

SENATE BILL REPORT

SB 5756

As Reported by Senate Committee On:
Trade & Economic Development, February 18, 2015

Title: An act relating to extending specific aerospace tax preferences to include other types of commercial aircraft to encourage the migration of good wage jobs in the state.

Brief Description: Extending specific aerospace tax preferences to include other types of commercial aircraft to encourage the migration of good wage jobs in the state.

Sponsors: Senators Braun, Hatfield, Rivers, Angel, Ericksen, Honeyford and Benton.

Brief History:

Committee Activity: Trade & Economic Development: 2/18/15 [DP-WM, DNP, w/oRec].

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Brown, Chair; Braun, Vice Chair; Angel and Ericksen.

Minority Report: Do not pass.
Signed by Senators Chase, Ranking Minority Member; McCoy.

Minority Report: That it be referred without recommendation.
Signed by Senator Frockt.

Staff: Jeff Olsen (786-7428)

Background: Business and Occupation (B&O) Tax. Washington's major business tax is the B&O tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Businesses must pay B&O tax even though they may not have any profits or may be operating at a loss. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and activities not classified elsewhere. Several lower rates also apply to specific business activities.

Sales and Use Tax. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not

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collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital products, or services when used in this state. The state, most cities, and all counties levy retail sales and use taxes.

Property Tax. Property taxes are imposed by state and local governments. All real and personal property in this state is subject to the property tax based on its value, unless a specific exemption is provided by law. Property owned by federal, state, or local governments is exempt from the property tax. However, private lessees of government property are subject to the leasehold excise tax. The purpose of the leasehold excise tax is to impose a tax burden on persons using publicly owned, tax-exempt property similar to the property tax that they would pay if they owned the property. The tax is collected by public entities that lease property to private parties.

Aerospace Tax Preferences. To increase and maintain the aerospace sector in Washington, the Legislature has provided several tax preferences for the aerospace industry. Tax preferences are currently available for the engineering, manufacturing, and repairing of commercial airplanes as well as research and design pertaining to commercial airplanes. Commercial airplane has its ordinary meaning, which is an airplane certified by the Federal Aviation Administration (FAA) for transporting persons or property, and any military derivative of such an airplane.

Among other preferences, examples of those available to the aerospace industry include the following:

- preferential B&O tax rate of 0.2904 percent for the manufacturing, wholesaling, and retailing of commercial airplanes and airplane components; the tooling used in the manufacturing of commercial airplanes and airplane components; and retailing by a Federal Aviation Regulation Part 145 certificated repair station;
- preferential B&O tax rate of 0.9 percent for aerospace product development;
- B&O tax credit of 1.5 percent for aerospace product development expenditures;
- B&O tax credit for property taxes and leasehold taxes on property used exclusively in manufacturing commercial airplanes or components of airplanes, aerospace product development, the manufacturing of tooling, and Federal Aviation Regulation Part 145 certificated repair stations;
- sales and use tax exemption for computer equipment and software, and its installation, used primarily in the development of commercial airplanes and components; and
- sales and use tax exemption for the construction of facilities used in the manufacturing of airplanes.

Businesses that exercise any of these preferences must file an annual report with the Department of Revenue. The report includes employment, wage, and employer-provided health and retirement benefit information for full-time, part-time, and temporary positions.

Many aerospace tax preferences were scheduled to expire in 2024. However, the Legislature extended the preferences to 2040 by passing ESSB 5952 in the 2013 third special session. The Legislature also expanded the sales and use tax exemption for the construction of facilities used in the manufacturing of superefficient airplanes to include commercial airplanes in general.

Summary of Bill: Commercial aircraft is defined as a commercial airplane or commercial rotorcraft. Commercial rotorcraft is defined as an aircraft supported in flight by one or more rotors to provide lift, which may also include rotorcrafts with additional thrust engines or propellers, certified by the FAA for transporting persons or property, and any military derivative of such an aircraft.

The act expands certain aerospace tax preferences to include the engineering, manufacturing, and repairing of commercial rotorcrafts as well as the research and design pertaining to commercial rotorcrafts. The following tax preferences are expanded to commercial rotorcrafts:

- preferential B&O tax rate for the manufacturing, wholesaling, and retailing of commercial aircraft and aircraft components, and the tooling used in the manufacturing of commercial aircraft and aircraft components;
- preferential B&O tax rate for aerospace product development;
- B&O tax credit for aerospace product development expenditures;
- B&O tax credit for property taxes and leasehold taxes on property used exclusively in manufacturing commercial aircraft or components of aircraft, aerospace product development, and the manufacturing of tooling;
- sales and use tax exemption for computer equipment and software, and its installation, used primarily in the development of commercial aircraft and components; and
- sales and use tax exemption for the construction of facilities used in the manufacturing of commercial aircraft and maintenance of commercial aircraft.

The act's tax preference performance statement specifies that the public policy objective is to create and retain jobs.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2015.

Staff Summary of Public Testimony: PRO: This is a simple bill that extends the aerospace tax incentives from fixed wing to rotary wing aircraft to encourage businesses to build those products here in Washington.

Persons Testifying: PRO: Senator Braun, prime sponsor.