

Special Notice

Intended audience: Manufacturers and processors for hire of semiconductor materials.

Issued October 2017

Revised July 29, 2021

Semiconductor materials manufacturers tax incentives extended

What's changed?

A new tax law extended the following tax preferences, with certain employment requirements, for manufacturers and processors for hire of semiconductor materials to Dec. 1, 2028:

- Reduced business and occupation (B&O) tax rate.
- Sales and use tax exemption on purchases of gases and chemicals used in producing semiconductor materials.

How do these tax preference changes impact me?

Reduced B&O tax rate

Manufacturers and processors for hire of semiconductor materials will continue to be eligible for a reduced B&O tax rate of 0.275%. (See [RCW 82.04.2404](#)).

Sales and use tax exemption

Manufacturers and processors for hire may continue to purchase gases and chemicals that they use to produce semiconductor materials without paying retail sales or use tax. (See [RCW 82.08.9651](#) and [RCW 82.12.9651](#)).

The law limits these exemptions to gases and chemicals that come into direct contact with the product being produced that you use:

- To grow the product.
- To deposit or grow permanent or sacrificial layers on the product.
- To etch or remove material from the product.
- To anneal the product.
- To immerse the product.
- To clean the product.
- In other ways during the production process.

These exemptions also apply to gases and chemicals used to clean the chambers and other like equipment where such processing takes place.

What's my next step if I claim a preference?

- File all your returns, reports, surveys, and any other required information in our electronic tax filing system.
- Report your income under the Manufacturers/Processors for Hire of Semiconductor Materials tax classification. This allows you to take the reduced B&O tax rate.
- Provide the seller with a completed [Buyer's Retail Sales Tax Exemption Certificate](#). This allows you to claim the sales tax exemption on purchases of gases and chemicals .
- Complete the Buyer's Sales and Use Tax Preference Addendum when you file your excise tax returns. This is required if you purchased gas or chemicals without the payment of sales or use tax.

Do I need to file any type of annual report or survey?

Yes. You will need to file an Annual Tax Incentive Report, Annual Tax Incentive Survey, or Annual Tax Performance Report depending on the preference you claimed and the tax reporting period it was claimed in. You must file surveys and reports by May 31 of the year after the year when you claimed the preference.

If you claimed tax preferences in tax reporting periods before 2018:

- You must file the Annual Tax Incentive Report if you claimed the reduced B&O tax rate or claimed **both** the reduced B&O tax rate and the sales/use tax exemption on the purchase of gases and chemicals.
- You must file an Annual Tax Incentive Survey if you used the sales or use tax exemptions on the purchase of gases and chemicals provided.

PO BOX 47478 | OLYMPIA, WASHINGTON 98504-7478 | 360-705-6705 | dor.wa.gov

For tax assistance or to request this document in an alternate format, visit dor.wa.gov or call 360-705-6705. Teletype (TTY) users may use the Washington Relay Service by calling 711.

If you claim tax preferences in tax reporting periods 2018 and after you must file the Annual Tax Performance Report. It replaces the annual report and survey. You can read our [Special Notice, Tax Incentive Reporting Simplified](#) for more information .

Penalties

If you do not submit a complete report or survey by the due date, 35% of the taxes that were exempted or reduced for that year are immediately due to the Washington State Department of Revenue (Revenue). If we previously billed you for failure to file an annual report or survey for the same preference, 50% of the taxes that were exempted or reduced are immediately due to Revenue. The taxes due will be subject to interest but not penalties, paid by the due date.

Employment requirements beginning Oct. 19, 2017

If you claim the reduced B&O tax rate or the sales or use tax exemption, you are subject to certain employment and wage requirements beginning with preferences claimed on or after Oct. 19, 2017.

You must repay 50% of the tax preferences you claimed if:

- In the year you claimed the preferences, the number of persons you employed was less than 90% of your employment average for the previous three years, or
- *You are a business that locates a semiconductor project in Clark County on or after Oct. 19, 2017, but do not meet all of the following requirements:
 - Generate at least 2,500 jobs.
 - Pay at least \$20 per hour for all jobs.
 - Pay at least \$35 per hour for 80% of all jobs.

*The employment requirement specific to Clark County was repealed effective July 25, 2021. See ESSB 5251, Sections 6, 12, and 15.

Definitions

The definition for “semiconductor materials” is different for each preference we outlined in this notice.

For the reduced B&O tax rate: **Semiconductor materials** means silicon crystals, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers.

For the sales and use tax exemption on gases and chemicals: **Semiconductor materials** means silicon crystals, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers, silicon solar wafers, silicon solar cells, thin film solar devices, solar grade silicon, or compound semiconductor solar wafers.

PO BOX 47478 | OLYMPIA, WASHINGTON 98504-7478 | 360-705-6705 | dor.wa.gov

For tax assistance or to request this document in an alternate format, visit dor.wa.gov or call 360-705-6705. Teletype (TTY) users may use the Washington Relay Service by calling 711.

Questions?

- Visit dor.wa.gov
- Call 360-705-6705
- See [Substitute Senate Bill \(SSB\) 5977](#), Section 501 – 508.
- See our special notice titled, [Manufacturers of solar energy systems and their components](#).

PO BOX 47478 | OLYMPIA, WASHINGTON 98504-7478 | 360-705-6705 | dor.wa.gov

For tax assistance or to request this document in an alternate format, visit dor.wa.gov or call 360-705-6705. Teletype (TTY) users may use the Washington Relay Service by calling 711.