

HOUSE BILL REPORT

HB 2880

As Reported by House Committee On: Finance

Title: An act relating to sales and use tax exemptions for aircraft fuel used for research and development purposes.

Brief Description: Concerning sales and use tax exemptions for aircraft fuel used for research and development purposes.

Sponsors: Representatives Dent, Chandler and Barkis.

Brief History:

Committee Activity:

Finance: 2/7/20, 2/10/20 [DPS].

Brief Summary of Substitute Bill

- Exempts aircraft fuel from sales and use tax if the fuel is used for certain research and development purposes and the taxpayer hires at least 20 new employees.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Orwall, Springer, Stokesbary, Vick and Wylie.

Staff: Nick Tucker (786-7383).

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

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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.

Taxation of Aircraft Fuel.

Aircraft fuel is subject to retail sales and use tax as well as the aircraft fuel tax. The aircraft fuel tax is imposed on each gallon of aircraft fuel that is sold, delivered, or used in the state. The rate of the tax is 11 cents per gallon.

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. 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 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 Substitute Bill:

Aircraft fuel is exempt from sales and use tax when the fuel is used in the operation of an aircraft for certain research and development purposes. The exemption is provided in the form of a remittance. To be eligible for the exemption a taxpayer must hire and retain at least 20 new employees whose primary duties are related to the research and development for which the fuel is used.

The research and development must be conducted within the state and must be conducted as part of a test flight program that uses testbed aircraft to test new aircraft engine designs that advance the use of new technologies or new clean fuels in the aerospace sector of the state.

Substitute Bill Compared to Original Bill:

The substitute bill:

- limits eligible research and development to a test flight program that uses testbed aircraft to test aircraft engine designs that advance the use of new technologies or new clean fuels in the aerospace sector of the state;
- limits research and development only to those test flights conducted within the state;
- defines "testbed aircraft;"
- modifies the JLARC's review of the preference to determine if at least 20 jobs are created as a result of the preference; and
- extends the effective date of the bill to July 1, 2021, and the expiration date to January 1, 2032.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 10, 2020.

Effective Date of Substitute Bill: The bill takes effect on July1, 2021.

Staff Summary of Public Testimony:

(In support) There are companies in the state converting aircraft for use as testbed aircraft, but without this exemption, these companies will not conduct the test flight program in the state. In the past, these companies have gone to places like Arizona where there are fewer taxes on aircraft fuel. Converting an aircraft takes at least two years, so the fiscal impact will not be immediate.

The aerospace industry constitutes a very large portion of the state economy and the state should be focused on helping the industry grow. Employment in the aerospace industry is growing because of state tax incentives. This tax preference would allow for the industry to continue to grow and would generate more jobs in places like Moses Lake.

(Opposed) None.

Persons Testifying: Representative Dent, prime sponsor; Bruce Beckett and Don Kersey, Port of Moses Lake; Matt Davis, Aerotec; and Tommy Gantz, Association of Washington Business.

Persons Signed In To Testify But Not Testifying: None.