

HOUSE BILL REPORT

HB 2267

As Reported by House Committee On:

Finance

Title: An act relating to excise tax deductions for aircraft component parts used in repair or maintenance.

Brief Description: Providing a tax deduction for certain aircraft component parts.

Sponsors: Representatives Reardon, Pearson, Berkey, Schmidt, Lovick, Barlean, Cooper, Morris, Dunshee, Ericksen, Edwards, O'Brien and Marine.

Brief History:

Committee Activity:

Finance: 2/5/02, 2/11/02 [DPS].

Brief Summary of Substitute Bill

- Reduces business and occupation tax rate from 0.484 percent to 0.275 percent on the sale and repair of equipment used in interstate or foreign commerce by certain FAA certificated aircraft repair facilities.
- Ends the lower rate on June 30, 2005.
- Requires businesses using the special tax rate to report information on jobs and wages.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Cairnes, Ranking Minority Member; Conway, Morris, Nixon, Orcutt, Roach, Santos, Van Loven and Veloria.

Staff: Rick Peterson (786-7150).

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 tax is imposed on the gross receipts from all business activities conducted within the state.

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 interstate or foreign commerce is exempt from sales tax. However, the sales tax exemption does not extend to the B&O tax. The B&O rate for these sales and repairs is 0.484 percent.

Summary of Substitute 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 persons classified by the Federal Aviation Administration as a FAR part 145 certificated repair station with an airframe class 4 rating and limited capabilities in instruments, radio equipment, and specialized services. The lower rate ends June 30, 2005.

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.

Substitute Bill Compared to Original Bill:

The substitute bill reduces the B&O tax rate. The original bill allowed a B&O tax deduction for the price of parts used in the repair of equipment used in interstate or foreign commerce. The substitute bill adds the business reporting requirement and the June 30, 2005 sunset date.

Appropriation: None.

Fiscal Note: Requested on Feb 2, 2002 as substitute.

Effective Date of Substitute Bill: The bill takes effect August 1, 2002.

Testimony For: This is necessary legislation to help with rehiring persons that have been laid off. The fiscal impact is minimal. We are confident that this exemption will create jobs and improve productivity. Reduced profit to airlines has caused them to

postpone maintenance. Goodrich employs 2000 workers in Washington. The competitive environment in third-party aircraft maintenance has become more intense. Goodrich Aviation Technical Services is not currently profitable. We need to reduce the cost of doing business. Given the nature of repairs for both commercial airlines and cargo carriers charges for repair parts should be treated separately from charges for repair labor. This bill provides a more fair and equitable tax treatment.

(Concerns) Washington business tax applies to gross receipts. It is a tax on gross without any deductions. Operating costs and overhead costs are not deducted from the measure of the tax. Allowing a deduction for costs makes the B&O tax more like an income tax.

Testimony Against: None.

Testified: Representative Reardon, prime sponsor; Michael Zubovic, Goodrich Aviation Technical Services; Steve Gano, Goodrich Aviation Technical Services; and Julie Sexton, Department of Revenue.