

# HOUSE BILL REPORT

## HB 2294

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### As Passed Legislature

**Title:** An act relating to retaining and attracting the aerospace industry to Washington state.

**Brief Description:** Providing tax incentives for the retention and expansion of the aerospace industry in Washington state.

**Sponsors:** By Representatives Pettigrew, Priest, Morris and Hinkle; by request of Governor Locke.

### Brief History:

#### First Special Session

##### Floor Activity:

Passed House: 6/10/03, 79-13.

#### Second Special Session

##### Floor Activity:

Passed House: 6/11/03, 79-10.

Passed Senate: 6/11/03, 42-1.

Passed Legislature.

### Brief Summary of Bill

- Reduces business and occupation (B&O) tax rates for manufacturers of commercial airplanes or commercial airplane components.
- Provides credits against B&O tax for preproduction development expenditures for manufacturers of commercial airplanes or commercial airplane components.
- Provides credits against B&O tax for purchases of computer software and hardware acquired between July 1, 1995, and the effective date of this bill, and used primarily for the digital design and development of commercial airplanes.
- Provides sales and use tax exemptions for computer hardware, computer peripherals, and software acquired after the effective date of this bill and used primarily in the development, design, and engineering of commercial airplanes or commercial airplane components, and labor and services for installing these items.

- Provides sales and use tax exemptions for labor and services rendered in construction of new buildings by a manufacturer of superefficient airplanes or by a port district for lease to a manufacturer of superefficient airplanes, and components and fixtures of these buildings.
- Provides a leasehold excise tax exemption for these new buildings when constructed by a port district and leased to a manufacturer of superefficient airplanes.
- Provides a property tax exemption for buildings, machinery, and equipment on port district property when used exclusively for manufacturing superefficient airplanes.
- Provides credits against B&O tax for property taxes paid on new buildings and the land under new buildings when used exclusively for manufacturing commercial airplanes or components of commercial airplanes.
- Expires the B&O rate reductions the earlier of July 1, 2024, or December 31, 2007, if the assembly of a superefficient airplane does not begin by December 31, 2007. Expires all other tax incentives on July 1, 2024.
- Requires annual reports on employment, wages, and employee benefits by all businesses benefitting from a tax incentive under this bill.
- Makes the effective date of the bill contingent on the signing of a memorandum of agreement regarding an affirmative final decision to site a significant commercial airplane final assembly plant in Washington.

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## HOUSE COMMITTEE ON FINANCE

**Majority/Minority Report:** None.

**Staff:** Bob Longman (786-7139).

**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. The tax is imposed on the gross receipts from all business activities conducted within the state. 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. Rate categories for the B&O tax are as follows:

Processing meat (at wholesale); processing soybeans, canola,	0.138%
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& dry peas; manuf. wheat into flour; manuf. raw seafood; warehousing/reselling of prescription drugs; and manuf. fresh fruit, vegetables & dairy products.

Travel agents, stevedoring, & freight brokers, international investment management services. 0.275%

Retailing, environmental cleanup, and radioactive waste cleanup for the U.S. 0.471%

Manufacturing, wholesaling, extracting, extracting and processing for hire, commissions of insurance agents/brokers, printing and publishing, child care, income derived from royalties, warehousing, radio and TV broadcasting, public road construction, government contracting and retailing of interstate transportation equipment. 0.484%

Professional and personal services, public/nonprofit hospitals, and activities not classified elsewhere. 1.5%

Disposal of low-level radioactive waste. 3.3%

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.

Property owned by federal, state, or local governments, is exempt from the property tax. However, private lessees of government property are subject to the leasehold excise tax. The purpose of the leasehold excise tax is to impose a tax burden on persons using publicly-owned, tax-exempt property similar to the property tax that they would pay if they owned the property. The tax is collected by public entities that lease property to private parties.

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**Summary of Bill:**

The B&O tax rate for manufacturers of commercial airplanes or commercial airplane components is reduced from 0.484 percent to 0.4235 percent effective October 1, 2005, and to 0.2904 percent effective July 1, 2007 (or upon commencement of final assembly of a superefficient airplane, whichever is later).

A manufacturer of commercial airplanes or commercial airplane components may claim a credit against B&O tax for preproduction development expenditures. The credit is equal to 1.5 percent multiplied by the amount of eligible expenditures. Preproduction development includes research, design, and engineering activities performed in relation to the development of a product, product line, model, or model derivative, including prototype development, testing, and certification. Any credits earned before July 1, 2005, may be carried forward and used after July 1, 2005, but may not be used before then.

A manufacturer of commercial airplanes may claim a credit against B&O tax for investment related to computer software and hardware acquired between July 1, 1995, and the effective date of this bill, and used primarily for the digital design and development of commercial airplanes. The credit is equal to the purchase price of these items, multiplied by 8.44 percent. This credit is limited to \$10 million per calendar year and \$20 million total for each eligible person.

Sales and use tax exemptions are provided for computer hardware, computer peripherals, and software used primarily in the development, design, and engineering of commercial airplanes or commercial airplane components, and labor and services for installing these items.

Sales and use tax exemptions are provided for labor and services rendered in construction of new buildings by a manufacturer of superefficient airplanes or by a port district for lease to a manufacturer of superefficient airplanes. Sales and use tax exemptions are also provided for sales of tangible personal property that will be incorporated as an ingredient or component of the buildings during the course of the construction, and for labor and services rendered in respect to installing building fixtures during the course of construction.

These facilities are exempt from leasehold excise tax if leased by a manufacturer engaged in the manufacturing of superefficient airplanes. The leasehold is not exempt if the person is taking a B&O credit for property taxes.

All buildings, machinery, equipment, and other personal property of a lessee of a port district used exclusively in manufacturing superefficient airplanes are exempt from property taxation, effective January 1, 2005. The property is not exempt if the person is taking a B&O credit for property taxes.

A manufacturer of commercial airplanes or commercial airplane components may claim a

credit against B&O tax for:

- (1) Property taxes paid on new buildings built after the effective date of this act, and land upon which the buildings are located;
- (2) Property taxes attributable to an increase in assessed value due to the renovation or expansion, after the effective date of this act, of a building used in manufacturing commercial airplanes or components of such airplanes; and
- (3) Property taxes paid on machinery and equipment used in manufacturing commercial airplanes or components of such airplanes and acquired after the effective date of this act.

Businesses that exercise any of the incentives in this bill must file an annual report with the Department of Revenue by March 31 following the year they use the B&O reduced rate or credit, or full taxes will be immediately due and payable. The report must include employment, wage, and employer-provided health and retirement benefit information for full-time, part-time, and temporary positions. The reports will not be confidential, and will be made public upon request. The first report by a business shall include the same types of employment, wage, and benefit information for the 12 months prior to the business's first use of the incentives.

The Senate and House fiscal committee legislative staff shall report by November 1, 2010, and again by November 1, 2023, on the effectiveness of the incentives in keeping Washington competitive and on criteria to determine whether to extend the incentives or not. Information used to measure effectiveness shall include: job retention, net jobs created for Washington residents, company growth, economic diversity, and cluster dynamics.

The tax rates provided by this bill expire the earlier of July 1, 2024, or December 31, 2007, if the assembly of a superefficient airplane does not begin by December 31, 2007. The other tax incentives in this bill expire July 1, 2024.

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**Appropriation:** None.

**Fiscal Note:** Requested on June 9, 2003.

**Effective Date:** The bill takes effect on the first day of the month in which the Governor and a manufacturer of commercial airplanes sign a memorandum of agreement regarding an affirmative final decision to site a significant commercial airplane final assembly facility in Washington State. If a memorandum of agreement is not signed by July 1, 2005, the bill is null and void.

**Testimony For:** None.

**Testimony Against:** None.

**Testified:** None.