

HOUSE BILL REPORT

HB 1096

As Reported by House Committee On:

Finance

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: Representatives Berkey, Pearson, Morris, Kristiansen, Sullivan, Buck, Dunshee, Cooper, Lovick, Sehlin, Bailey, Kessler and Nixon.

Brief History:

Committee Activity:

Finance: 1/28/03, 4/4/03 [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 July 1, 2006.
- 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 9 members: Representatives Gombosky, Chair; McIntire, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

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 July 1, 2006.

Businesses using this special tax rate are required to report each quarter, to the Department of Revenue, information on the number of production workers, average wage of production workers, total wages for production workers, total sales, and total wages for production workers as a percent of total sales.

Substitute Bill Compared to Original Bill:

The substitute ends the special tax rate on July 1, 2006 rather than June 30, 2006. The substitute requires a quarterly rather than an annual report and eliminates the reporting of a number of redundant items.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The bill applies to Goodrich's aviation technical services group. Goodrich has facilities in Spokane and Everett. About 1,600 employees are located at

Paine Field. This is down from 2,800. The repair and maintenance group has been unprofitable for three years. There has been a reduction in force of 40 percent but the division is still not profitable. Another 20 to 25 percent reduction in revenue is expected for next year. Out-of-state competitors have reduced prices to maintain existing programs and win new business. The bill will help retain this business in Washington. The company installs very expensive equipment on aircraft and pays business and occupation tax on the value of this equipment. The bill provides a more fair and equitable tax situation and will help the company to remain competitive and in the state. The bill should be amended to add a specific due date for the accountability report.

Testimony Against: None.

Testified: (In Support) Michael G. Zubovic, Goodrich Aviation Technical Services; and Steve Gano, Goodrich Aviation.

(Concerns) Julie Sexton, Department of Revenue.