

Extend and modify the high technology R&D sales/use tax deferral program

Description This proposal creates a new sales and use tax deferral program for businesses engaged in research and development (R&D) or pilot-scale manufacturing that:

- Provides a deferral of the payment of state retail sales/use tax due on the construction, expansion and renovation of buildings, but limits the amount of tax eligible for deferral to \$1 million;
- Is limited to one project per year, per business, including all affiliates;
- Requires that firms be engaged in one of five areas related to high technology: advanced computing, advanced materials, biotechnology, electronic device technology or environmental technology;
- Specifically excludes costs associated with machinery and equipment, parking areas, food and beverage areas, amusement and recreation areas, and other commercial areas;
- Requires taxpayers to initiate construction within two years after applying or apply for an extension not to exceed five years; and
- Allows the deferral to become a waiver of the tax if the business maintains qualified activities for eight years once the facility becomes operationally complete.

Current Law

- Under current law, a deferral of the payment of state and local retail sales/use tax is allowed for the construction of buildings and acquisition of machinery and equipment for projects involving R&D or pilot-scale manufacturing.
- The deferral becomes a waiver of the tax if the business maintains qualified activities for eight years once the facility becomes operationally complete.
- The firm must be engaged in one of five areas related to high technology: advanced computing, advanced materials, biotechnology, electronic device technology or environmental technology.
- The current program is scheduled to expire Jan. 1, 2015.

Original Purpose and Current Analysis The deferral was created originally to stimulate the creation of high-wage jobs in high-technology industries and encourage firms to move from the R&D phase to actual manufacturing of new products. The current proposal has the same purpose.

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**Citizen
Commission
Recommendation**

The Citizen Commission’s last review of the high-technology deferral program took place in 2012. The commission recommended the Legislature review and clarify the policy objectives because it was unclear whether progress toward its high-technology R&D objectives was sufficient. The Legislative Auditor recommended the Legislature identify targets for investment and employment.

**Revenue
Impact**

General Fund Impacts (\$ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
33	(\$7.5)	(\$8.0)	(\$15.4)	(\$8.4)	(\$8.9)	(\$17.3)

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*