

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 2482 HB	<b>Title:</b> Semiconductor tax incentives
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## 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)
<b>Total \$</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(626,000)</b>	<b>(626,000)</b>	<b>(626,000)</b>

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	.0	0	0	9,600	.0	0	0	9,600	.0	0	0	9,600
Department of Revenue	.1	35,600	35,600	35,600	.1	27,000	27,000	27,000	.1	27,000	27,000	27,000
<b>Total \$</b>	<b>0.1</b>	<b>35,600</b>	<b>35,600</b>	<b>45,200</b>	<b>0.1</b>	<b>27,000</b>	<b>27,000</b>	<b>36,600</b>	<b>0.1</b>	<b>27,000</b>	<b>27,000</b>	<b>36,600</b>

## 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	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

## Estimated Capital Budget Breakout

NONE

<b>Prepared by:</b> Amy Hatfield, OFM	<b>Phone:</b> (360) 280-7584	<b>Date Published:</b> Final 2/ 2/2024
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# Individual State Agency Fiscal Note

<b>Bill Number:</b> 2482 HB	<b>Title:</b> Semiconductor tax incentives	<b>Agency:</b> 014-Joint Legislative Audit and Review Committee
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## Part I: Estimates

**No Fiscal Impact**

### Estimated Cash Receipts to:

NONE

### Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
<b>Account</b>					
Performance Audits of Government Account-State 553-1	2,400	7,200	9,600	9,600	9,600
<b>Total \$</b>	2,400	7,200	9,600	9,600	9,600

### 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: 360-786-7190	Date: 01/29/2024
Agency Preparation: Pete van Moorsel	Phone: 360-786-5185	Date: 02/01/2024
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 02/01/2024
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 02/02/2024

## 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.*

HB 2482 reinstates several expired tax preferences benefiting manufacturers of semiconductor materials and semiconductor microchips, contingent on the siting and commercial operation of a significant semiconductor microchip fabrication facility in Washington. The new expiration date of the preferences is January 1, 2034, unless a contract for the construction of a significant semiconductor fabrication facility is signed by that date.

The bill also extends the expiration date of three existing preferences for manufacturers or processors for hire of semiconductor materials. The new expiration date of the preferences is January 1, 2034.

Tax preference performance statement details:

Two tax preference performance statements apply to three preferences extended by the bill.

For the preferential B&O tax rate for manufacturers or processors for hire of semiconductor materials, the Legislature categorizes the preference as one intended to induce certain designated behavior by taxpayers, improve industry competitiveness, and create or retain jobs, per RCW 82.32.808(2) (a)-(c).

The Legislature's public policy objective is to maintain and expand business and to maintain and grow jobs in the semiconductor cluster.

The Legislature intends to extend the expiration date of the tax preference if a review finds that:

- a) Since October 19, 2017, at least one project in the semiconductor cluster has located in Clark County, and that this project generates at least 2,500 high-wage jobs, all of which pay \$20 per hour or more and at least 80% of which pay \$35 per hour or more, and
- b) The number of jobs in the semiconductor cluster in Washington has increased since October 19, 2017.

For the sales and use tax exemption for gases and chemicals used by a manufacturer or processor for hire of semiconductor materials, the Legislature categorizes the preferences as ones intended to induce certain designated behavior by taxpayers, improve industry competitiveness, and create or retain jobs, per RCW 82.32.808(2) (a)-(c).

The Legislature's public policy objective is to encourage significant construction projects; retain, expand, and attract semiconductor business; and encourage and expand family-wage jobs.

The Legislature intends to extend the expiration date of the tax preferences if a review finds:

- a) The number of construction projects in the industry has increased.
- b) The number of people employed by the solar silicon, silicon manufacturing, and semiconductor fabrication industry in Washington is the same or more than in 2015, and
- c) That at least 60% of employees earn \$60,000 per year.

### 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.*

### 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.*

JLARC staff will work with the Department of Revenue immediately after passage of the bill to ensure project contacts are established and all necessary data for JLARC staff’s future evaluation needs are identified and collected.

Given the January 1, 2034, expiration date, JLARC will review these tax preferences in 2031. The number of preferences comprising the review depends on whether the preferences take effect due to the siting and location of a significant semiconductor microchip facility in Washington.

The expenditure detail reflects work conducted to prepare for the future review of the preferences. Costs associated with the review are not included in this fiscal note.

This tax preference review may require additional resources. The audit will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2024 legislative session.

This audit will require an estimated 1 audit month.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst’s time for a month, together with related administrative, support, and goods/services costs. JLARC’s anticipated 2023-25 costs are calculated at approximately \$23,900 per audit month.

### Part III: Expenditure Detail

#### III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
553-1	Performance Audits of Government Account	State	2,400	7,200	9,600	9,600	9,600
<b>Total \$</b>			2,400	7,200	9,600	9,600	9,600

#### III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					
A-Salaries and Wages	1,600	4,700	6,300	6,200	6,200
B-Employee Benefits	500	1,500	2,000	2,000	2,000
C-Professional Service Contracts					
E-Goods and Other Services	300	900	1,200	1,200	1,200
G-Travel		100	100	200	200
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total \$</b>	2,400	7,200	9,600	9,600	9,600

**III. C - Operating FTE Detail:** *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Research Analyst	131,064					
Support staff	110,856					
<b>Total FTEs</b>						0.0

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

NONE

**III. D - 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

**IV. D - Capital FTE Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

**Part V: New Rule Making Required**

*Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.*

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 2482 HB	<b>Title:</b> Semiconductor tax incentives	<b>Agency:</b> 140-Department of Revenue
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## 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)
<b>Total \$</b>					(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
<b>Total \$</b>	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
<b>Total \$</b>	<b>\$20,900</b>	<b>\$14,700</b>	<b>\$35,600</b>	<b>\$27,000</b>	<b>\$27,000</b>

**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		
<b>Total FTEs</b>		<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

**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

<b>Bill Number:</b> 2482 HB	<b>Title:</b> Semiconductor tax incentives
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## 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)
<b>TOTAL \$</b>					(1,980)
<b>GRAND TOTAL \$</b>					(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)