

SENATE BILL REPORT

ESSB 5071

As Passed Senate, June 10, 2003

Title: An act relating to a business and occupation tax rate on certain FAR part 145 certificated repair stations.

Brief Description: Revising business and occupation taxation for certain aviation businesses.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Reardon, Schmidt, Shin, Stevens and Rasmussen).

Brief History:

Committee Activity: Ways & Means: 2/10/03, 4/7/03 [DPS, DNP].

Passed Senate: 4/10/03, 34-11.

First Special Session: Passed Senate: 6/10/03, 34-10.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5071 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Doumit, Hale, Honeyford, Johnson, Parlette, Roach and Sheahan.

Minority Report: Do not pass.

Signed by Senators Fraser and Regala.

Staff: Terry Wilson (786-7433)

Background: Sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. Sales and use taxes are imposed by the state, counties and cities. Sales and use tax rates vary between 7 and 8.9 percent, depending on location.

Washington's major business tax is the business and occupation (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.

The sale and repair of goods is taxable under the sales tax and the B&O tax, but there are some exemptions. The sale and repair of boats, airplanes, railroad cars, and locomotives, or their components, that are used in instate or foreign commerce are exempt from sales tax. The B&O rate for these sales and repairs is 0.484 percent rather than the 0.471 retailing rate.

Summary of Bill: The B&O tax rate is reduced from 0.484 percent to 0.275 percent on the sale and repair of equipment used in interstate or foreign commerce by a person classified by the Federal Aviation Administration as a FAR part 145 certificated repair station with

airframe and instrument ratings and limited ratings for nondestructive testing, radio, class 3 accessory, and specialized services. The lower rate ends July 1, 2006.

Businesses using this special tax rate are required to report information on job creation/retention goals, actual jobs created/retained, average wages, average wages for employees hired after using the reduced rate, and the dollar value of the reduced rate.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on August 1, 2003.

Testimony For: After 9/11, Goodrich Aviation lost 40 percent of its employees. The downturn in the economy has caused a loss in business. There is intense competition from other companies lowering their rates to get business. It is difficult to maintain profitability. The current B&O tax puts us at a competitive disadvantage. This bill will result in re-employment and expansion. Aero Controls has also been affected by the downturn. It is also a certified repair station but not within the current bill's definition. Aero Controls is smaller than Goodrich but we still compete in the same market.

Testimony Against: None.

Testified: PRO: Steve Gano, Michael Zubovic, Goodrich Aviation; John Titus, Mary Ann Burns, Aero Controls (with amendment).