

HOUSE BILL REPORT

SSB 5359

As Reported By House Committee On:
Finance

Title: An act relating to clarifying the exemption from sales and use taxation of the materials used by small companies in the design and development of aircraft parts, auxiliary equipment, and aircraft modification.

Brief Description: Clarifying the exemption from sales and use taxation of the materials used by small companies in the design and development of aircraft parts, auxiliary equipment, and aircraft modification.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Swecker, Fraser, West and Winsley).

Brief History:

Committee Activity:

Finance: 3/25/97, 4/7/97 [DPA].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 15 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Morris; Pennington; Schoesler; Thompson and Van Luven.

Staff: Rick Peterson (786-7150).

Background: A sales tax is imposed on retail sales of most items of tangible personal property and some services. The state tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. These range from 0.5 percent to 1.7 percent. The total rate is between 7.0 percent and 8.2 percent, depending on the location.

Exempt from these taxes are purchases by businesses for resale and purchases of components and ingredients that become part of another product for sale. Purchases of components and ingredients that are incorporated into prototypes are not exempt from sales and use tax.

In 1996 the Legislature adopted a sales and use tax exemption for materials used in designing and developing aircraft parts, auxiliary equipment, and aircraft modifications. The exemption is limited to taxpayers with gross sales of less than \$20 million. The amount of the exemption is limited to the tax on \$100,000 of materials.

Summary of Amended Bill: The existing sales and use tax exemption for materials used in the design and development of aircraft parts, auxiliary equipment, and aircraft modification is replaced with an exemption for tangible personal property incorporated into a prototype for aircraft parts, auxiliary equipment, or modifications. The exemption is available only for businesses with annual gross income and value of products manufactured of less than \$20 million. The exemption is capped at \$100,000 in state and local taxes per taxpayer per year.

Amended Bill Compared to Substitute Bill: The amended bill removes the retroactive application of the exemption to July 1, 1996.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on April 8, 1997.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect on July 1, 1997.

Testimony For: This bill corrects the exemption adopted by the 1996 Legislature. That legislation was intended to allow an exemption for up to \$100,000 of tax not to limit the exemption to the tax on \$100,000 of materials. The current tax system is applying sales tax to the materials purchased for use in research and development. This practice takes vital resources away from the research and development effort.

Testimony Against: None.

Testified: Joe Soloy, Scott Smith and Steve Gano, Soloy Corporation (pro); and Ron Rosenbloom, Department of Revenue (concerns).