Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2236

Brief Description: Concerning sales and use tax exemptions for large private airplanes.

Sponsors: Representatives Ybarra, Springer, Dent, Goodman, Stokesbary, Hoff, Wylie, Kraft, Orcutt and Irwin.

Brief Summary of Bill

- Extends the sales and use tax exemption for the modification of large private airplanes owned by nonresidents until July 1, 2031.
- Updates the airplane registration requirements to exempt large private airplanes owned by nonresidents in Washington for modification.
- Updates the airplane excise tax exemption to exclude commercial airplanes in Washington for storage for more than one calendar year after July 1, 2021.

Hearing Date: 1/21/20

Staff: Tracey O'Brien (786-7152).

Background:

Retail 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 collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

Aircraft Excise Tax.
Aircraft excise tax applies to private owners of small planes used for personal or business purposes, unless otherwise exempt. The tax is an annual fee based on the type of aircraft, except

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for aircraft owned and operated by a commuter air carrier that is not an airplane company, who are required to pay an annual fee based on weight.

The fee schedule for aircrafts taxed by type is as follows:
- $20 for home built, lighter than air, and sail planes;
- $50 for single engine fixed wing;
- $65 for small multi-engine fixed wing;
- $75 for helicopter;
- $80 for large multi-engine fixed wing;
- $100 for turboprop multi-engine fixed wing; and
- $125 for turbojet multi-engine fixed wing.

Commuter air carriers pay the tax based on the gross maximum take-off weight of the aircraft. The weight based fee schedule is as follows:
- $500 for less than 4,001 pounds (lbs);
- $1,000 for 4,001-6,000 lbs;
- $2,000 for 6,001-8,000 lbs;
- $3,000 for 8,001-9,000 lbs; and
- $4,000 for 9,001-12,000 lbs.

All receipts from this tax are deposited into the Aeronautics Account. An aircraft must be registered for each calendar year it is operated in the state. The tax is collected when the aircraft is first registered. The fee is then due each January thereafter.

Aircraft Registration.
The Washington State Department of Transportation (DOT) Aviation is responsible for registering aircraft in the Washington. Every aircraft must be registered with the DOT each calendar year in which the aircraft is operated or based within Washington. The registration is based on a calendar year and is collected during the month of January. The registration fee is $15.

There are aircraft that are exempt from registration: government aircraft; foreign aircraft; non-resident owned aircraft; and large private airplanes here for repair, alteration, reconstruction, or storage for more than a year.

Modification of Large Private Airplanes Owned by Nonresidents.
Beginning January 1, 2014, nonresidents that brought their large private airplanes to Washington for modification are eligible for a sales and use tax exemption. Modifications usually involved interior renovations and technological and electronic upgrades. To qualify, the airplanes cannot be used commercially, must not be owned or leased by a government entity, must weigh more than 41,000 pounds and must meet certain Federal Aviation Administration standards.

When this exemption was enacted, the Legislature articulated two objectives for the preference: the promotion of economic development of Washington's aerospace cluster and the increase of tax revenues by promoting a competitive marketplace for modifying large airplanes. The exemption was subject to a review by the Joint Legislative Audit and Review Committee (JLARC), which was completed in December 2019. The JLARC concluded that the preference has likely resulted in new jobs and increased state tax revenues by $1.8 million to $3.3 million

annually. The JLARC also concluded that the tax preference had a negligible impact on Washington's aerospace manufacturing industry. The estimated biennial beneficiary savings is $11.6 million.

This tax preference expires July 1, 2021.

Tax Preference Performance Statement.
State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

The retail sales and use tax exemption for the modification of large private airplanes owned by nonresidents is extended to July 1, 2031. In addition, an exemption to the aircraft registration requirement is granted to large private airplanes remaining in the state more than 90 days while receiving modification work, including flight testing, upon written request of the owner to the DOT.

In addition, it is clarified that the airplane excise tax continues to applies to aircraft that are used primarily in commercial flying that constitutes interstate or foreign commerce that is in Washington primarily for storage of at least one calendar year in duration after July 1, 2021.

The tax preference performance statement from the 2013 enactment is updated to require a JLARC review by January 1, 2027.

Appropriation: None.

Fiscal Note: Requested on January 13, 2020

Effective Date: This bill takes effect 90 days after adjournment of the session in which the bill is passed, except for section 3 relating to aircraft registration and section 5 relating to aircraft excise tax, which take effect July 1, 2021.