due date for the annual survey was April 30.

To file a report:

1. Go to our website at dor.wa.gov.
2. Login to My DOR.
3. Click from the Accounts tab
4. Click on *File Return* link on the incentive report account and complete the report.

If you do not see an Incentive Report account please call 360-705-6210. If you do not complete a report by the due date, you immediately owe 12.5% of the deferred tax.

When will our department audit your project?

When we approve your application, we will issue a deferral certificate using the estimates from your application. When the project is complete, an auditor will verify that you are using the facility appropriately. The auditor will also verify that your structure, machinery, and equipment are eligible for deferral. We may adjust your deferral based on our findings. You will be billed for any non-qualifying costs.

To minimize the time it takes to complete an audit, please have the following records for the audit period available for your meeting:

- purchase invoices (i.e., accounts payable, receipts)
- supporting documents for the construction, such as construction contracts
- original sales and use tax deferral certificate
- contractors or vendors

We may request additional documents during the audit.

What do I do if I receive a deferral certificate from my customer?

Under this program, some building construction or expansions costs do not receive a tax exemption deferral.

You need to separately state the following for your customer:

- items and services subject to sales tax
- items and services exempt from sales tax

Then, you need to collect sales tax on the taxable items and services.

The sales tax exemption only applies to that portion of the building used in manufacturing or research and development. If a building is used for other purposes as well – for example, the company headquarters is also located in the building – you need to determine what part of the project is exempt under the deferral. [WAC 458-20-24001](#) can help you.

What do I do with the deferral certificate?

You must keep a copy of the customer's deferral certificate for five years in case you are audited. Do not send it to the department with your return.

Questions?

For general information, visit our [tax incentives page](#). For questions regarding the program or completing the application for the deferral, please call our Audit Division at 360-534-1443.

Definitions

- Operationally complete means people can use the project for its intended purpose as described in the application.
- Full-time means at least 35 hours a week, 455 hours a quarter, or 1,820 hours a year.

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