

SENATE BILL REPORT

SB 5721

As of February 15, 2023

Title: An act relating to authorizing a business and occupation tax credit to incentivize private sector investment in advanced aerospace manufacturing training and education.

Brief Description: Authorizing a business and occupation tax credit to incentivize private sector investment in advanced aerospace manufacturing training and education.

Sponsors: Senators Boehnke, Lovick, Lias and Torres.

Brief History:

Committee Activity: Higher Education & Workforce Development: 2/15/23.

Brief Summary of Bill

- Establishes a business and occupation tax credit for aerospace manufacturing training and education expenses.

SENATE COMMITTEE ON HIGHER EDUCATION & WORKFORCE DEVELOPMENT

Staff: Alicia Kinne-Clawson (786-7407)

Background: Business and Occupation Tax. The state business and occupation (B&O) tax is Washington's primary business tax. It is a gross receipts tax measured on the value of products, gross proceeds of sale, or gross income of the business. There are no deductions from the B&O tax for labor, materials, taxes, or other costs of doing business. The B&O tax rate varies by classification (activity). The major rates are: 0.471 percent for retailing activities, 0.484 percent for manufacturing and wholesaling activities, and for service and other activities, either 1.5 percent or 1.75 percent, depending upon the amount of annual gross income of the business. The state B&O tax includes a number of preferential tax rates, credits, exemptions, and deductions as well as several increased rates or surcharges.

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

Tax Preferences. 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. Washington has over 700 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 the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

Summary of Bill: Beginning January 1, 2024, a B&O tax credit is allowed for training and education expenses incurred by an employer that:

- manufactures commercial airplanes, airplane components, or tools designed for manufacturing such airplanes or airplane components;
- develops aerospace products, including research, design, and engineering of such products; or
- otherwise engages in advanced manufacturing.

Eligible training and education include any program, course, curriculum, or instruction that trains a prospective or current employee on new workplace technology, equipment, or innovation. The training and education can be completed through an internship or instructor-led program, including programs at institutions of higher education, apprenticeship programs, onboarding programs, or on-the-job training.

The credit is for 50 percent of the amount of qualified training and education expenses.

Qualifying expenses include:

- payments made by an employer to an institution of higher education, apprenticeship program, credentialed program, certification program, or continuing education program;
- salary, wages, and benefits of an employee who provides training on behalf of an employer; and
- salary and wages for a paid internship.

The credit expires July 1, 2024. A tax preference performance statement directs JLARC to evaluate the changes in employment for employers claiming the tax credit, and the types of training and education methods used by these employers.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: As you look at technology, look to the aerospace industry, we can lead in developing the technology of the future. When I was a kid in Eastern Washington I never thought I could grow up to fly helicopters. This bill helps inspire the next generation to make sure this industry can remain competitive. This bill comes at a critical point for aerospace manufacturers. We have ambitious goals to grow this industry but economic demand for qualified workers is extraordinarily difficult. Jobs are going unfilled. Eighty-eight percent of employers would like to engage in or start their own training program to help address workforce needs. This bill would create millions of dollars in opportunities for new training opportunities. The talent that exists in Washington continues to attract businesses but we need to support our educational pipelines to grow our workforce. This investment in workers will help make Washington companies more competitive. This bill would decrease the financial burden for Washington resident to access the education and training opportunities they need to succeed in the aerospace industry. We believe this creates a win-win for employers and employees. We are facing a workforce shortage in the advanced manufacturing industry and this helps address that. It is important to invest in a skilled workforce to retain good jobs. The states tax structure and tax incentives are key factors in advanced manufacturing businesses decided to make Washington home. Snohomish county is in strong support of this bill as many of our jobs rely on the advanced manufacturing sector. Our greatest challenge is finding and retaining employees. These tax credits will help us upskill our current employees and attract new talent.

OTHER: This sector is critical to the state. We are facing competition around the globe from other manufacturers. To remain competitive, we need more investments in our workforce. The next generation of workers need to have the skills to help our state build the next generation of aircraft. A recent competitiveness study showed that Washington remains a leader but competition is increasing.

Persons Testifying: PRO: Senator Matt Boehnke, Prime Sponsor; Lynnette Muenzberg; Donny Donovan, IAM 751; Emily Wittman, Aerospace Futures Alliance; Emily Shay, Association of Washington Business; Mike Brown, Aero-Plastics, Inc.; Garry Clark, Economic Alliance Snohomish County, President & CEO; James Henderson, Snohomish County; Wade Larson, Wagstaff, Inc.; Brent Ludeman, Aviation Technical Services.

OTHER: Robin Toth, Washington State Department of Commerce.

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