

HOUSE BILL REPORT

SSB 6068

As Reported by House Committee On:
Finance

Title: An act relating to sales and use tax exemptions for large private airplanes.

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

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Warnick, Mullet, Wilson, L., Takko, Short, Lias and Honeyford).

Brief History:

Committee Activity:

Finance: 2/27/20, 3/2/20 [DP].

Brief Summary of Substitute 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.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 11 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Macri, Orwall, Springer, Stokesbary, Vick and Wylie.

Minority Report: Without recommendation. Signed by 1 member: Representative Frame.

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

Background:

Retail Sales and Use Tax.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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 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 to 6,000 lbs;
- \$2,000 for 6,001 to 8,000 lbs;
- \$3,000 for 8,001 to 9,000 lbs; and
- \$4,000 for 9,001 to 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 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; nonresident-owned aircraft; and large private airplanes in Washington for repair, alteration, reconstruction, or storage for more than one year.

Modification of Large Private Airplanes Owned by Nonresidents.

Beginning January 1, 2014, nonresidents that bring their large private airplanes to Washington for modification are eligible for a sales and use tax exemption. Modifications usually involve 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 that identifies the public policy objective of the preference, as well as specific metrics that the 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 apply 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.

By January 1, 2027, the JLARC must conduct its tax preference review, which will evaluate the economic impacts on Washington from the tax preferences and, to the extent practicable, estimate job growth in the aerospace cluster resulting from the tax preferences.

Appropriation: None.

Fiscal Note: Available.

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.

Staff Summary of Public Testimony:

(In support) This legislation has been a success according to both the Citizen's Commission for Performance Measures of Tax Preferences and the JLARC. Prior to the creation of this tax preference, there were no businesses in the aerospace cluster in Washington that focused on the modification of large private airplanes. As a result of this preference, a company is operating in Moses Lake that modifies large private airplanes. They employ 300 to 500 persons in well-paying jobs. There are only a few companies in the world that do this kind of work. This tax preference helps diversify our aerospace cluster. Although the fiscal note shows a loss in tax revenue, it is likely that this work would not continue in Washington if the tax preference were to go away.

(Opposed) None.

Persons Testifying: Steve Gano, Aviation and Technical Services; Tommy Gantz, Association of Washington Business; and Trent House, Aerospace Futures Alliance.

Persons Signed In To Testify But Not Testifying: None.