Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2466

Brief Description: Providing excise tax relief for aerospace businesses.

Sponsors: Representatives Lovick, McCoy, Conway, Haler, Sells, Morris, Dunshee, Ericks, Morrell, O'Brien and Green; by request of Governor Gregoire.

Brief Summary of Bill

- Extends the sales and use tax exemption for computer equipment and software used primarily in commercial airplane development to nonmanufacturing firms.
- Extends the B&O tax credit equal to 1.5 percent of preproduction development expenditures related to commercial aircraft to nonmanufacturing firms.
- Allows B&O tax credit for leasehold excise taxes paid on property used in the manufacture of commercial airplanes and airplane components.
- Extends the reduced B&O tax rate for FAA certificated repair stations engaged in the repair of equipment used in interstate or foreign commerce to July 1, 2011.

Hearing Date: 1/18/06

Staff: Rick Peterson (786-7150).

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. 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. There a number of different rates. The main rates are 0.471 percent for retailing, 0.484 percent for manufacturing, wholesaling, and extracting, and 1.5 percent for professional and personal services, and activities not classified elsewhere.

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.

In 2003, the Legislature adopted tax incentives that were limited to aerospace manufacturers. The incentives included a reduction in the business and occupation (B&O) tax rate; a B&O tax credit for pre-production development expenditures; and a B&O tax credit for property taxes paid on property used in the manufacture of commercial airplanes and airplane components. A leasehold tax exemption for port district facilities is available to manufacturers of super efficient airplanes that are not using the B&O credit for property taxes. Also included were sales and use tax exemptions for computer equipment and software, and its installation, used primarily in the development of commercial airplanes and components. These exemptions are scheduled to end in 2024.

Businesses that exercise any of these incentives file an annual report with the Department of Revenue. The report includes employment, wage, and employer-provided health and retirement benefit information for full-time, part-time, and temporary positions. The reports are not confidential and will be made public upon request.

In 2003 the Legislature reduced the B&O tax rate from 0.484 percent to 0.275 percent for firms that repair equipment used in interstate or foreign commerce. The firms must be classified by the Federal Aviation Administration (FAA) as a FAR part 145 certificated repair station with airframe and instrument ratings and limited ratings for nondestructive testing, radio, class 3 accessory, and specialized services. The lower rate ends July 1, 2006.

Summary of Bill:

The sales and use tax exemption for computer equipment and software used primarily in commercial airplane development is extended to nonmanufacturing firms. Installation is also exempt. The exemption starts July 1, 2006 and ends July 1, 2024.

The B&O tax credit for preproduction development expenditures related to commercial aircraft is extended to nonmanufacturing firms. The credit is equal to 1.5 percent of preproductions development expenditures. The credit starts July 1, 2006, and ends July 1, 2024.

The B&O tax credit for property taxes paid on property used in the manufacture of commercial airplanes and airplane components is expanded to include leasehold excise taxes. The credit starts January 1, 2007.

The reduced B&O tax rate for FAA certificated repair stations engaged in the repair of equipment used in interstate or foreign commerce is extended to July 1, 2011. The tax rate is set at 0.2904 percent.

Businesses that claim the 1.5 percent B&O credit for commercial aircraft preproduction development expenditures or the reduced B&O tax rate must electronically file an annual survey with the Department of Revenue by March 21st. The Department may provide a filing extension if the survey is late due to circumstances beyond the control of the taxpayer.

The survey must include employment, wage, and employer-provided health and retirement benefit information. Those claiming the 1.5 percent B&O credit for aerospace product development expenditures must also provide information on the expenditures, assignment of the credit, and the number of research projects, products, patents, copyrights, and trademarks. The only information collected that may be disclosed is the amount of the tax incentive claimed, but claimants receiving incentives of less than $10,000 may request confidentiality of the amount claimed.

The Department of Revenue must report summary statistics from the surveys annually. When taxpayer information cannot be classified to prevent the identification of individual taxpayers or returns the Department may disclose the least amount of tax information necessary to complete the reports. Reports on the effectiveness of the incentives are due in 2010 and 2023.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.