

SENATE BILL REPORT

SB 5350

As of February 2, 2021

Title: An act relating to extending certain aerospace tax preferences to include unmanned aircraft systems.

Brief Description: Extending certain aerospace tax preferences to include unmanned aircraft systems.

Sponsors: Senator Honeyford.

Brief History:

Committee Activity: Business, Financial Services & Trade: 2/02/21.

Brief Summary of Bill

- Expands the definition of commercial airplane used in certain tax preference statutes to include commercial unmanned aircraft systems through July 1, 2022.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Staff: Clinton McCarthy (786-7319)

Background: The term "commercial airplane" is an airplane certified by the federal aviation administration for transporting persons or property, and any military derivative of such an airplane. The term is used in a variety of aerospace tax credits that were reviewed by the Joint Legislative Audit and Review Committee as part of the 2019 Aerospace Tax Preferences Review. The study found the aggregate estimated biennial beneficiary savings of the aerospace tax preferences was approximately \$569 million in the 2021-23 biennium. The list of aerospace tax preferences that expire on July 1, 2040, in which the term commercial airplane is used, is as follows:

- tax deductions related to commercial aircraft loan interest and fees;
- tax credits related to preproduction development expenditures;

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- tax credits for property and leasehold taxes paid on property used for manufacture of airplanes;
- tax exemptions for computer parts and software related to the manufacture of commercial airplanes; and
- tax exemptions for labor, services, and personal property related to the manufacture of commercial airplanes.

In 2020, the Legislature eliminated the preferential business and occupation tax rate for the manufacturing, wholesaling, and retailing of commercial airplanes, airplane components, and tooling, effective April 1, 2020.

After March 31, 2021, a preferential rate of 0.357 percent could be implemented if the following conditions are met:

- the United States and European Union reach an agreement resolving their World Trade Organization disputes regarding large civil airplanes that expressly allows preferential tax rates;
- the Department of Commerce notifies the Department of Revenue (DOR) in writing that such agreement has been reached, and includes a copy of the notice to the Department of Commerce from the United States trade representative regarding the agreement; and
- the Department of Labor and Industries notifies DOR that a significant commercial airplane manufacturer has at least a 0.3 percent aerospace apprenticeship utilization rate of its qualified apprenticeable workforce.

Summary of Bill: Beginning October 1, 2021, the definition of commercial airplane is modified to include "commercial unmanned aircraft system." A commercial unmanned aircraft system is a Federal Aviation Administration certified aircraft designed to operate autonomously or be piloted remotely without a pilot on board. This modification of the definition of the term commercial airplane expires on July 1, 2032.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on October 1, 2021.

Staff Summary of Public Testimony: PRO: The unmanned systems industry continues to grow. This bill will help incentivize the industry and help it grow.

Persons Testifying: PRO: Senator Jim Honeyford, Prime Sponsor; Andrew Mack, Zepher.

Persons Signed In To Testify But Not Testifying: No one.