

# SENATE BILL REPORT

## SB 5864

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As of February 21, 2005

**Title:** An act relating to providing excise tax relief for nonmanufacturing aerospace businesses.

**Brief Description:** Providing excise tax relief for the development of commercial airplanes.

**Sponsors:** Senators Prentice, Schmidt, Esser, Shin, Berkey, Zarelli and Rasmussen; by request of Department of Revenue and Department of Community, Trade, and Economic Development.

**Brief History:**

**Committee Activity:** Ways & Means: 2/23/05.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Dean Carlson (786-7305)

**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. Currently, there are six different B&O tax rates. The three principal rates are:

- Manufacturing/wholesaling 0.484%
- Retailing 0.471%
- Services 1.5%

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.

In 2003, the legislature passed house bill 2294 which, among other things, created a sales and use tax exemption for sales of computer hardware, computer peripherals, and software to manufacturers of commercial airplanes or components of such airplanes. In addition, a business and occupation tax credit was provided for preproduction development expenditures for manufacturers of commercial airplanes or components of such airplanes.

**Summary of Bill:** A retail sales and use tax exemption for sales and use of computer hardware, computer peripherals, or software used primarily in the research, design, engineering, testing or certification of commercial airplanes or their components is provided for persons not eligible to claim the exemption that was created in 2003 for manufacturers of commercial airplanes and their components.

Similarly, a business and occupation tax credit apply for preproduction development expenditures based on research, design, and engineering expenditures by firms for the science of building and operating commercial aircraft. The credit is equal to the amount of qualified preproduction expenditures multiplied by 1.5 percent. The credit may be assigned to a person contracting for performance of qualified preproduction development. To claim the credit an annual report must be filed with the Department of Revenue.

The sales tax exemption and the business and occupation tax credit expire on July 1, 2024.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2005.