

HOUSE BILL REPORT

HB 1554

As Reported by House Committee On:
Finance

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

Brief Description: Providing excise tax relief for aerospace product development businesses.

Sponsors: Representatives B. Sullivan, Ericks, Strow, Linville and Dunn.

Brief History:

Committee Activity:

Finance: 1/31/07, 3/5/07 [DPS].

Brief Summary of Substitute Bill

- Directs the Joint Legislative Audit and Review Committee to study the effect of enacting tax preferences for aerospace product development businesses.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire and Santos.

Minority Report: Do not pass. Signed by 2 members: Representatives Orcutt, Ranking Minority Member and Roach.

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 are 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.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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.

In 2003, the Washington Legislature adopted tax incentives that were limited to aerospace manufacturers. The incentives included: a reduction in the 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 tax 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.

In 2006, the Legislature extended the sales and use tax exemption for computer equipment and software to nonmanufacturing firms engaged in the development, design, and engineering of commercial airplanes and components of commercial airplanes. The B&O tax credit for preproduction development expenditures related to commercial aircraft was also extended to nonmanufacturing firms.

Businesses that use these incentives file an annual report with the Department of Revenue (DOR). The report includes employment, wage, and employer-provided health and retirement benefit information for full-time, part-time, and temporary positions.

Summary of Substitute Bill:

The Joint Legislative Audit and Review Committee will study the effect of enacting tax preferences for aerospace product development businesses. The report will estimate the effect of enacting tax preference for aerospace product businesses on job retention, job growth, company growth, diversification of the state's economy, cluster dynamics, and other factors the committee may select. The study will include aerospace product development businesses that are not directly claiming the currently authorized aerospace tax incentives. Aerospace product development businesses are engaged in the development, design, engineering, or manufacturing of: (a) tooling used in manufacturing of commercial airplanes and component parts for commercial airplanes; (b) maintenance, repair, or overhaul support equipment used by airline customers in the aftermarket support of commercial airplanes; (c) ground support equipment, including test equipment, that is used by airline customers in support of

commercial airplanes; and (d) general aviation aircraft and components. The report is due to the House Finance and Senate Ways and Means committees by December 1, 2007.

Substitute Bill Compared to Original Bill:

The substitute replaces the tax incentives in the original bill with the study.

Appropriation: None.

Fiscal Note: Requested on March 7, 2007.

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

Staff Summary of Public Testimony:

(In support) This legislation extends the tax exemption available to certain sectors of the aerospace industry to other sectors, such as engineering services and subcontractors, that were not included in the previous legislation. The exemption will allow these businesses to be more competitive in the global market. This is a tax investment that will create high wage jobs and spur business growth in our state.

(Opposed) None.

Persons Testifying: (In support) Representative B. Sullivan, prime sponsor; Carlos Veliz; Jeffry Tomson, Pacifica Engineering; John Thornquist, Global Aerosystems LLC; Dan Mock, Teague; Robert J. Klem, Soundair Aviation Service; Fred Zimbelman, Soundair Repair Group; Aaron Reardon, Snohomish County; Linda Lanham, Aerospace Future Alliance; Eric Barnes, Alter Inc; and Ben Hempstead, Electroimpact Inc.

Persons Signed In To Testify But Not Testifying: None.