



2008 Manufacturing Tax Study

# Manufacturing in Washington: Real Investments, Real Jobs, Real People



Association  
of Washington  
Business

Washington State's Chamber of Commerce,  
Manufacturing & Technology Association

## About This Study

As the state's chamber of commerce and manufacturing and technology association, the Association of Washington Business is an advocate for employers of every size and type in communities from Aberdeen to Zillah. In today's challenging economic times, it is essential to identify policies that enhance our global competitiveness, provide opportunities for capital investments and generate family-wage jobs.

One policy that has had tremendous impact on Washington's economy is the exemption from sales and use taxes on manufacturing machinery and equipment. This tax incentive, created by the Legislature in 1995, was designed to serve as a stimulus for investment in our state's manufacturing industry and related businesses.

The good news is this exemption has significantly outperformed these expectations.

In its first 10 years, the exemption has added \$81.5 billion to state coffers, generated more than \$16.5 billion in income and created almost 285,000 new jobs.

This investment in Washington's manufacturing sector has paid significant dividends and will continue to do so if extended beyond 2009. Research indicates the exemption

will create 54,100 new jobs in Washington between now and 2016. Consequently, it is imperative that the Legislature retains this exemption, particularly in light of the economic challenges we face as a state and as a country.

This study reaffirms our support for the sales and use tax exemption for manufacturing machinery

and equipment, research and development, and repairs and replacement parts. The impact of this policy on our member companies and the people of Washington underscores its value to the state's competitiveness and economic prosperity. This report offers their views, along with the key research findings, for your consideration.

This tax incentive was designed to serve as a stimulus for investment in our state's manufacturing industry.

## About AWB

Formed in 1904, the Association of Washington Business is Washington's oldest and largest statewide business association, and includes more than 6,500 members representing 650,000 employees. AWB serves as both the state's chamber of commerce and the manufacturing and technology association. While its membership includes major employers like Boeing, Microsoft and Weyerhaeuser, 90 percent of AWB members employ fewer than 100 people. More than half of AWB's members employ fewer than 10.

## Our Mission

To advance an economic climate that enables our members, employees and all citizens to prosper.

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## Background

In 1995, the Washington State Legislature exempted manufacturers from sales tax on purchases of machinery, equipment and other producer goods. AWB led the effort to secure this incentive, which effectively reduced the purchase price of machinery and equipment by 8.2 percent and provided a stimulus for investment. In 1996, the initial exemption was expanded to include purchases of machinery and equipment used by a manufacturer for research and development, and for repairs and replacement parts.

The expectation was that the incentive would stimulate investment, expand the economy, create new jobs and increase tax revenue to local and state governments. Studies commissioned by AWB in 1995 and

2000 revealed that the manufacturing and equipment exemption or “M&E exemption” outperformed all expectations. The previous studies found that:

- The M&E exemption created 58,100 new jobs between 1995 and 1999 and added \$27.5 billion to Washington’s economy.
- Local governments saw net revenue surpluses in 1997, two years earlier than projected. Those surpluses have continued to this time.
- State government saw net revenue surpluses in 1998, a full year earlier than projected. Those net surpluses have continued to this time.

In 2009, the Legislature will again consider the exemption and weigh the benefits of extending it to nonmanufacturing-sector industries. AWB believes the M&E exemption is critical to our state’s economic recovery and must be retained.

Studies revealed that  
the M&E exemption  
outperformed all expectations.

### SIMPSON INVESTMENT COMPANY

“This exemption allowed us to install a recycled paper operation, reclaiming 500 tons of waste paper per day for reuse. As a result, we were able to increase our long-term competitiveness, secure high value, family-wage jobs and dramatically reduce environmental emissions.”

*Dave McEntee, VP of Operations Services & External Affairs  
Simpson Investment Company, Tacoma  
(employs 1,313 people)*



*AWB members employ people like this carpenter.*

## Executive Summary

In 2008, AWB commissioned a third study of the M&E exemption's continued impact on the economy. The research, conducted by economist John M. Urbanchuk, also analyzed the impact of extending the exemption to nonmanufacturing-sector industries, as well as the impact of regulatory interpretations and restrictions.

In his report, Urbanchuk found an exemption from sales taxes essentially reduces the effective purchase price of machinery and equipment, thereby providing a stimulus for investment. Increased capital investment stimulates growth in goods and services across all sectors of the economy, creates new jobs, generates additional household income and provides additional revenue for government at all levels.

### ALL AMERICAN SPACER COMPANY

"We see the future as very bright and would like to grow to meet the demands of our customer base. The M&E exemption does this by helping us buy new machines and product. If we had to pay tax on all products, this would put us at a disadvantage with our competition."

*Mary Jo and Mervin Monteith, Co-owners  
All American Spacer Company, Grand Coulee  
(employs 8 people)*



## Key Findings

The 2008 study commissioned by AWB found that continuing the manufacturing sales and use tax exemption would provide the following benefits to Washington state.



### **\$4.4 BILLION** Increased Investments in Washington State

The report projects a 22.3 percent increase in new spending for machinery and equipment between 2007 and 2016 totaling \$4.4 billion (in year 2000 dollars).



### **\$1.3 BILLION** Increased Construction Spending, Equipment Purchases

Although spending on construction of most structures is not included in the sales tax exemption, an increase in new investment in machinery and equipment would result in a \$1.3 billion increase (2000 dollars) in construction spending for structures to accommodate new machinery and equipment.

As spending increases on machinery and equipment, Washington state's production capacity will also increase, creating a total of \$39.2 billion (2000 dollars) of additional gross output between 2007 and 2016.



## **\$49.3 BILLION**

### Expansion of Washington State's Economy

The increased production capacity, coupled with new demand generated by the exemption will add \$49.3 billion (2000 dollars) to Washington state's gross domestic product between 2007 and 2016.



## **54,100 NEW JOBS**

### Created for Washingtonians

The expansion of goods and services stimulated by the M&E exemption would create nearly 54,100 new jobs for Washington residents by 2016. Since the economic activity created by new investment spending would occur in all industries, these new jobs would be created throughout the entire economy.



## **\$22 BILLION**

### New Income for Washingtonians

Increased economic activity and new jobs will create additional income for Washington residents. The M&E exemption is expected to provide Washington residents with \$22 billion (2000 dollars) of additional income by 2016.



## **\$2 BILLION**

### Additional Tax Revenue for Washington Taxpayers

Between 2007 and 2016, Washington state taxpayers will gain \$2.05 billion in net tax revenues as the increased activity from the exemption boosts tax revenues for the state and local governments. Local governments would also benefit from the increased economic activity caused by the exemption. According to the study, tax revenue for local governments is expected to increase by an additional \$23 million.

## CANYON CREEK CABINET COMPANY

"As a business, the M&E exemption is very important to us. It helps us put capital equipment in place and stay competitive on a national and worldwide basis. It keeps jobs in the state."

*Bill Weaver, President/CEO  
Canyon Creek Cabinet Company, Monroe  
(employs 370 people)*



*AWB members employ people like this arc welder.*

## Opportunities For Innovation

The analysis also examined the impacts on the Washington economy that would result from extending the exemption to other industries. The findings indicate that extending the exemption to other industries would:

- Increase investments in new machinery and equipment by the nonmanufacturing-sector industries.
- Increase investment spending on machinery and equipment, stimulating demand in all sectors of the Washington economy since more dollars will be circulated throughout all other sectors of the economy.
- Create more jobs in all sectors of Washington state's economy.
- Increase household income for all Washingtonians.
- Generate nearly \$47.8 million in revenue for the Washington State Treasury between 2007 and 2016.

*This study selected the telecommunications industry as a prototype for expansion due to its high capital intensiveness. Similar results can be expected from extending the exemption to other industries.*

### SONDEREN PACKAGING

"In 1998, Sonderen Packaging had a catastrophic fire. All of our machinery was lost. Since the fire, we have invested \$15,000,000 in equipment. The sales tax exemption saved me \$1,290,000. This was enough for me to purchase additional machinery and to keep my company healthy enough to grow from 65 to 120 employees. The sales tax exemption gives us a good incentive to stay in Washington."

*Mark Sonderen, President  
Sonderen Packaging, Spokane  
(employs 120 people)*



*AWB members employ people like this quality control inspector.*

## Conclusion

Today, costs matter and global competition is fierce. Washington simply cannot afford to gamble that large, family-wage investments will come to our state if the full sales tax is imposed.

The M&E exemption provides an important incentive to invest.

This investment creates additional capacity in the economy, new demand, higher household income and increased tax revenue. Perhaps more importantly, this investment is a catalyst for job creation in all sectors of the state's economy.

The M&E exemption provides an important incentive to invest.



### GOLDEN PHEASANT FOODS, LLC

"For a small company, having an additional cost of nearly 9% is a significant expense. We need to retain the M&E exemption to keep businesses here, and also to attract new business. We are in competition with near-by states, and as Scott Carson of Boeing has well stated, 'Location is a choice.'"

*Camillo Cheng, President  
Sarah Cheng, Vice President  
Golden Pheasant Foods, LLC, Kent  
(employs 20 people)*

## Methodology

The methodology in analyzing the impact for the Washington economy of eliminating the sales tax on spending for machinery and equipment was a multi-stage process.

1. Estimating the responsiveness of investment to a change in taxes.
2. Selecting a baseline against which changes in investment spending would be compared.
3. Estimating the implication of sales tax for spending on machinery and equipment.
4. Estimating the macroeconomic impacts on Washington of extending or removing the existing sales tax exemption for manufacturers.
5. Assessing the responsiveness of investment to a change in taxes.

For additional copies of this study, please contact AWB (800.521.9325) or visit [www.awb.org/machinetax](http://www.awb.org/machinetax) to download the full study.

## About the Author

*John M Urbanchuk*  
*Director, LECG*

Economist John M. Urbanchuk manages and provides a broad range of economic, planning, marketing and policy analysis consulting services to firms and associations involved in industries including agriculture, renewable fuels and consumer foods. He also works with firms in a wide range of industries to estimate the impact

of operations and investment on the national and state economy. Some of his clients include the Congressional Budget Office, the Renewable Fuels Association, the National Corn Growers Association, the American Soybean Association and United Soybean Board, the National Biodiesel Board, the Canadian Renewable Fuels Association, the Farm Credit Council, the Energy Information Administration and the Association of Washington Business.

Mr. Urbanchuk holds a B.S. in economics from Penn State University, an M.A. in economics from Temple University and has completed all course requirements for a Ph.D. at Temple. He is a graduate of the U.S. Army Foreign Area Officer Program as a specialist in Eurasia.



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