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**SUBSTITUTE HOUSE BILL 2226**

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**State of Washington**

**64th Legislature**

**2016 Regular Session**

**By** House Technology & Economic Development (originally sponsored by Representative Morris)

READ FIRST TIME 01/29/16.

1 AN ACT Relating to extending specific aerospace tax preferences  
2 to include spacecrafts to encourage the migration of good wage jobs  
3 in the state; amending RCW 82.32.550, 82.04.290, and 82.04.460;  
4 reenacting and amending RCW 82.04.260; adding new sections to chapter  
5 82.04 RCW; adding new sections to chapter 82.08 RCW; adding new  
6 sections to chapter 82.12 RCW; creating a new section; providing an  
7 effective date; and providing an expiration date.

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

9 NEW SECTION. **Sec. 1.** (1) The legislature finds that the people  
10 of Washington have benefited from the presence of the aerospace  
11 industry in Washington state. Separate and distinct from the large  
12 sector of aerospace is a nascent sector in Washington state  
13 representing travel and communications outside of the earth's  
14 atmosphere, in outer space. The legislature seeks to distinctly  
15 identify this sector from the aerospace sector's economic activities  
16 focused on activities within the earth's atmosphere. Further, the  
17 legislature would like to develop tools to nurture the nascent outer  
18 space sector to have a more robust presence in the economy.

19 (2) The legislature further finds that expansion of the aerospace  
20 industry incentives to the outer space industry, including spacecraft  
21 manufacturers would provide additional good wage jobs for the

1 citizens of Washington. Therefore, the legislature intends to extend  
2 preferential tax rates, credits, and sales and use tax exemptions for  
3 the outer space industry to spacecraft and spacecraft component  
4 manufacturing, spacecraft product development, space exploration, and  
5 satellite communications. Specifically, the legislature intends to  
6 provide tax relief to manufacturers of all types of spacecraft and  
7 spacecraft components and those engaged in satellite communications  
8 and space exploration to encourage the migration of these businesses  
9 to Washington, in turn creating and retaining good wage jobs and new  
10 tax revenue for the state.

11 (3) It is the specific public policy objective of the legislature  
12 to provide a preferential business and occupation tax rate, business  
13 and occupation tax credits, and sales and use tax exemptions for  
14 manufacturers of spacecraft, including manufacturers of spacecraft  
15 components, spacecraft product development, space exploration, and  
16 satellite communications. This tax preference is intended to promote  
17 economic growth and jobs for Washington. The legislature categorizes  
18 this tax preference as one intended to create and retain jobs, as  
19 described in RCW 82.32.808(2)(c).

20 (4)(a) In order to obtain the necessary data to perform a review  
21 of this tax preference, persons using any of the preferences created  
22 under this act must file a tax preference annual report under RCW  
23 82.32.534.

24 (b) The joint legislative audit and review committee must review  
25 the tax preference provided in this act as part of its normal review  
26 process of tax preferences. The committee must assess employment  
27 changes and tax revenue changes in the outer space industry in  
28 Washington in comparison to employment and tax revenues prior to the  
29 extension of tax preferences in this act. The committee must assess  
30 the number of jobs created in the outer space industry in Washington  
31 during the term of the tax preferences provided in this act. If the  
32 committee finds that the number of jobs in the outer space industry  
33 has increased by ten percent during the term of the tax preferences  
34 provided in this act, then the legislature intends for the  
35 legislative auditor to recommend extending the expiration date of the  
36 tax preferences.

37 (c) To the extent practicable, the joint legislative audit and  
38 review committee must use data provided by state agencies responsible  
39 for administering unemployment insurance and collecting tax revenue  
40 and data statistics provided by the bureau of labor statistics.

1       **Sec. 2.** RCW 82.32.550 and 2010 1st sp.s. c 23 s 517 are each  
2 amended to read as follows:

3       (1) "Commercial airplane" has its ordinary meaning, which is an  
4 airplane certified by the federal aviation administration for  
5 transporting persons or property, and any military derivative of such  
6 an airplane.

7       (2) "Component" means a part or system certified by the federal  
8 aviation administration for installation or assembly into a  
9 commercial airplane.

10       (3) "Payload" means crew, instruments, material, components, or  
11 equipment carried by a spacecraft.

12       (4) "Satellite" means a man-made object or vehicle intended to  
13 orbit the earth, the moon, or other celestial object, that is used to  
14 collect information and provide communications services, or perform  
15 repair, manufacturing, assembly, or transport services in the space  
16 environment.

17       (5) "Space exploration" means the use of spacecraft to explore  
18 the region beyond earth's atmosphere.

19       (6) "Spacecraft" means:

20       (a) Satellites; and

21       (b) All types of manned or unmanned transportation vehicles  
22 intended to be used for the purpose of operating in, or transporting  
23 a payload to, from, or within outer space, or in suborbital  
24 trajectory.

25       (7) "Spacecraft component" means a part or system specifically  
26 designed for installation or assembly into a spacecraft.

27       (8) "Superefficient airplane" means a twin aisle airplane that  
28 carries between two hundred and three hundred fifty passengers, with  
29 a range of more than seven thousand two hundred nautical miles, a  
30 cruising speed of approximately mach .85, and that uses fifteen to  
31 twenty percent less fuel than other similar airplanes on the market.

32       **Sec. 3.** RCW 82.04.260 and 2015 3rd sp.s. c 6 s 602 and 2015 3rd  
33 sp.s. c 6 s 205 are each reenacted and amended to read as follows:

34       (1) Upon every person engaging within this state in the business  
35 of manufacturing:

36       (a) Wheat into flour, barley into pearl barley, soybeans into  
37 soybean oil, canola into canola oil, canola meal, or canola by-  
38 products, or sunflower seeds into sunflower oil; as to such persons  
39 the amount of tax with respect to such business is equal to the value

1 of the flour, pearl barley, oil, canola meal, or canola by-product  
2 manufactured, multiplied by the rate of 0.138 percent;

3 (b) Beginning July 1, 2025, seafood products that remain in a  
4 raw, raw frozen, or raw salted state at the completion of the  
5 manufacturing by that person; or selling manufactured seafood  
6 products that remain in a raw, raw frozen, or raw salted state at the  
7 completion of the manufacturing, to purchasers who transport in the  
8 ordinary course of business the goods out of this state; as to such  
9 persons the amount of tax with respect to such business is equal to  
10 the value of the products manufactured or the gross proceeds derived  
11 from such sales, multiplied by the rate of 0.138 percent. Sellers  
12 must keep and preserve records for the period required by RCW  
13 82.32.070 establishing that the goods were transported by the  
14 purchaser in the ordinary course of business out of this state;

15 (c)(i) Beginning July 1, 2025, dairy products; or selling dairy  
16 products that the person has manufactured to purchasers who either  
17 transport in the ordinary course of business the goods out of state  
18 or purchasers who use such dairy products as an ingredient or  
19 component in the manufacturing of a dairy product; as to such persons  
20 the tax imposed is equal to the value of the products manufactured or  
21 the gross proceeds derived from such sales multiplied by the rate of  
22 0.138 percent. Sellers must keep and preserve records for the period  
23 required by RCW 82.32.070 establishing that the goods were  
24 transported by the purchaser in the ordinary course of business out  
25 of this state or sold to a manufacturer for use as an ingredient or  
26 component in the manufacturing of a dairy product.

27 (ii) For the purposes of this subsection (1)(c), "dairy products"  
28 means:

29 (A) Products, not including any marijuana-infused product, that  
30 as of September 20, 2001, are identified in 21 C.F.R., chapter 1,  
31 parts 131, 133, and 135, including by-products from the manufacturing  
32 of the dairy products, such as whey and casein; and

33 (B) Products comprised of not less than seventy percent dairy  
34 products that qualify under (c)(ii)(A) of this subsection, measured  
35 by weight or volume.

36 (iii) The preferential tax rate provided to taxpayers under this  
37 subsection (1)(c) does not apply to sales of dairy products on or  
38 after July 1, 2023, where a dairy product is used by the purchaser as  
39 an ingredient or component in the manufacturing in Washington of a  
40 dairy product;

1 (d)(i) Beginning July 1, 2025, fruits or vegetables by canning,  
2 preserving, freezing, processing, or dehydrating fresh fruits or  
3 vegetables, or selling at wholesale fruits or vegetables manufactured  
4 by the seller by canning, preserving, freezing, processing, or  
5 dehydrating fresh fruits or vegetables and sold to purchasers who  
6 transport in the ordinary course of business the goods out of this  
7 state; as to such persons the amount of tax with respect to such  
8 business is equal to the value of the products manufactured or the  
9 gross proceeds derived from such sales multiplied by the rate of  
10 0.138 percent. Sellers must keep and preserve records for the period  
11 required by RCW 82.32.070 establishing that the goods were  
12 transported by the purchaser in the ordinary course of business out  
13 of this state.

14 (ii) For purposes of this subsection (1)(d), "fruits" and  
15 "vegetables" do not include marijuana, useable marijuana, or  
16 marijuana-infused products;

17 (e) Until July 1, 2009, alcohol fuel, biodiesel fuel, or  
18 biodiesel feedstock, as those terms are defined in RCW 82.29A.135; as  
19 to such persons the amount of tax with respect to the business is  
20 equal to the value of alcohol fuel, biodiesel fuel, or biodiesel  
21 feedstock manufactured, multiplied by the rate of 0.138 percent; and

22 (f) Wood biomass fuel as defined in RCW 82.29A.135; as to such  
23 persons the amount of tax with respect to the business is equal to  
24 the value of wood biomass fuel manufactured, multiplied by the rate  
25 of 0.138 percent.

26 (2) Upon every person engaging within this state in the business  
27 of splitting or processing dried peas; as to such persons the amount  
28 of tax with respect to such business is equal to the value of the  
29 peas split or processed, multiplied by the rate of 0.138 percent.

30 (3) Upon every nonprofit corporation and nonprofit association  
31 engaging within this state in research and development, as to such  
32 corporations and associations, the amount of tax with respect to such  
33 activities is equal to the gross income derived from such activities  
34 multiplied by the rate of 0.484 percent.

35 (4) Upon every person engaging within this state in the business  
36 of slaughtering, breaking and/or processing perishable meat products  
37 and/or selling the same at wholesale only and not at retail; as to  
38 such persons the tax imposed is equal to the gross proceeds derived  
39 from such sales multiplied by the rate of 0.138 percent.

1 (5) Upon every person engaging within this state in the business  
2 of acting as a travel agent or tour operator; as to such persons the  
3 amount of the tax with respect to such activities is equal to the  
4 gross income derived from such activities multiplied by the rate of  
5 0.275 percent.

6 (6) Upon every person engaging within this state in business as  
7 an international steamship agent, international customs house broker,  
8 international freight forwarder, vessel and/or cargo charter broker  
9 in foreign commerce, and/or international air cargo agent; as to such  
10 persons the amount of the tax with respect to only international  
11 activities is equal to the gross income derived from such activities  
12 multiplied by the rate of 0.275 percent.

13 (7) Upon every person engaging within this state in the business  
14 of stevedoring and associated activities pertinent to the movement of  
15 goods and commodities in waterborne interstate or foreign commerce;  
16 as to such persons the amount of tax with respect to such business is  
17 equal to the gross proceeds derived from such activities multiplied  
18 by the rate of 0.275 percent. Persons subject to taxation under this  
19 subsection are exempt from payment of taxes imposed by chapter 82.16  
20 RCW for that portion of their business subject to taxation under this  
21 subsection. Stevedoring and associated activities pertinent to the  
22 conduct of goods and commodities in waterborne interstate or foreign  
23 commerce are defined as all activities of a labor, service or  
24 transportation nature whereby cargo may be loaded or unloaded to or  
25 from vessels or barges, passing over, onto or under a wharf, pier, or  
26 similar structure; cargo may be moved to a warehouse or similar  
27 holding or storage yard or area to await further movement in import  
28 or export or may move to a consolidation freight station and be  
29 stuffed, unstuffed, containerized, separated or otherwise segregated  
30 or aggregated for delivery or loaded on any mode of transportation  
31 for delivery to its consignee. Specific activities included in this  
32 definition are: Wharfage, handling, loading, unloading, moving of  
33 cargo to a convenient place of delivery to the consignee or a  
34 convenient place for further movement to export mode; documentation  
35 services in connection with the receipt, delivery, checking, care,  
36 custody and control of cargo required in the transfer of cargo;  
37 imported automobile handling prior to delivery to consignee; terminal  
38 stevedoring and incidental vessel services, including but not limited  
39 to plugging and unplugging refrigerator service to containers,

1 trailers, and other refrigerated cargo receptacles, and securing ship  
2 hatch covers.

3 (8) Upon every person engaging within this state in the business  
4 of disposing of low-level waste, as defined in RCW 43.145.010; as to  
5 such persons the amount of the tax with respect to such business is  
6 equal to the gross income of the business, excluding any fees imposed  
7 under chapter 43.200 RCW, multiplied by the rate of 3.3 percent.

8 If the gross income of the taxpayer is attributable to activities  
9 both within and without this state, the gross income attributable to  
10 this state must be determined in accordance with the methods of  
11 apportionment required under RCW 82.04.460.

12 (9) Upon every person engaging within this state as an insurance  
13 producer or title insurance agent licensed under chapter 48.17 RCW or  
14 a surplus line broker licensed under chapter 48.15 RCW; as to such  
15 persons, the amount of the tax with respect to such licensed  
16 activities is equal to the gross income of such business multiplied  
17 by the rate of 0.484 percent.

18 (10) Upon every person engaging within this state in business as  
19 a hospital, as defined in chapter 70.41 RCW, that is operated as a  
20 nonprofit corporation or by the state or any of its political  
21 subdivisions, as to such persons, the amount of tax with respect to  
22 such activities is equal to the gross income of the business  
23 multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5  
24 percent thereafter.

25 (11)(a) Beginning October 1, 2005, upon every person engaging  
26 within this state in the business of manufacturing commercial  
27 airplanes, or components of such airplanes, or making sales, at  
28 retail or wholesale, of commercial airplanes or components of such  
29 airplanes, manufactured by the seller, as to such persons the amount  
30 of tax with respect to such business is, in the case of  
31 manufacturers, equal to the value of the product manufactured and the  
32 gross proceeds of sales of the product manufactured, or in the case  
33 of processors for hire, equal to the gross income of the business,  
34 multiplied by the rate of:

35 (i) 0.4235 percent from October 1, 2005, through June 30, 2007;  
36 and

37 (ii) 0.2904 percent beginning July 1, 2007.

38 (b) Beginning July 1, 2008, upon every person who is not eligible  
39 to report under the provisions of (a) of this subsection (11) and is  
40 engaging within this state in the business of manufacturing tooling

1 specifically designed for use in manufacturing commercial airplanes  
2 or components of such airplanes, or making sales, at retail or  
3 wholesale, of such tooling manufactured by the seller, as to such  
4 persons the amount of tax with respect to such business is, in the  
5 case of manufacturers, equal to the value of the product manufactured  
6 and the gross proceeds of sales of the product manufactured, or in  
7 the case of processors for hire, be equal to the gross income of the  
8 business, multiplied by the rate of 0.2904 percent.

9 (c) For the purposes of this subsection (11), "commercial  
10 airplane" and "component" have the same meanings as provided in RCW  
11 82.32.550.

12 (d) In addition to all other requirements under this title, a  
13 person reporting under the tax rate provided in this subsection (11)  
14 must file a complete annual report with the department under RCW  
15 82.32.534.

16 (e)(i) Except as provided in (e)(ii) of this subsection (11),  
17 this subsection (11) does not apply on and after July 1, 2040.

18 (ii) With respect to the manufacturing of commercial airplanes or  
19 making sales, at retail or wholesale, of commercial airplanes, this  
20 subsection (11) does not apply on and after July 1st of the year in  
21 which the department makes a determination that any final assembly or  
22 wing assembly of any version or variant of a commercial airplane that  
23 is the basis of a siting of a significant commercial airplane  
24 manufacturing program in the state under RCW 82.32.850 has been sited  
25 outside the state of Washington. This subsection (11)(e)(ii) only  
26 applies to the manufacturing or sale of commercial airplanes that are  
27 the basis of a siting of a significant commercial airplane  
28 manufacturing program in the state under RCW 82.32.850.

29 (12)(a) Until July 1, 2024, upon every person engaging within  
30 this state in the business of extracting timber or extracting for  
31 hire timber; as to such persons the amount of tax with respect to the  
32 business is, in the case of extractors, equal to the value of  
33 products, including by-products, extracted, or in the case of  
34 extractors for hire, equal to the gross income of the business,  
35 multiplied by the rate of 0.4235 percent from July 1, 2006, through  
36 June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30,  
37 2024.

38 (b) Until July 1, 2024, upon every person engaging within this  
39 state in the business of manufacturing or processing for hire: (i)  
40 Timber into timber products or wood products; or (ii) timber products



1 into other timber products or wood products; as to such persons the  
2 amount of the tax with respect to the business is, in the case of  
3 manufacturers, equal to the value of products, including by-products,  
4 manufactured, or in the case of processors for hire, equal to the  
5 gross income of the business, multiplied by the rate of 0.4235  
6 percent from July 1, 2006, through June 30, 2007, and 0.2904 percent  
7 from July 1, 2007, through June 30, 2024.

8 (c) Until July 1, 2024, upon every person engaging within this  
9 state in the business of selling at wholesale: (i) Timber extracted  
10 by that person; (ii) timber products manufactured by that person from  
11 timber or other timber products; or (iii) wood products manufactured  
12 by that person from timber or timber products; as to such persons the  
13 amount of the tax with respect to the business is equal to the gross  
14 proceeds of sales of the timber, timber products, or wood products  
15 multiplied by the rate of 0.4235 percent from July 1, 2006, through  
16 June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30,  
17 2024.

18 (d) Until July 1, 2024, upon every person engaging within this  
19 state in the business of selling standing timber; as to such persons  
20 the amount of the tax with respect to the business is equal to the  
21 gross income of the business multiplied by the rate of 0.2904  
22 percent. For purposes of this subsection (12)(d), "selling standing  
23 timber" means the sale of timber apart from the land, where the buyer  
24 is required to sever the timber within thirty months from the date of  
25 the original contract, regardless of the method of payment for the  
26 timber and whether title to the timber transfers before, upon, or  
27 after severance.

28 (e) For purposes of this subsection, the following definitions  
29 apply:

30 (i) "Biocomposite surface products" means surface material  
31 products containing, by weight or volume, more than fifty percent  
32 recycled paper and that also use nonpetroleum-based phenolic resin as  
33 a bonding agent.

34 (ii) "Paper and paper products" means products made of interwoven  
35 cellulosic fibers held together largely by hydrogen bonding. "Paper  
36 and paper products" includes newsprint; office, printing, fine, and  
37 pressure-sensitive papers; paper napkins, towels, and toilet tissue;  
38 kraft bag, construction, and other kraft industrial papers;  
39 paperboard, liquid packaging containers, containerboard, corrugated,  
40 and solid-fiber containers including linerboard and corrugated

1 medium; and related types of cellulosic products containing  
2 primarily, by weight or volume, cellulosic materials. "Paper and  
3 paper products" does not include books, newspapers, magazines,  
4 periodicals, and other printed publications, advertising materials,  
5 calendars, and similar types of printed materials.

6 (iii) "Recycled paper" means paper and paper products having  
7 fifty percent or more of their fiber content that comes from  
8 postconsumer waste. For purposes of this subsection (12)(e)(iii),  
9 "postconsumer waste" means a finished material that would normally be  
10 disposed of as solid waste, having completed its life cycle as a  
11 consumer item.

12 (iv) "Timber" means forest trees, standing or down, on privately  
13 or publicly owned land. "Timber" does not include Christmas trees  
14 that are cultivated by agricultural methods or short-rotation  
15 hardwoods as defined in RCW 84.33.035.

16 (v) "Timber products" means:

17 (A) Logs, wood chips, sawdust, wood waste, and similar products  
18 obtained wholly from the processing of timber, short-rotation  
19 hardwoods as defined in RCW 84.33.035, or both;

20 (B) Pulp, including market pulp and pulp derived from recovered  
21 paper or paper products; and

22 (C) Recycled paper, but only when used in the manufacture of  
23 biocomposite surface products.

24 (vi) "Wood products" means paper and paper products; dimensional  
25 lumber; engineered wood products such as particleboard, oriented  
26 strand board, medium density fiberboard, and plywood; wood doors;  
27 wood windows; and biocomposite surface products.

28 (f) Except for small harvesters as defined in RCW 84.33.035, a  
29 person reporting under the tax rate provided in this subsection (12)  
30 must file a complete annual survey with the department under RCW  
31 82.32.585.

32 (13) Upon every person engaging within this state in inspecting,  
33 testing, labeling, and storing canned salmon owned by another person,  
34 as to such persons, the amount of tax with respect to such activities  
35 is equal to the gross income derived from such activities multiplied  
36 by the rate of 0.484 percent.

37 (14)(a) Upon every person engaging within this state in the  
38 business of printing a newspaper, publishing a newspaper, or both,  
39 the amount of tax on such business is equal to the gross income of

1 the business multiplied by the rate of 0.35 percent until July 1,  
2 2024, and 0.484 percent thereafter.

3 (b) A person reporting under the tax rate provided in this  
4 subsection (14) must file a complete annual report with the  
5 department under RCW 82.32.534.

6 (15)(a) Beginning July 1, 2016, upon every person engaging within  
7 this state in the business of manufacturing spacecraft or spacecraft  
8 components, or making sales, at retail or wholesale, of such  
9 spacecraft or spacecraft components, manufactured by the seller, as  
10 to such persons the amount of tax with respect to such business is,  
11 in the case of manufacturers, equal to the value of the product  
12 manufactured and the gross proceeds of sales of the product  
13 manufactured, or in the case of processors for hire, equal to the  
14 gross income of the business, multiplied by the rate of 0.2904  
15 percent.

16 (b) For the purposes of this subsection (15), "spacecraft" and  
17 "spacecraft component," have the same meanings as provided in RCW  
18 82.32.550.

19 (c) In addition to all other requirements under this title, a  
20 person reporting under the tax rate provided in this subsection (15)  
21 must file a complete annual report with the department under RCW  
22 82.32.534.

23 (16)(a) Beginning July 1, 2016, upon every person engaging within  
24 this state primarily in satellite communications, the amount of tax  
25 with respect to satellite communications is equal to the gross income  
26 derived from such activities multiplied by the rate of 0.2904  
27 percent.

28 (b) For purposes of this section, "satellite communications"  
29 means the electronic transmission, conveyance, or routing of voice,  
30 data, audio, video, or any other information or signals to a point,  
31 or between or among points, occurring wholly through a satellite.  
32 "Satellite communications" includes telecommunication services, radio  
33 and television programming services, and internet access service,  
34 only where such activities occur wholly through a satellite and are  
35 conducted by persons primarily engaged in the provision of such  
36 services through a satellite rather than other means. "Satellite  
37 communications" does not include radio and television broadcasting  
38 under RCW 82.04.280(1)(f). "Satellite" has the same meaning as  
39 provided in RCW 82.32.550.

1 (c) In addition to all other requirements under this title, a  
2 person reporting under the tax rate provided in this subsection (16)  
3 must file a complete annual report with the department under RCW  
4 82.32.534.

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

7 (1) Beginning July 1, 2016, in computing the tax imposed under  
8 this chapter, a credit is allowed for property taxes and leasehold  
9 excise taxes paid during the calendar year.

10 (2) The credit is equal to:

11 (a)(i) Property taxes or leasehold excise taxes paid on, or with  
12 respect to, buildings constructed after July 1, 2016, the land upon  
13 which the buildings are located, or both, and used exclusively for  
14 manufacturing spacecraft or spacecraft components, for spacecraft  
15 product development; or

16 (ii) Property taxes attributable to an increase in assessed value  
17 due to the renovation or expansion after July 1, 2016, of a building  
18 used exclusively for manufacturing spacecrafts or spacecraft  
19 components, or for spacecraft product development; and

20 (b)(i) An amount equal to:

21 (A) Property taxes paid, by persons taxable under RCW  
22 82.04.260(15) on machinery and equipment exempt under RCW 82.08.02565  
23 or 82.12.02565 and acquired after July 1, 2016; or

24 (B) Property taxes paid, by persons taxable under RCW  
25 82.04.250(3) or 82.04.290(4), on computer hardware, computer  
26 peripherals, and software exempt under sections 6 and 7 of this act  
27 and acquired after July 1, 2016.

28 (ii) For purposes of determining the amount eligible for credit  
29 under (b)(i)(A) of this subsection (2), the amount of property taxes  
30 paid is multiplied by a fraction.

31 (A) The numerator of the fraction is the total taxable amount  
32 subject to the tax imposed under RCW 82.04.260(15) on the applicable  
33 business activities of manufacturing spacecraft or spacecraft  
34 components.

35 (B) The denominator of the fraction is the total taxable amount  
36 subject to the tax imposed under all manufacturing classifications in  
37 this chapter.

38 (C) For purposes of both the numerator and denominator of the  
39 fraction, the total taxable amount refers to the total taxable amount

1 required to be reported on the person's returns for the calendar year  
2 before the calendar year in which the credit under this section is  
3 earned. The department may provide for an alternative method for  
4 calculating the numerator in cases where the tax rate provided in RCW  
5 82.04.260(15) for manufacturing was not in effect during the full  
6 calendar year before the calendar year in which the credit under this  
7 section is earned.

8 (D) No credit is available under (b)(i)(A) of this subsection (2)  
9 if either the numerator or the denominator of the fraction is zero.  
10 If the fraction is greater than or equal to nine-tenths, then the  
11 fraction is rounded to one.

12 (E) As used in (b)(ii)(C) of this subsection (2), "returns" means  
13 the tax returns for which the tax imposed under this chapter is  
14 reported to the department.

15 (3) A credit earned during one calendar year may be carried over  
16 to be credited against taxes incurred in a subsequent calendar year,  
17 but may not be carried over a second year. No refunds may be granted  
18 for credits under this section.

19 (4) In addition to all other requirements under this title, a  
20 person claiming the credit under this section must file a complete  
21 annual report with the department under RCW 82.32.534.

22 (5) The definitions in this subsection apply throughout this  
23 section unless the context clearly requires otherwise.

24 (a) "Spacecraft product development" means research, design, and  
25 engineering activities performed in relation to the development of a  
26 spacecraft product or of a product line, model, or model derivative  
27 of a spacecraft product, including prototype development, testing,  
28 and certification. The term includes the discovery of technological  
29 information, the translating of technological information into new or  
30 improved products, processes, techniques, formulas, or inventions,  
31 and the adaptation of existing products and models into new products  
32 or new models, or derivatives of products or models. The term does  
33 not include manufacturing activities or other production-oriented  
34 activities; however, the term does include tool design and  
35 engineering design for the manufacturing process. The term does not  
36 include surveys and studies, social science and humanities research,  
37 market research or testing, quality control, sale promotion and  
38 service, computer software developed for internal use, and research  
39 in areas such as improved style, taste, and seasonal design.

1 (b) "Spacecraft products" means spacecraft and spacecraft  
2 components as provided in RCW 82.32.550.

3 NEW SECTION. **Sec. 5.** A new section is added to chapter 82.04  
4 RCW to read as follows:

5 (1) Beginning July 1, 2016, in computing the tax imposed under  
6 this chapter, a credit is allowed for each person engaged in  
7 qualified spacecraft product development.

8 (2) The credit is equal to the amount of qualified spacecraft  
9 product development expenditures of a person, multiplied by the rate  
10 of 1.5 percent.

11 (3) The credit must be claimed against taxes due for the same  
12 calendar year in which the qualified spacecraft product development  
13 expenditures are incurred. The credit for each calendar year may not  
14 exceed the amount of tax otherwise due under this chapter for the  
15 calendar year. Refunds may not be granted in the place of a credit.

16 (4) Any person claiming the credit must file a form prescribed by  
17 the department and such additional information as the department may  
18 prescribe.

19 (5) In addition to all other requirements under this title, a  
20 person claiming the credit under this section must file a complete  
21 annual report with the department under RCW 82.32.534.

22 (6) Credit may not be claimed for expenditures for which a credit  
23 is claimed under RCW 82.04.4452.

24 (7) The definitions in this subsection apply throughout this  
25 section unless the context clearly requires otherwise.

26 (a) "Spacecraft product" has the same meaning as provided in  
27 section 4 of this act.

28 (b) "Spacecraft product development" has the same meaning as  
29 provided in section 4 of this act.

30 (c) "Qualified spacecraft product development" means spacecraft  
31 product development performed within this state.

32 (d) "Qualified spacecraft product development expenditures" means  
33 operating expenses, including wages, compensation of a proprietor or  
34 a partner in a partnership as determined by the department, benefits,  
35 supplies, and computer expenses, directly incurred in qualified  
36 spacecraft product development by a person claiming the credit  
37 provided in this section. The term does not include amounts paid to a  
38 person or to the state and any of its departments and institutions,  
39 other than a public educational or research institution to conduct

1 qualified spacecraft product development. The term does not include  
2 capital costs and overhead, such as expenses for land, structures, or  
3 depreciable property.

4 (e) "Taxable amount" means the taxable amount subject to the tax  
5 imposed in this chapter required to be reported on the person's tax  
6 returns during the year in which the credit is claimed, less any  
7 taxable amount for which a credit is allowed under RCW 82.04.440.

8 NEW SECTION. **Sec. 6.** A new section is added to chapter 82.08  
9 RCW to read as follows:

10 (1) The tax levied by RCW 82.08.020 does not apply to sales of  
11 computer hardware, computer peripherals, or software, not otherwise  
12 eligible for exemption under RCW 82.08.02565, used primarily in the  
13 development, design, and engineering of spacecraft products, or to  
14 sales of or charges made for labor and services rendered in respect  
15 to installing the computer hardware, computer peripherals, or  
16 software.

17 (2) The exemption is available only when the buyer provides the  
18 seller with an exemption certificate in a form and manner prescribed  
19 by the department. The seller must retain a copy of the certificate  
20 for the seller's files.

21 (3) The definitions in this subsection apply throughout this  
22 section unless the context clearly requires otherwise.

23 (a) "Peripherals" includes keyboards, monitors, mouse devices,  
24 and other accessories that operate outside of the computer, excluding  
25 cables, conduit, wiring, and other similar property.

26 (b) "Spacecraft products" has the same meaning as provided in  
27 section 4 of this act.

28 NEW SECTION. **Sec. 7.** A new section is added to chapter 82.12  
29 RCW to read as follows:

30 (1) The provisions of this chapter do not apply in respect to the  
31 use of computer hardware, computer peripherals, or software, not  
32 otherwise eligible for exemption under RCW 82.12.02565, used  
33 primarily in the development, design, and engineering of spacecraft  
34 products, or to the use of labor and services rendered in respect to  
35 installing the computer hardware, computer peripherals, or software.

36 (2) For the purposes of this section:

37 (a) "Peripherals" has the same meaning as provided in section 6  
38 of this act; and

1 (b) "Spacecraft products" has the same meaning as provided in  
2 section 4 of this act.

3 NEW SECTION. **Sec. 8.** A new section is added to chapter 82.08  
4 RCW to read as follows:

5 (1) The tax levied by RCW 82.08.020 does not apply to:

6 (a) Charges, for labor and services rendered in respect to the  
7 constructing of new buildings, made to:

8 (i) A manufacturer engaged in the manufacturing of spacecraft or  
9 spacecraft components; or

10 (ii) A port district, political subdivision, or municipal  
11 corporation, to be leased to a manufacturer engaged in the  
12 manufacturing of spacecraft or spacecraft components.

13 (b) Sales of tangible personal property that will be incorporated  
14 as an ingredient or component of such buildings during the course of  
15 the constructing;

16 (c) Charges made for labor and services rendered in respect to  
17 installing, during the course of constructing such buildings,  
18 building fixtures not otherwise eligible for the exemption under RCW  
19 82.08.02565(2)(b); or

20 (d) Charges for labor and services rendered in respect to (i) the  
21 constructing of new buildings used primarily for the launching,  
22 controlling, or monitoring of spacecraft; (ii) sales of tangible  
23 personal property that will be incorporated as an ingredient or  
24 component of such buildings during the course of constructing; or  
25 (iii) charges made for labor and services rendered in respect to  
26 installing building fixtures not otherwise eligible for the exemption  
27 under RCW 82.08.02565(2)(b), during the course of constructing such  
28 buildings.

29 (2) The exemption is available only when the buyer provides the  
30 seller with an exemption certificate in a form and manner prescribed  
31 by the department. The seller must retain a copy of the certificate  
32 for the seller's files.

33 (3) No application is necessary for the tax exemption in this  
34 section. However, in order to qualify under this section before  
35 starting construction, the port district, political subdivision, or  
36 municipal corporation must have entered into an agreement with the  
37 manufacturer to build such a facility. In order to qualify under this  
38 section before starting construction of a new building used primarily  
39 for launching, controlling, or monitoring spacecraft, the person



1 claiming the exemption must disclose the intended payload of the  
2 spacecraft to be launched from the building. A person claiming the  
3 exemption under this section is subject to all the requirements of  
4 chapter 82.32 RCW. In addition, the person must file a complete  
5 annual report with the department under RCW 82.32.534.

6 (4) The exemption in this section applies to buildings or parts  
7 of buildings, including buildings or parts of buildings used for the  
8 storage of raw materials or finished products, which are used  
9 primarily in the manufacturing of spacecraft or spacecraft  
10 components.

11 (5) The exemption in this section applies only when manufacturers  
12 or port districts, political subdivisions, or municipal corporations  
13 agree to create one hundred jobs within three years of claiming a tax  
14 exemption under this section or twenty jobs within three years of  
15 claiming a tax exemption under this section if located within a  
16 distressed county. "Distressed county" for the purposes of this  
17 section means counties where the unemployment rate is at least twenty  
18 percent higher than the statewide average for the immediately  
19 previous three years. The jobs created must be maintained for at  
20 least five years once the job creation requirement has been met. If a  
21 taxpayer who claimed an exemption under this section does not meet  
22 the job creation requirement provided in this subsection, the  
23 department must declare the amount of the tax exemption claimed under  
24 this section immediately due.

25 (6) For the purposes of this section, "spacecraft," "spacecraft  
26 component," and "payload" have the same meanings as provided in RCW  
27 82.32.550.

28 NEW SECTION. **Sec. 9.** A new section is added to chapter 82.12  
29 RCW to read as follows:

30 (1) The provisions of this chapter do not apply with respect to  
31 the use of:

32 (a) Tangible personal property that will be incorporated as an  
33 ingredient or component in constructing new buildings for:

34 (i) A manufacturer engaged in the manufacturing of spacecraft or  
35 spacecraft components; or

36 (ii) A port district, political subdivision, or municipal  
37 corporation, to be leased to a manufacturer engaged in the  
38 manufacturing of spacecraft and spacecraft components;

1 (b) Labor and services rendered in respect to installing, during  
2 the course of constructing such buildings, building fixtures not  
3 otherwise eligible for the exemption under RCW 82.08.02565(2)(b); or

4 (c) Charges for labor and services rendered in respect to (i) the  
5 constructing of new buildings used primarily for the launching,  
6 controlling, or monitoring of spacecraft; (ii) sales of tangible  
7 personal property that will be incorporated as an ingredient or  
8 component of such buildings during the course of constructing; or  
9 (iii) charges made for labor and services rendered in respect to  
10 installing building fixtures not otherwise eligible for the exemption  
11 under RCW 82.08.02565(2)(b), during the course of constructing such  
12 buildings.

13 (2) The eligibility requirements, conditions, and definitions in  
14 section 8 of this act apply to this section, including the filing of  
15 a complete annual report with the department under RCW 82.32.534 and  
16 the requirement to disclose the intended payload of spacecraft  
17 launched from qualified new buildings.

18 (3) For the purposes of this section, "spacecraft," "spacecraft  
19 component," and "payload" have the same meanings as provided in RCW  
20 82.32.550.

21 **Sec. 10.** RCW 82.04.290 and 2014 c 97 s 404 are each amended to  
22 read as follows:

23 (1) Upon every person engaging within this state in the business  
24 of providing international investment management services, as to such  
25 persons, the amount of tax with respect to such business is equal to  
26 the gross income or gross proceeds of sales of the business  
27 multiplied by a rate of 0.275 percent.

28 (2)(a) Upon every person engaging within this state in any  
29 business activity other than or in addition to an activity taxed  
30 explicitly under another section in this chapter or subsection (1)  
31 (~~(1)~~), (3), (4), or (5) of this section; as to such persons the  
32 amount of tax on account of such activities is equal to the gross  
33 income of the business multiplied by the rate of 1.5 percent.

34 (b) This subsection (2) includes, among others, and without  
35 limiting the scope hereof (whether or not title to materials used in  
36 the performance of such business passes to another by accession,  
37 confusion or other than by outright sale), persons engaged in the  
38 business of rendering any type of service which does not constitute a  
39 "sale at retail" or a "sale at wholesale." The value of advertising,

1 demonstration, and promotional supplies and materials furnished to an  
2 agent by his or her principal or supplier to be used for  
3 informational, educational, and promotional purposes is not  
4 considered a part of the agent's remuneration or commission and is  
5 not subject to taxation under this section.

6 (3)(a) Until July 1, 2040, upon every person engaging within this  
7 state in the business of performing aerospace product development for  
8 others, as to such persons, the amount of tax with respect to such  
9 business is equal to the gross income of the business multiplied by a  
10 rate of 0.9 percent.

11 (b) A person reporting under the tax rate provided in this  
12 subsection (3) must file a complete annual report with the department  
13 under RCW 82.32.534.

14 (c) "Aerospace product development" has the meaning as provided  
15 in RCW 82.04.4461.

16 (4)(a) Until July 1, 2025, upon every person engaging within this  
17 state in the business of performing spacecraft product development  
18 for others, as to such persons, the amount of tax with respect to  
19 such business is equal to the gross income of the business multiplied  
20 by a rate of 0.9 percent.

21 (b) "Spacecraft product development" has the same meaning as  
22 provided in section 4 of this act.

23 (5)(a) Upon every person engaging within this state in the  
24 business of performing space exploration for others, as to such  
25 persons, the amount of tax with respect to such business is equal to  
26 the gross income of the business multiplied by a rate of 0.9 percent.

27 (b) A person reporting under the tax rate provided in this  
28 subsection (5) must disclose the payload of the spacecraft used for  
29 the purpose of space exploration.

30 (c) A person reporting under the tax rate provided in this  
31 subsection (5) must file a complete annual report with the department  
32 under RCW 82.32.534.

33 (d) For the purposes of this section, "space exploration,"  
34 "spacecraft," and "payload" have the same meanings as provided in RCW  
35 82.32.550.

36 **Sec. 11.** RCW 82.04.460 and 2014 c 97 s 304 are each amended to  
37 read as follows:

38 (1) Except as otherwise provided in this section, any person  
39 earning apportionable income taxable under this chapter and also

1 taxable in another state must, for the purpose of computing tax  
2 liability under this chapter, apportion to this state, in accordance  
3 with RCW 82.04.462, that portion of the person's apportionable income  
4 derived from business activities performed within this state.

5 (2) The department must by rule provide a method of apportioning  
6 the apportionable income of financial institutions, where such  
7 apportionable income is taxable under RCW 82.04.290. The rule adopted  
8 by the department must, to the extent feasible, be consistent with  
9 the multistate tax commission's recommended formula for the  
10 apportionment and allocation of net income of financial institutions  
11 as existing on June 1, 2010, or such subsequent date as may be  
12 provided by the department by rule, consistent with the purposes of  
13 this section, except that:

14 (a) The department's rule must provide for a single factor  
15 apportionment method based on the receipts factor; and

16 (b) The definition of "financial institution" contained in  
17 appendix A to the multistate tax commission's recommended formula for  
18 the apportionment and allocation of net income of financial  
19 institutions is advisory only.

20 (3) The department may by rule provide a method or methods of  
21 apportioning or allocating gross income derived from sales of  
22 telecommunications service and competitive telephone service taxed  
23 under this chapter, if the gross proceeds of sales subject to tax  
24 under this chapter do not fairly represent the extent of the  
25 taxpayer's income attributable to this state. The rule must provide  
26 for an equitable and constitutionally permissible division of the tax  
27 base.

28 (4) For purposes of this section, the following definitions apply  
29 unless the context clearly requires otherwise:

30 (a) "Apportionable income" means gross income of the business  
31 generated from engaging in apportionable activities, including income  
32 received from apportionable activities performed outside this state  
33 if the income would be taxable under this chapter if received from  
34 activities in this state, less the exemptions and deductions  
35 allowable under this chapter. For purposes of this subsection,  
36 "apportionable activities" means only those activities taxed under:

- 37 (i) RCW 82.04.255;
- 38 (ii) RCW 82.04.260 (3), (5), (6), (7), (8), (9), (10), and (13);
- 39 (iii) RCW 82.04.280(1)(e);
- 40 (iv) RCW 82.04.285;

1 (v) RCW 82.04.286;  
2 (vi) RCW 82.04.290;  
3 (vii) RCW 82.04.2907;  
4 (viii) RCW 82.04.2908;  
5 (ix) RCW 82.04.260(16)(a) and 82.04.263, but only to the extent  
6 of any activity that would be taxable under any of the provisions  
7 enumerated under (a)(i) through (viii) of this subsection (4) if the  
8 tax classifications in RCW 82.04.260(16)(a) and 82.04.263 did not  
9 exist; and  
10 (x) RCW 82.04.260(14) and 82.04.280(1)(a), but only with respect  
11 to advertising.  
12 (b)(i) "Taxable in another state" means that the taxpayer is  
13 subject to a business activities tax by another state on its income  
14 received from engaging in apportionable activities; or the taxpayer  
15 is not subject to a business activities tax by another state on its  
16 income received from engaging in apportionable activities, but any  
17 other state has jurisdiction to subject the taxpayer to a business  
18 activities tax on such income under the substantial nexus standards  
19 in RCW 82.04.067(1).  
20 (ii) For purposes of this subsection (4)(b), "business activities  
21 tax" and "state" have the same meaning as in RCW 82.04.462.

22 NEW SECTION. **Sec. 12.** This act takes effect July 1, 2016.

23 NEW SECTION. **Sec. 13.** This act expires July 1, 2025.

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