

---

HOUSE BILL 1554

---

State of Washington                      60th Legislature                      2007 Regular Session

By Representatives B. Sullivan, Ericks, Strow and Linville

Read first time 01/22/2007. Referred to Committee on Finance.

1            AN ACT Relating to excise tax relief for aerospace product  
2 development businesses; amending RCW 82.08.981, 82.12.981, 82.04.4487,  
3 82.32.545, and 82.04.4463; reenacting and amending RCW 82.04.440;  
4 adding a new section to chapter 82.04 RCW; providing an effective date;  
5 and providing an expiration date.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7            **Sec. 1.** RCW 82.08.981 and 2006 c 177 s 1 are each amended to read  
8 as follows:

9            (1) The tax levied by RCW 82.08.020 does not apply to sales of  
10 computer hardware, computer peripherals, or software, not otherwise  
11 eligible for exemption under RCW 82.08.02565 or 82.08.975, used  
12 primarily in (~~the development, design, and engineering of commercial~~  
13 ~~airplanes~~) aerospace product development, or components of such  
14 airplanes, or to sales of or charges made for labor and services  
15 rendered in respect to installing the computer hardware, computer  
16 peripherals, or software. The exemption is available only when the  
17 buyer provides the seller with an exemption certificate in a form and  
18 manner prescribed by the department. The seller shall retain a copy of  
19 the certificate for the seller's files.

1 (2) As used in this section:

2 (a) "Aerospace product development" means the development, design,  
3 or engineering of:

4 (i) Commercial airplanes and components of such airplanes;

5 (ii) Tooling that is used: (A) In the manufacturing of commercial  
6 airplanes; or (B) by manufacturers of component parts for commercial  
7 airplanes;

8 (iii) Maintenance, repair, or overhaul support equipment that is  
9 used by airline customers in the aftermarket support of commercial  
10 airplanes;

11 (iv) Ground support equipment, including test equipment, that is  
12 used by airline customers in support of commercial airplanes; or

13 (v) General aviation aircraft and components of such aircraft.

14 (b) "Commercial airplane" and "component" have the meanings in RCW  
15 82.32.550.

16 ~~((b))~~ (c) "Peripherals" includes keyboards, monitors, mouse  
17 devices, and other accessories that operate outside of the computer,  
18 excluding cables, conduit, wiring, and other similar property.

19 (3) This section expires July 1, 2024.

20 **Sec. 2.** RCW 82.12.981 and 2006 c 177 s 2 are each amended to read  
21 as follows:

22 (1) The provisions of this chapter do not apply in respect to the  
23 use of computer hardware, computer peripherals, or software, not  
24 otherwise eligible for exemption under RCW 82.12.02565 or 82.12.975,  
25 used primarily in ~~((the development, design, and engineering of~~  
26 ~~commercial airplanes or components of such airplanes))~~ aerospace  
27 product development, or to the use of labor and services rendered in  
28 respect to installing the computer hardware, computer peripherals, or  
29 software.

30 (2) ~~((As used in this section:~~

31 ~~(a) "Commercial airplane" and "component" have the meanings in RCW~~  
32 ~~82.32.550.~~

33 ~~(b) "Peripherals" includes keyboards, monitors, mouse devices, and~~  
34 ~~other accessories that operate outside of the computer, excluding~~  
35 ~~cables, conduit, wiring, and other similar property))~~ The definitions  
36 in section 1 of this act apply to this section.

37 (3) This section expires July 1, 2024.

1       **Sec. 3.** RCW 82.04.4487 and 2006 c 177 s 3 are each amended to read  
2 as follows:

3       (1) In computing the tax imposed under this chapter, a credit is  
4 allowed for each person for qualified (~~preproduction~~) aerospace  
5 product development expenditures occurring after July 1, 2006.

6       (2) The credit is equal to the amount of qualified  
7 (~~preproduction~~) aerospace product development expenditures of a  
8 person, multiplied by the rate of 1.5 percent.

9       (3) The credit shall be taken against taxes due for the same  
10 calendar year in which the qualified (~~preproduction~~) aerospace  
11 product development expenditures are incurred. Credits may not be  
12 carried over. The credit for each calendar year may not exceed the  
13 amount of tax otherwise due under this chapter for the calendar year.  
14 Refunds may not be granted in the place of a credit.

15       (4) Any person entitled to the credit in this section as a result  
16 of qualified (~~preproduction~~) aerospace product development conducted  
17 under contract may assign all or any portion of the credit to the  
18 person contracting for the performance of the qualified  
19 (~~preproduction~~) aerospace product development.

20       (5) The definitions in this subsection apply throughout this  
21 section.

22       (a) "Aeronautics" means the study of flight and the science of  
23 building and operating commercial aircraft.

24       (b) (~~"Preproduction"~~) (i) "Aerospace product development" means  
25 research, design, and engineering activities performed in relation to  
26 the development of a product, product line, model, or model derivative,  
27 including prototype development, testing, and certification. (~~The~~  
28 ~~term~~) The development of a product, product line, model, or model  
29 derivative, shall be for:

30       (A) Commercial airplanes and components of such airplanes;

31       (B) Tooling that is used in the manufacture of commercial airplanes  
32 and by manufacturers of component parts of commercial airplanes;

33       (C) Maintenance, repair, or overhaul support equipment that is used  
34 by airline customers in the aftermarket support of commercial  
35 airplanes;

36       (D) Ground support equipment, including test equipment, that is  
37 used by airline customers in support of commercial airplanes; or

38       (E) General aviation aircraft and components of such aircraft.

1       (ii) "Aerospace product development" includes the discovery of  
2 technological information, the translating of technological information  
3 into new or improved products, processes, techniques, formulas, or  
4 inventions, and the adaptation of existing products and models into new  
5 products or new models, or derivatives of products or models. The term  
6 does not include manufacturing activities or other production-oriented  
7 activities. The term does not include surveys and studies, social  
8 science and humanities research, market research or testing, quality  
9 control, sale promotion and service, computer software developed for  
10 internal use, and research in areas such as improved style, taste, and  
11 seasonal design.

12       (c) "Qualified (~~(preproduction)~~) aerospace product development"  
13 means (~~(preproduction)~~) aerospace product development performed within  
14 this state in the field of aeronautics.

15       (d) "Qualified (~~(preproduction)~~) aerospace product development  
16 expenditures" means operating expenses, including wages, compensation  
17 of a proprietor or a partner in a partnership as determined by the  
18 department, benefits, supplies, and computer expenses, directly  
19 incurred in qualified (~~(preproduction)~~) aerospace product development  
20 by a person claiming the credit provided in this section. The term  
21 does not include amounts paid to a person other than a public  
22 educational or research institution to conduct qualified  
23 (~~(preproduction)~~) aerospace product development. The term does not  
24 include capital costs and overhead, such as expenses for land,  
25 structures, or depreciable property.

26       (6) Credit may not be claimed for expenditures for which a credit  
27 is claimed under RCW 82.04.4452 or 82.04.4461.

28       (7) This section expires July 1, 2024.

29       NEW SECTION. Sec. 4. A new section is added to chapter 82.04 RCW  
30 to read as follows:

31       (1) Upon every person engaging within this state in the business of  
32 manufacturing the following: (a) Tooling that is used in the  
33 manufacture of commercial airplanes and by manufacturers of component  
34 parts of commercial airplanes; (b) maintenance, repair, or overhaul  
35 support equipment that is used by airline customers in the aftermarket  
36 support of commercial airplanes; (c) ground support equipment,  
37 including test equipment, that is used by airline customers in support

1 of commercial airplanes; or (d) general aviation aircraft or components  
2 of such aircraft; as to such persons the amount of the tax with respect  
3 to the business shall, in the case of manufacturers, be equal to the  
4 value of the product manufactured, or in the case of processors for  
5 hire, be equal to the gross income of the business, multiplied by the  
6 rate of 0.2904 percent.

7 (2) Upon every person engaging within this state in the business of  
8 making sales, at retail or wholesale, of the following products  
9 manufactured by that person: (a) Tooling that is used in the  
10 manufacture of commercial airplanes and by manufacturers of component  
11 parts of commercial airplanes; (b) maintenance, repair, or overhaul  
12 support equipment that is used by airline customers in the aftermarket  
13 support of commercial airplanes; (c) ground support equipment,  
14 including test equipment, that is used by airline customers in support  
15 of commercial airplanes; or (d) general aviation aircraft or components  
16 of such aircraft; as to such persons the amount of the tax with respect  
17 to the business shall be equal to the gross income of the business,  
18 multiplied by the rate of 0.2904 percent.

19 (3) This section expires July 1, 2024.

20 **Sec. 5.** RCW 82.32.545 and 2003 2nd sp.s. c 1 s 16 are each amended  
21 to read as follows:

22 (1) The legislature finds that accountability and effectiveness are  
23 important aspects of setting tax policy. In order to make policy  
24 choices regarding the best use of limited state resources the  
25 legislature needs information on how a tax incentive is used.

26 (2)(a) A person who reports taxes under RCW 82.04.260(~~((+13))~~) (11)  
27 or who claims an exemption or credit under RCW 82.04.4461, 82.08.980,  
28 82.12.980, 82.29A.137, 84.36.655, section 4 of this act, and 82.04.4463  
29 shall make an annual report to the department detailing employment,  
30 wages, and employer-provided health and retirement benefits per job at  
31 the manufacturing site. The report shall not include names of  
32 employees. The report shall also detail employment by the total number  
33 of full-time, part-time, and temporary positions. The first report  
34 filed under this subsection shall include employment, wage, and benefit  
35 information for the twelve-month period immediately before first use of  
36 a preferential tax rate under RCW 82.04.260(~~((+13))~~) (11), or tax  
37 exemption or credit under RCW 82.04.4461, 82.08.980, 82.12.980,

1 82.29A.137, 84.36.655, section 4 of this act, and 82.04.4463. The  
2 report is due by March 31st following any year in which a preferential  
3 tax rate under RCW 82.04.260(~~(+13)~~) (11) is used, or tax exemption or  
4 credit under RCW 82.04.4461, 82.08.980, 82.12.980, 82.29A.137,  
5 84.36.655, section 4 of this act, and 82.04.4463 is taken. This  
6 information is not subject to the confidentiality provisions of RCW  
7 82.32.330 and may be disclosed to the public upon request.

8 (b) If a person fails to submit an annual report under (a) of this  
9 subsection by the due date of the report, the department shall declare  
10 the amount of taxes exempted or credited, or reduced in the case of the  
11 preferential business and occupation tax rate, for that year to be  
12 immediately due and payable. Excise taxes payable under this  
13 subsection are subject to interest but not penalties, as provided under  
14 this chapter. This information is not subject to the confidentiality  
15 provisions of RCW 82.32.330 and may be disclosed to the public upon  
16 request.

17 (3) By November 1, 2010, and by November 1, 2023, the fiscal  
18 committees of the house of representatives and the senate, in  
19 consultation with the department, shall report to the legislature on  
20 the effectiveness of chapter 1, Laws of 2003 2nd sp. sess. in regard to  
21 keeping Washington competitive. The report shall measure the effect of  
22 chapter 1, Laws of 2003 2nd sp. sess. on job retention, net jobs  
23 created for Washington residents, company growth, diversification of  
24 the state's economy, cluster dynamics, and other factors as the  
25 committees select. The reports shall include a discussion of  
26 principles to apply in evaluating whether the legislature should  
27 reenact any or all of the tax preferences in chapter 1, Laws of 2003  
28 2nd sp. sess.

29 **Sec. 6.** RCW 82.04.440 and 2006 c 300 s 8 and 2006 c 84 s 6 are  
30 each reenacted and amended to read as follows:

31 (1) Every person engaged in activities that are subject to tax  
32 under two or more provisions of RCW 82.04.230 through 82.04.298,  
33 inclusive, shall be taxable under each provision applicable to those  
34 activities.

35 (2) Persons taxable under RCW 82.04.2909(2), 82.04.250, 82.04.270,  
36 82.04.294(2), section 4(2) of this act, or 82.04.260 (1)(c), (4), (11),  
37 or (12) with respect to selling products in this state, including those

1 persons who are also taxable under RCW 82.04.261, shall be allowed a  
2 credit against those taxes for any (a) manufacturing taxes paid with  
3 respect to the manufacturing of products so sold in this state, and/or  
4 (b) extracting taxes paid with respect to the extracting of products so  
5 sold in this state or ingredients of products so sold in this state.  
6 Extracting taxes taken as credit under subsection (3) of this section  
7 may also be taken under this subsection, if otherwise allowable under  
8 this subsection. The amount of the credit shall not exceed the tax  
9 liability arising under this chapter with respect to the sale of those  
10 products.

11 (3) Persons taxable as manufacturers under RCW 82.04.240 or  
12 82.04.260 (1)(b) or (12), including those persons who are also taxable  
13 under RCW 82.04.261, shall be allowed a credit against those taxes for  
14 any extracting taxes paid with respect to extracting the ingredients of  
15 the products so manufactured in this state. The amount of the credit  
16 shall not exceed the tax liability arising under this chapter with  
17 respect to the manufacturing of those products.

18 (4) Persons taxable under RCW 82.04.230, 82.04.240, 82.04.2909(1),  
19 82.04.294(1), 82.04.2404, section 4(1) of this act, or 82.04.260 (1),  
20 (2), (4), (11), or (12), including those persons who are also taxable  
21 under RCW 82.04.261, with respect to extracting or manufacturing  
22 products in this state shall be allowed a credit against those taxes  
23 for any (i) gross receipts taxes paid to another state with respect to  
24 the sales of the products so extracted or manufactured in this state,  
25 (ii) manufacturing taxes paid with respect to the manufacturing of  
26 products using ingredients so extracted in this state, or (iii)  
27 manufacturing taxes paid with respect to manufacturing activities  
28 completed in another state for products so manufactured in this state.  
29 The amount of the credit shall not exceed the tax liability arising  
30 under this chapter with respect to the extraction or manufacturing of  
31 those products.

32 (5) For the purpose of this section:

33 (a) "Gross receipts tax" means a tax:

34 (i) Which is imposed on or measured by the gross volume of  
35 business, in terms of gross receipts or in other terms, and in the  
36 determination of which the deductions allowed would not constitute the  
37 tax an income tax or value added tax; and

1 (ii) Which is also not, pursuant to law or custom, separately  
2 stated from the sales price.

3 (b) "State" means (i) the state of Washington, (ii) a state of the  
4 United States other than Washington, or any political subdivision of  
5 such other state, (iii) the District of Columbia, and (iv) any foreign  
6 country or political subdivision thereof.

7 (c) "Manufacturing tax" means a gross receipts tax imposed on the  
8 act or privilege of engaging in business as a manufacturer, and  
9 includes (i) the taxes imposed in RCW 82.04.240, 82.04.2404,  
10 82.04.2909(1), section 4(1) of this act, 82.04.260 (1), (2), (4), (11),  
11 and (12), and 82.04.294(1); (ii) the tax imposed under RCW 82.04.261 on  
12 persons who are engaged in business as a manufacturer; and (iii)  
13 similar gross receipts taxes paid to other states.

14 (d) "Extracting tax" means a gross receipts tax imposed on the act  
15 or privilege of engaging in business as an extractor, and includes (i)  
16 the tax imposed on extractors in RCW 82.04.230 and 82.04.260(12); (ii)  
17 the tax imposed under RCW 82.04.261 on persons who are engaged in  
18 business as an extractor; and (iii) similar gross receipts taxes paid  
19 to other states.

20 (e) "Business", "manufacturer", "extractor", and other terms used  
21 in this section have the meanings given in RCW 82.04.020 through  
22 82.04.212, notwithstanding the use of those terms in the context of  
23 describing taxes imposed by other states.

24 **Sec. 7.** RCW 82.04.4463 and 2006 c 177 s 10 are each amended to  
25 read as follows:

26 (1) In computing the tax imposed under this chapter, a credit is  
27 allowed for property taxes and leasehold excise taxes paid during the  
28 calendar year.

29 (2) The credit is equal to:

30 (a)(i)(A) Property taxes paid on new buildings, and land upon which  
31 this property is located, built after December 1, 2003, and used  
32 exclusively in (~~manufacturing commercial airplanes or components of~~  
33 ~~such airplanes~~) aerospace product development; and

34 (B) Leasehold excise taxes paid with respect to a building built  
35 after January 1, 2006, the land upon which the building is located, or  
36 both, if the building is used exclusively in (~~manufacturing commercial~~



1 ~~airplanes or components of such airplanes))~~ aerospace product  
2 development; or

3 (ii) Property taxes attributable to an increase in assessed value  
4 due to the renovation or expansion, after December 1, 2003, of a  
5 building used exclusively in (~~manufacturing commercial airplanes or~~  
6 ~~components of such airplanes)) aerospace product development; and~~

7 (b) An amount equal to property taxes paid on machinery and  
8 equipment exempt under RCW 82.08.02565 or 82.12.02565 and acquired  
9 after December 1, 2003, multiplied by a fraction. The numerator of the  
10 fraction is the total taxable amount subject to the tax imposed under  
11 RCW 82.04.260(11) and section 4 of this act. The denominator of the  
12 fraction is the total taxable amount subject to the tax imposed under  
13 all manufacturing classifications in chapter 82.04 RCW, required to be  
14 reported on the person's returns for the calendar year before the  
15 calendar year in which the credit under this section is earned. No  
16 credit is available under this subsection (2)(b) if either the  
17 numerator or the denominator of the fraction is zero. If the fraction  
18 is greater than or equal to nine-tenths, then the fraction is rounded  
19 to one. For purposes of this subsection, "returns" means the combined  
20 excise tax returns for the calendar year.

21 (3) (~~For the purposes of this section,~~) The definitions in this  
22 subsection apply to this section.

23 (a) "Aerospace product development" means the manufacturing of:

24 (i) Commercial airplanes or components of such airplanes;

25 (ii) Tooling that is used: (A) In the manufacture of commercial  
26 airplanes; and (B) by manufacturers of component parts of commercial  
27 airplanes;

28 (iii) Maintenance, repair, or overhaul support equipment that is  
29 used by airline customers in the aftermarket support of commercial  
30 airplanes;

31 (iv) Ground support equipment, including test equipment, that is  
32 used by airline customers in support of commercial airplanes; or

33 (v) General aviation aircraft and components of such aircraft.

34 (b) "Commercial passenger airplane" and "component" have the  
35 meanings given in RCW 82.32.550.

36 (4) A person taking the credit under this section is subject to all  
37 the requirements of chapter 82.32 RCW. In addition, the person must  
38 report as required under RCW 82.32.545. A credit earned during one

1 calendar year may be carried over to be credited against taxes incurred  
2 in a subsequent calendar year, but may not be carried over a second  
3 year. No refunds may be granted for credits under this section.

4 (5) In addition to all other requirements under this title, a  
5 person taking the credit under this section must report as required  
6 under RCW 82.32.545.

7 (6) This section expires July 1, 2024.

8 NEW SECTION. **Sec. 8.** This act takes effect October 1, 2007.

--- END ---