

FINAL BILL REPORT

SSB 6828

C 81 L 08

Synopsis as Enacted

Brief Description: Concerning the excise taxation of the aerospace industry.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Marr, Prentice, Zarelli, Schoesler, Hobbs, Kilmer, Shin and Rasmussen).

Senate Committee on Ways & Means

House Committee on Finance

Background: 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. Revenues are deposited in the state General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. There are a number of different rates. The main rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

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. There are a number of sales and use tax exemptions, including machinery and equipment directly used in manufacturing.

Property taxes are imposed by state and local governments. All real and personal property in this state is subject to the property tax based on its value, unless a specific exemption is provided by law. There are exemptions for certain properties, including property owned by federal, state, and local governments, churches, farm machinery, and business inventory.

In 2003 the Legislature adopted tax incentives that were limited to aerospace manufacturers. The incentives included a reduced B&O tax rate; a B&O tax credit for pre-production development expenditures; and a B&O tax credit for property taxes paid on property used in the manufacture of commercial airplanes and airplane components. A leasehold tax exemption for port district facilities is available to manufacturers of super-efficient airplanes that are not using the B&O tax credit for property taxes. The incentives also included sales and use tax exemptions for computer equipment and software, and installation, used primarily in the development of commercial airplanes and components. These exemptions are scheduled to end in 2024.

In 2006 the Legislature extended the sales and use tax exemption for computer equipment and software to nonmanufacturing firms engaged in the development, design, and engineering of commercial airplanes and components of commercial airplanes. The B&O tax credit for preproduction development expenditures related to commercial aircraft was also extended to nonmanufacturing firms.

Businesses that use these incentives file an annual report with the Department of Revenue (DOR). The report includes employment, wage, and employer-provided health and retirement benefit information for full-time, part-time, and temporary positions.

Summary: It is recognized that the aerospace industry provides well-paying jobs, as does its suppliers and vendors. Aerospace tax programs are extended to manufacturers, Federal Aviation Regulation (FAR) repair stations, and design/engineering services. These programs include the following:

- Sales and use tax exemptions are provided for computer equipment and software, and installation, which are used primarily in aerospace products or providing aerospace services.
- Until July 1, 2024, the B&O tax rate is 0.2904 percent for making sales, both retail or wholesale, of commercial airplanes or components. Persons claiming this rate must file an annual survey with the DOR.
- Beginning July 1, 2008 and ending on July 1, 2024, the B&O tax rate is set at 0.2904 percent for the manufacturing or sales of tooling used in the manufacturing of commercial airplanes and components of airplanes. Persons claiming this rate must file an annual survey with DOR.
- The B&O tax rate is set at 0.2904 percent for persons classified by the Federal Aviation Administration as a FAR 145 certified repair station. Persons claiming this rate must file an annual survey with DOR.
- Persons performing aerospace product development are qualified for a 0.9 percent B&O rate. Persons claiming this rate must file an annual survey with DOR.
- Aerospace product development is qualified for the preproduction 1.5 percent B&O tax credit on qualified expenditures.
- The B&O tax credit for property taxes paid is extended to aerospace product development, the manufacturing of tooling, and FAR Part 145 certified repair stations.

The sale of parts to the manufacturer of a commercial plane is deemed to take place at the site of final testing or inspection.

Other technical corrections and citation updates related to these programs are made.

Section 5 of the act expires July 1, 2011.

Votes on Final Passage:

Senate	44	4
House	92	5

Effective: July 1, 2008