

SENATE BILL REPORT

SB 6604

As Reported By Senate Committee On:
International Trade & Economic Development, January 24, 2006
Ways & Means, February 16, 2006

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

Brief Description: Providing excise tax relief for aerospace businesses.

Sponsors: Senator Prentice; by request of Governor Gregoire.

Brief History:

Committee Activity: International Trade & Economic Development: 1/24/06 [DPS-WM]
Ways & Means: 2/2/06, 2/16/06 [DP2S, DNP, w/oRec].

SENATE COMMITTEE ON INTERNATIONAL TRADE & ECONOMIC DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 6604 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Shin, Chair; Sheldon, Vice Chair; Pflug, Ranking Minority Member; Doumit, Eide, Roach and Zarelli.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 6604 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Pridemore, Rasmussen, Regala, Roach and Schoesler.

Minority Report: Do not pass.

Signed by Senators Fraser, Vice Chair, Capital Budget Chair and Rockefeller.

Minority Report: That it be referred without recommendation.

Signed by Senator Fairley.

Staff: Terry Wilson (786-7433)

Background: The Legislature provided tax incentives in 2003 for 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 costs; and a B&O tax credit for property taxes paid on property used in the manufacture of commercial airplanes and airplane components. 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.

Many firms that are bidding on or have landed contracts for work on aerospace projects are not eligible for the tax incentives because they are not manufacturers as required by the 2003 legislation.

Summary of Second Substitute Bill: The sales and use tax exemption for computer equipment and software used primarily in commercial airplane development is extended to non-manufacturing firms. Installation is also exempt. The exemption ends July 1, 2024.

The B&O tax credit for preproduction development expenditures related to commercial aircraft is extended to non-manufacturing firms. The credit is equal to 1.5 percent of preproduction development expenditures. The credit 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 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 tax 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 (Department) by March 31. 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 tax 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 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.

Second Substitute Bill Compared to Substitute Bill: The changes made by the substitute bill are eliminated in the second substitute, and the bill is returned to its original language.

Substitute Bill Compared to Original Bill: The substitute bill provides for a reduced tax rate for the manufacture and sales of tooling, support equipment, and general aviation aircraft. For manufacturers whose property is used exclusively in eligible manufacturing activities, a credit for property taxes is allowed. Technical clarifications are made.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains various effective dates. Please see the bill.

Testimony For (International Trade & Economic Development): The Department of Revenue has implemented earlier aerospace incentives and realized that there are gaps that need addressing. Moderate to small manufacturers can not take advantage of the current aerospace incentives. The bill tries to capture those manufacturers that fall through the cracks. The current incentives should be extended to cover the entire product life-cycle of aerospace .

Testimony Against (International Trade & Economic Development): None.

Testimony Other (International Trade & Economic Development): The broader perspective of the effect of taxes on the small business community needs to be addressed.

Who Testified (International Trade & Economic Development): PRO: Lieslie Cushman, DOR; Representative Sullivan; Victor Vasquez, CTED; Mike Zubovic, Steve Gano, Goodrich Aviation; Deborah Knutson, EDC of Snohomish County; Steve Smith, Snohomish County Executive's Office.

OTHER: Gary Smith, Independent Business Association.

Testimony For (Ways & Means): This helps make firms competitive. This affects over 700 firms, not just Boeing sub-contractors.

Testimony Against (Ways & Means): None.

Who Testified (Ways & Means): PRO: Bob Drenez, Prosperity Partnership; Linda Lantam, AFA; Steve Gano, Goodrich Aviation; Leslie Cushman, DOR.