

Multiple Agency Fiscal Note Summary

Bill Number: 2482 HB	Title: Semiconductor tax incentives
-----------------------------	--

Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	0	0	0	0	0	0	(626,000)	(626,000)	(626,000)
Total \$	0	0	0	0	0	0	(626,000)	(626,000)	(626,000)

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other						(1,980)
Local Gov. Total						(1,980)

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Joint Legislative Audit and Review Committee	Fiscal note not available											
Department of Revenue	.1	35,600	35,600	35,600	.1	27,000	27,000	27,000	.1	27,000	27,000	27,000
Total \$	0.1	35,600	35,600	35,600	0.1	27,000	27,000	27,000	0.1	27,000	27,000	27,000

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	Fiscal note not available								
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

NONE

This preliminary package is incomplete. Other impacted agencies' fiscal notes will be distributed as soon as possible.

Prepared by: Amy Hatfield, OFM	Phone: (360) 280-7584	Date Published: Preliminary 1/30/2024
---------------------------------------	---------------------------------	---

Department of Revenue Fiscal Note

Bill Number: 2482 HB	Title: Semiconductor tax incentives	Agency: 140-Department of Revenue
-----------------------------	--	--

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax					(7,000)
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax					(619,000)
Total \$					(626,000)

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.1	0.1	0.1	0.1
GF-STATE-State 001-1	20,900	14,700	35,600	27,000	27,000
Total \$	20,900	14,700	35,600	27,000	27,000

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Kristina King	Phone: 60-786-7190	Date: 01/29/2024
Agency Preparation: Anna Yamada	Phone: 60-534-1519	Date: 01/30/2024
Agency Approval: Marianne McIntosh	Phone: 60-534-1505	Date: 01/30/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/30/2024

Request # 2482-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW

Semiconductor material manufacturers receive a preferential business and occupation (B&O) tax rate of 0.275% on the manufacturing or processing for hire of semiconductor materials.

Sales and use taxes are exempt to manufacturers and processors for hire on purchases of gases and chemicals used to produce semiconductor materials. Manufacturers of silicon solar wafers, silicon solar cells, thin film solar devices, solar grade silicon, or compound semiconductor solar wafers also qualify for this exemption.

Any person claiming the preferential rate or sales and use tax exemption must reimburse the Department of Revenue (department) 50% of the amount of the preference or exemption if the number of persons employed by the person claiming the tax preference is less than 90% of the employment average for the previous three years.

“Semiconductor materials” mean silicon crystals, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers.

The preferential tax rate and sales and use tax exemption expires on December 1, 2028.

PROPOSAL

This bill extends the expiration date for the preferential tax rate and sales and use tax exemption from December 1, 2028, to January 1, 2034.

The bill reinstates the contingency to construct a new semiconductor microchip fabrication with an investment of at least \$1 billion in buildings and equipment. The contingency expired on January 1, 2024. The new expiration date for constructing the facility is January 1, 2034.

With the reinstated contingency, the bill reenacts the incentives connected to the previous contingency. The following incentives are contingent on the qualifying facility built by January 1, 2034:

- B&O tax exemption for semiconductor microchip manufacturing.
- Preferential B&O tax rate of 0.275% for businesses manufacturing semiconductor materials, including microchips.
- B&O tax credit based on new jobs created in new buildings that manufacture semiconductive materials.
- Sales and use tax exemption for constructing new facilities for manufacturing semiconductor materials.
- Sales and use taxes exemption for purchases of gases and chemicals used in the semiconductor manufacturing process.
- Property tax exemption on machinery and equipment exempt from sales and use taxes used in manufacturing semiconductor materials.

EFFECTIVE DATE

This bill contains an emergency clause and takes effect immediately upon the governor’s approval.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS

- The department is unaware of plans for a qualifying facility built before July 1, 2029. Because of this, the incentives based on the new contingency will not become effective during the fiscal note period.

- Annual growth in semiconductor manufacturing activities mirrors the average percent change reflected in the past four years of manufacturing activities.
- Annual growth of the sales and use taxes exemption amount for purchasing gases and chemicals for manufacturing activities mirrors the consumer price index (CPI) growth reflected in the S&P Global Market Intelligence November 2023 forecast.
- The department receives the taxes from monthly taxpayers the month after the business collects the sales tax from the consumer. Most local tax distributions occur the month after the department receives sales and use taxes that businesses collect. This leads to a one-month delay in revenues for the state and a two-month delay in revenues for local jurisdictions.
- This legislation takes effect on March 26, 2024, and extends the expiration date of the current incentives from December 1, 2028, to January 1, 2034. The extension impacts six months of collections in fiscal year 2029.

DATA SOURCES

- Department of Revenue, Annual Tax Performance Report data
- S&P Global Market Intelligence, November 2023 forecast

REVENUE ESTIMATES

This bill decreases state revenues by an estimated \$626,000 in the 2027-29 Biennium.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	\$ 0
FY 2026 -	\$ 0
FY 2027 -	\$ 0
FY 2028 -	\$ 0
FY 2029 -	(\$ 626)

Local Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	\$ 0
FY 2026 -	\$ 0
FY 2027 -	\$ 0
FY 2028 -	\$ 0
FY 2029 -	(\$ 2)

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

FIRST YEAR COSTS:

The department will incur total costs of \$20,900 in fiscal year 2024. These costs include:

- Labor Costs – Time and effort equate to 0.07 FTE.
- Update a Special Notice to inform businesses of the extension.
- Update information on the department’s website.

- Object Costs - \$13,500.
- Contract computer system programming to extend expiration dates.

SECOND YEAR COSTS:

The department will incur total costs of \$14,700 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.1 FTE.

- Develop and maintain annual tax incentive report questions.
- Review annual tax incentive report submissions and compile statistics and reports.

Object Costs - \$700.

- Software, training, and travel.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$27,000 and include similar activities described in the second-year costs. Time and effort equate to 0.1 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.1	0.1	0.1	0.1
A-Salaries and Wages	4,800	8,800	13,600	17,600	17,600
B-Employee Benefits	1,600	2,900	4,500	5,800	5,800
C-Professional Service Contracts	13,500		13,500		
E-Goods and Other Services	600	2,100	2,700	2,600	2,600
G-Travel		200	200	400	400
J-Capital Outlays	400	700	1,100	600	600
Total \$	\$20,900	\$14,700	\$35,600	\$27,000	\$27,000

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
TAX POLICY SP 2	78,120	0.0		0.0		
TAX POLICY SP 3	88,416	0.0	0.1	0.1	0.1	0.1
WMS BAND 2	98,456	0.0		0.0		
Total FTEs		0.1	0.1	0.1	0.1	0.1

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

None.

Part V: New Rule Making Required

LOCAL GOVERNMENT FISCAL NOTE

Revised

Department of Commerce

Bill Number: 2482 HB	Title: Semiconductor tax incentives
-----------------------------	--

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- Cities: decrease in sales tax revenue
- Counties: decrease in sales tax revenue
- Special Districts: decrease in sales tax revenue
- Specific jurisdictions only:
- Variance occurs due to:

Part II: Estimates

- No fiscal impacts.
- Expenditures represent one-time costs:
- Legislation provides local option:
- Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2024	FY 2025	2023-25	2025-27	2027-29
City					(584)
County					(745)
Special District					(651)
TOTAL \$					(1,980)
GRAND TOTAL \$					(1,980)

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 01/30/2024
Leg. Committee Contact: Kristina King	Phone: 360-786-7190	Date: 01/29/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/30/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/30/2024

Part IV: Analysis

A. SUMMARY OF BILL

Description of the bill with an emphasis on how it impacts local government.

This bill extends the expiration date for the preferential tax rate and sales and use tax exemption from December 1, 2028, to January 1, 2034 on the manufacturing or processing for hire of semiconductor materials.

It also reinstates the contingency to construct a new semiconductor microchip fabrication with an investment of at least \$1 billion in buildings and equipment. The contingency expired on January 1, 2024. The new expiration date for constructing the facility is January 1, 2034.

B. SUMMARY OF EXPENDITURE IMPACTS

Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.

This bill would not impact local government expenditures because no action is required.

C. SUMMARY OF REVENUE IMPACTS

Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.

This bill would decrease sales and use tax revenue for local governments in the future.

According to the Department of Revenue (DOR) the extension provided by this bill decreases local revenues by an estimated \$2,000 in the 2027-29 Biennium. DOR is unaware of plans for a qualifying facility built before July 1, 2029. Because of this, the incentives based on the new contingency will not become effective during the fiscal note period, therefore the impacts are beyond the scope of this fiscal note.

Counties:

FY 2024	\$0
FY 2025	\$0
FY 2026	\$0
FY 2027	\$0
FY 2028	\$0
FY 2029	-\$745

Cities:

FY 2024	\$0
FY 2025	\$0
FY 2026	\$0
FY 2027	\$0
FY 2028	\$0
FY 2029	-\$584

Special Districts:

FY 2024	\$0
FY 2025	\$0
FY 2026	\$0
FY 2027	\$0
FY 2028	\$0
FY 2029	-\$651

METHODOLOGY:

The distributions in this note for cities, counties, and special districts are based on DOR data for local sales and use tax distributions from Calendar Year 2022. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. The result is a distribution of 37.62 percent to counties, 29.52 percent to cities, and 32.86 percent to special districts. The one percent DOR administrative fee has also been deducted.

SOURCES:

Department of Revenue fiscal note, SB 6137 (2024)

Department of Revenue Local Tax Distributions (2022)

Local Government Fiscal Note program, Local Sales Tax model (2024)

Local Government Fiscal Note Program “Sales and Use Tax Distribution Model” (2024)