

**SHB 1554** - H AMD 335

By Representative Sullivan, B.

1 Strike everything after the enacting clause and insert the  
2 following:

3 "Sec. 1. RCW 82.08.981 and 2006 c 177 s 1 are each amended to read  
4 as follows:

5 (1) The tax levied by RCW 82.08.020 does not apply to sales of  
6 computer hardware, computer peripherals, or software, not otherwise  
7 eligible for exemption under RCW 82.08.02565 or 82.08.975, used  
8 primarily in (~~the development, design, and engineering of commercial~~  
9 ~~airplanes~~) aerospace product development, or components of such  
10 airplanes, or to sales of or charges made for labor and services  
11 rendered in respect to installing the computer hardware, computer  
12 peripherals, or software. The exemption is available only when the  
13 buyer provides the seller with an exemption certificate in a form and  
14 manner prescribed by the department. The seller shall retain a copy of  
15 the certificate for the seller's files.

16 (2) As used in this section:

17 (a) "Aerospace product development" means the development, design,  
18 or engineering of:

19 (i) Commercial airplanes and components of such airplanes;

20 (ii) Tooling that is used in the manufacturing or processing for  
21 hire of commercial airplanes or components of such airplanes.

22 (b) "Commercial airplane" and "component" have the meanings in RCW  
23 82.32.550.

24 (~~(b)~~) (c) "Peripherals" includes keyboards, monitors, mouse  
25 devices, and other accessories that operate outside of the computer,  
26 excluding cables, conduit, wiring, and other similar property.

27 (3) This section expires July 1, 2024.

28 **Sec. 2.** RCW 82.12.981 and 2006 c 177 s 2 are each amended to read  
29 as follows:

1 (1) The provisions of this chapter do not apply in respect to the  
2 use of computer hardware, computer peripherals, or software, not  
3 otherwise eligible for exemption under RCW 82.12.02565 or 82.12.975,  
4 used primarily in ~~((the development, design, and engineering of  
5 commercial airplanes or components of such airplanes))~~ aerospace  
6 product development, or to the use of labor and services rendered in  
7 respect to installing the computer hardware, computer peripherals, or  
8 software.

9 (2) ~~((As used in this section:~~

10 ~~(a) "Commercial airplane" and "component" have the meanings in RCW  
11 82.32.550.~~

12 ~~(b) "Peripherals" includes keyboards, monitors, mouse devices, and  
13 other accessories that operate outside of the computer, excluding  
14 cables, conduit, wiring, and other similar property))~~ The definitions  
15 in section 1 of this act apply to this section.

16 (3) This section expires July 1, 2024.

17 **Sec. 3.** RCW 82.04.4487 and 2006 c 177 s 3 are each amended to read  
18 as follows:

19 (1) In computing the tax imposed under this chapter, a credit is  
20 allowed for each person for qualified ~~((preproduction))~~ aerospace  
21 product development expenditures occurring after July 1, 2006.

22 (2) The credit is equal to the amount of qualified  
23 ~~((preproduction))~~ aerospace product development expenditures of a  
24 person, multiplied by the rate of 1.5 percent.

25 (3) The credit shall be taken against taxes due for the same  
26 calendar year in which the qualified ~~((preproduction))~~ aerospace  
27 product development expenditures are incurred. Credits may not be  
28 carried over. The credit for each calendar year may not exceed the  
29 amount of tax otherwise due under this chapter for the calendar year.  
30 Refunds may not be granted in the place of a credit.

31 (4) Any person entitled to the credit in this section as a result  
32 of qualified ~~((preproduction))~~ aerospace product development conducted  
33 under contract may assign all or any portion of the credit to the  
34 person contracting for the performance of the qualified  
35 ~~((preproduction))~~ aerospace product development.

36 (5) The definitions in this subsection apply throughout this  
37 section.

1           (a) (~~"Aeronautics" means the study of flight and the science of~~  
2 ~~building and operating commercial aircraft.~~

3           ~~(b) "Preproduction))~~ (i) "Aerospace product development" means  
4 research, design, and engineering activities performed in relation to  
5 the development of a product, product line, model, or model derivative,  
6 including prototype development, testing, and certification. (~~The~~  
7 ~~term)) The development of a product, product line, model, or model  
8 derivative, shall be for:~~

9           (A) Commercial airplanes and components of such airplanes; or

10           (B) Tooling that is used in the manufacturing or processing for  
11 hire of commercial airplanes or components of such airplanes.

12           (ii) "Aerospace product development" includes the discovery of  
13 technological information, the translating of technological information  
14 into new or improved products, processes, techniques, formulas, or  
15 inventions, and the adaptation of existing products and models into new  
16 products or new models, or derivatives of products or models. The term  
17 does not include manufacturing activities or other production-oriented  
18 activities. The term does not include surveys and studies, social  
19 science and humanities research, market research or testing, quality  
20 control, sale promotion and service, computer software developed for  
21 internal use, and research in areas such as improved style, taste, and  
22 seasonal design.

23           ~~((c))~~ (b) "Qualified (~~(preproduction))~~ aerospace product  
24 development" means (~~(preproduction))~~ aerospace product development  
25 performed within this state (~~(in the field of aeronautics))~~.

26           ~~((d))~~ (c) "Qualified (~~(preproduction))~~ aerospace product  
27 development expenditures" means operating expenses, including wages,  
28 compensation of a proprietor or a partner in a partnership as  
29 determined by the department, benefits, supplies, and computer  
30 expenses, directly incurred in qualified (~~(preproduction))~~ aerospace  
31 product development by a person claiming the credit provided in this  
32 section. The term does not include amounts paid to a person other than  
33 a public educational or research institution to conduct qualified  
34 (~~(preproduction))~~ aerospace product development. The term does not  
35 include capital costs and overhead, such as expenses for land,  
36 structures, or depreciable property.

37           (6) Credit may not be claimed for expenditures for which a credit  
38 is claimed under RCW 82.04.4452 or 82.04.4461.

1 (7) This section expires July 1, 2024.

2 NEW SECTION. **Sec. 4.** A new section is added to chapter 82.04 RCW  
3 to read as follows:

4 (1)(a) Upon every person engaging within this state in the business  
5 of manufacturing tooling that is used in the manufacturing of  
6 commercial airplanes or components of such airplanes; as to such  
7 persons the amount of the tax with respect to the business shall, in  
8 the case of manufacturers, be equal to the value of the product  
9 manufactured, or in the case of processors for hire, be equal to the  
10 gross income of the business, multiplied by the rate of 0.2904 percent.

11 (b) Upon every person engaging within this state in the business of  
12 making sales, at retail or wholesale, of tooling manufactured by that  
13 person that is used in the manufacturing of commercial airplanes or  
14 components of such airplanes; as to such persons the amount of the tax  
15 with respect to the business shall be equal to the gross income of the  
16 business, multiplied by the rate of 0.2904 percent.

17 (2) For purposes of this section, "manufacturing" means the same as  
18 "to manufacture" in RCW 82.04.120 and includes the activities of both  
19 manufacturers and processors for hire.

20 (3) This section expires July 1, 2024.

21 **Sec. 5.** RCW 82.32.545 and 2003 2nd sp.s. c 1 s 16 are each amended  
22 to read as follows:

23 (1) The legislature finds that accountability and effectiveness are  
24 important aspects of setting tax policy. In order to make policy  
25 choices regarding the best use of limited state resources the  
26 legislature needs information on how a tax incentive is used.

27 (2)(a) A person who reports taxes under RCW 82.04.260(~~(+13)~~) (11)  
28 or section 4 of this act or who claims an exemption or credit under RCW  
29 82.04.4461, 82.08.980, 82.12.980, 82.29A.137, 84.36.655, and 82.04.4463  
30 shall make an annual report to the department detailing employment,  
31 wages, and employer-provided health and retirement benefits per job at  
32 the manufacturing site. The report shall not include names of  
33 employees. The report shall also detail employment by the total number  
34 of full-time, part-time, and temporary positions. The first report  
35 filed under this subsection shall include employment, wage, and benefit  
36 information for the twelve-month period immediately before first use of

1 a preferential tax rate under RCW 82.04.260(~~((+13))~~) (11) or section 4  
2 of this act, or tax exemption or credit under RCW 82.04.4461,  
3 82.08.980, 82.12.980, 82.29A.137, 84.36.655, and 82.04.4463. The  
4 report is due by March 31st following any year in which a preferential  
5 tax rate under RCW 82.04.260(~~((+13))~~) (11) or section 4 of this act is  
6 used, or tax exemption or credit under RCW 82.04.4461, 82.08.980,  
7 82.12.980, 82.29A.137, 84.36.655, and 82.04.4463 is taken. This  
8 information is not subject to the confidentiality provisions of RCW  
9 82.32.330 and may be disclosed to the public upon request.

10 (b) If a person fails to submit an annual report under (a) of this  
11 subsection by the due date of the report, the department shall declare  
12 the amount of taxes exempted or credited, or reduced in the case of the  
13 preferential business and occupation tax rate, for that year to be  
14 immediately due and payable. Excise taxes payable under this  
15 subsection are subject to interest but not penalties, as provided under  
16 this chapter. This information is not subject to the confidentiality  
17 provisions of RCW 82.32.330 and may be disclosed to the public upon  
18 request.

19 (3) By November 1, 2010, and by November 1, 2023, the fiscal  
20 committees of the house of representatives and the senate, in  
21 consultation with the department, shall report to the legislature on  
22 the effectiveness of chapter 1, Laws of 2003 2nd sp. sess. and chapter  
23 . . . (Substitute House Bill No. 1554), Laws of 2007 in regard to  
24 keeping Washington competitive. The report shall measure the effect of  
25 chapter 1, Laws of 2003 2nd sp. sess. and chapter . . . (Substitute  
26 House Bill No. 1554), Laws of 2007 on job retention, net jobs created  
27 for Washington residents, company growth, diversification of the  
28 state's economy, cluster dynamics, and other factors as the committees  
29 select. The reports shall include a discussion of principles to apply  
30 in evaluating whether the legislature should reenact any or all of the  
31 tax preferences in chapter 1, Laws of 2003 2nd sp. sess. and chapter  
32 . . . (Substitute House Bill No. 1554), Laws of 2007.

33 **Sec. 6.** RCW 82.04.440 and 2006 c 300 s 8 and 2006 c 84 s 6 are  
34 each reenacted and amended to read as follows:

35 (1) Every person engaged in activities that are subject to tax  
36 under two or more provisions of RCW 82.04.230 through 82.04.298,

1 inclusive, shall be taxable under each provision applicable to those  
2 activities.

3 (2) Persons taxable under RCW 82.04.2909(2), 82.04.250, 82.04.270,  
4 82.04.294(2), section 4(1)(b) of this act, or 82.04.260 (1)(c), (4),  
5 (11), or (12) with respect to selling products in this state, including  
6 those persons who are also taxable under RCW 82.04.261, shall be  
7 allowed a credit against those taxes for any (a) manufacturing taxes  
8 paid with respect to the manufacturing of products so sold in this  
9 state, and/or (b) extracting taxes paid with respect to the extracting  
10 of products so sold in this state or ingredients of products so sold in  
11 this state. Extracting taxes taken as credit under subsection (3) of  
12 this section may also be taken under this subsection, if otherwise  
13 allowable under this subsection. The amount of the credit shall not  
14 exceed the tax liability arising under this chapter with respect to the  
15 sale of those products.

16 (3) Persons taxable as manufacturers under RCW 82.04.240 or  
17 82.04.260 (1)(b) or (12), including those persons who are also taxable  
18 under RCW 82.04.261, shall be allowed a credit against those taxes for  
19 any extracting taxes paid with respect to extracting the ingredients of  
20 the products so manufactured in this state. The amount of the credit  
21 shall not exceed the tax liability arising under this chapter with  
22 respect to the manufacturing of those products.

23 (4) Persons taxable under RCW 82.04.230, 82.04.240, 82.04.2909(1),  
24 82.04.294(1), 82.04.2404, section 4(1)(a) of this act, or 82.04.260  
25 (1), (2), (4), (11), or (12), including those persons who are also  
26 taxable under RCW 82.04.261, with respect to extracting or  
27 manufacturing products in this state shall be allowed a credit against  
28 those taxes for any (i) gross receipts taxes paid to another state with  
29 respect to the sales of the products so extracted or manufactured in  
30 this state, (ii) manufacturing taxes paid with respect to the  
31 manufacturing of products using ingredients so extracted in this state,  
32 or (iii) manufacturing taxes paid with respect to manufacturing  
33 activities completed in another state for products so manufactured in  
34 this state. The amount of the credit shall not exceed the tax  
35 liability arising under this chapter with respect to the extraction or  
36 manufacturing of those products.

37 (5) For the purpose of this section:

38 (a) "Gross receipts tax" means a tax:

1 (i) Which is imposed on or measured by the gross volume of  
2 business, in terms of gross receipts or in other terms, and in the  
3 determination of which the deductions allowed would not constitute the  
4 tax an income tax or value added tax; and

5 (ii) Which is also not, pursuant to law or custom, separately  
6 stated from the sales price.

7 (b) "State" means (i) the state of Washington, (ii) a state of the  
8 United States other than Washington, or any political subdivision of  
9 such other state, (iii) the District of Columbia, and (iv) any foreign  
10 country or political subdivision thereof.

11 (c) "Manufacturing tax" means a gross receipts tax imposed on the  
12 act or privilege of engaging in business as a manufacturer, and  
13 includes (i) the taxes imposed in RCW 82.04.240, 82.04.2404,  
14 82.04.2909(1), section 4(1)(a) of this act, 82.04.260 (1), (2), (4),  
15 (11), and (12), and 82.04.294(1); (ii) the tax imposed under RCW  
16 82.04.261 on persons who are engaged in business as a manufacturer; and  
17 (iii) similar gross receipts taxes paid to other states.

18 (d) "Extracting tax" means a gross receipts tax imposed on the act  
19 or privilege of engaging in business as an extractor, and includes (i)  
20 the tax imposed on extractors in RCW 82.04.230 and 82.04.260(12); (ii)  
21 the tax imposed under RCW 82.04.261 on persons who are engaged in  
22 business as an extractor; and (iii) similar gross receipts taxes paid  
23 to other states.

24 (e) "Business", "manufacturer", "extractor", and other terms used  
25 in this section have the meanings given in RCW 82.04.020 through  
26 82.04.212, notwithstanding the use of those terms in the context of  
27 describing taxes imposed by other states.

28 **Sec. 7.** RCW 82.04.4463 and 2006 c 177 s 10 are each amended to  
29 read as follows:

30 (1) In computing the tax imposed under this chapter, a credit is  
31 allowed for property taxes and leasehold excise taxes paid during the  
32 calendar year.

33 (2) The credit is equal to:

34 (a)(i)(A) Property taxes paid on new buildings, and land upon which  
35 this property is located, built after December 1, 2003, and used  
36 exclusively in (~~manufacturing commercial airplanes or components of~~  
37 ~~such airplanes~~) aerospace product development; and

1 (B) Leasehold excise taxes paid with respect to a building built  
2 after January 1, 2006, the land upon which the building is located, or  
3 both, if the building is used exclusively in (~~manufacturing commercial~~  
4 ~~airplanes or components of such airplanes~~) aerospace product  
5 development; or

6 (ii) Property taxes attributable to an increase in assessed value  
7 due to the renovation or expansion, after December 1, 2003, of a  
8 building used exclusively in (~~manufacturing commercial airplanes or~~  
9 ~~components of such airplanes~~) aerospace product development; and

10 (b) An amount equal to property taxes paid on machinery and  
11 equipment exempt under RCW 82.08.02565 or 82.12.02565 and acquired  
12 after December 1, 2003, multiplied by a fraction. The numerator of the  
13 fraction is the total taxable amount subject to the tax imposed under  
14 RCW 82.04.260(11) and section 4 of this act. The denominator of the  
15 fraction is the total taxable amount subject to the tax imposed under  
16 all manufacturing classifications in chapter 82.04 RCW, required to be  
17 reported on the person's returns for the calendar year before the  
18 calendar year in which the credit under this section is earned. No  
19 credit is available under this subsection (2)(b) if either the  
20 numerator or the denominator of the fraction is zero. If the fraction  
21 is greater than or equal to nine-tenths, then the fraction is rounded  
22 to one. For purposes of this subsection, "returns" means the combined  
23 excise tax returns for the calendar year.

24 (3) (~~For the purposes of this section,~~) The definitions in this  
25 subsection apply to this section.

26 (a) "Aerospace product development" means the manufacturing of:

27 (i) Commercial airplanes or components of such airplanes; or

28 (ii) Tooling that is used in the manufacturing of commercial  
29 airplanes or components of such airplanes.

30 (b) "Commercial passenger airplane" and "component" have the  
31 meanings given in RCW 82.32.550.

32 (4) A person taking the credit under this section is subject to all  
33 the requirements of chapter 82.32 RCW. (~~In addition, the person must~~  
34 ~~report as required under RCW 82.32.545.~~) A credit earned during one  
35 calendar year may be carried over to be credited against taxes incurred  
36 in a subsequent calendar year, but may not be carried over a second  
37 year. No refunds may be granted for credits under this section.



1           (5) In addition to all other requirements under this title, a  
2 person taking the credit under this section must report as required  
3 under RCW 82.32.545.

4           (6) This section expires July 1, 2024.

5           NEW SECTION.   **Sec. 8.** This act takes effect October 1, 2007."

6           Correct the title.

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