

# SENATE BILL REPORT

## SB 6828

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As Reported By Senate Committee On:  
Ways & Means, February 27, 2008

**Title:** An act relating to the excise taxation of the aerospace industry.

**Brief Description:** Concerning the excise taxation of the aerospace industry.

**Sponsors:** Senators Marr, Prentice, Zarelli, Schoesler, Hobbs, Kilmer, Shin and Rasmussen.

**Brief History:**

**Committee Activity:** Ways & Means: 2/5/08, 2/27/08 [DPS].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 6828 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Pridemore, Vice Chair, Operating Budget; Carrell, Fairley, Hatfield, Hobbs, Keiser, Kohl-Welles, Oemig, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

**Staff:** Dianne Criswell (786-7433)

**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.

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.

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*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.*

In 2003 the Washington Legislature adopted tax incentives that were limited to aerospace manufacturers. The incentives included a reduced 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 Washington 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 Bill:** The bill as referred to committee was not considered.

**SUMMARY OF BILL (Recommended Substitute):** It is recognized that the aerospace industry provides well-paying jobs, as does its suppliers and vendors. Aerospace tax programs are extended to manufacturers, Federal Aviation Regulation (FAR) repair stations, and design/engineering services. These programs include the following:

- Sales and use tax exemptions are provided for computer equipment and software, and its installation, which are used primarily in aerospace products or providing aerospace services.
- Until July 1, 2024, the B&O tax rate is 0.2904 percent for making sales, both retail or wholesale, of commercial airplanes or components. Persons claiming this rate must file an annual survey with the DOR.
- Beginning July 1, 2008 and ending on July 1, 2024, the B&O tax rate is set at 0.2904 percent for the manufacturing or sales of tooling used in the manufacturing of commercial airplanes and components of airplanes. Persons claiming this rate must file an annual survey with DOR.
- The B&O tax rate is set at 0.2904 percent for persons classified by the Federal Aviation Administration as a FAR 145 certified repair station. Persons claiming this rate must file an annual survey with DOR.
- Persons performing aerospace product development are qualified for a 0.9 percent B&O rate. Persons claiming this rate must file an annual survey with DOR.
- Aerospace product development is qualified for the preproduction 1.5 percent B&O tax credit on qualified expenditures.
- The B&O tax credit for property taxes paid is extended to aerospace product development, the manufacturing of tooling, and FAR Part 145 certified repair stations.

The sale of parts to the manufacturer of a commercial plane is deemed to take place at the site of final testing or inspection.

Other technical corrections and citation updates related to these programs are made.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Effective Date:** The bill takes effect on July 1, 2008; except for section 6 which takes effect July 1, 2011.

**Staff Summary of Public Testimony:** PRO: The aerospace industry has a significant presence throughout Washington State. Fifteen of our 39 counties include significant amounts of the commercial aerospace industry - 5 of which are in eastern Washington. For Spokane, aerospace is a huge opportunity. This industry will bolster our economy during downturns, and help grow our economy overall. This industry not only benefits the Puget Sound, but eastern Washington as well. There are a lot of minority owned businesses in the larger aerospace sector. We are the backbone of the industry and are a strong presence in Washington. The Legislature should send a message that it values this sector and approve this bill to empower and ensure growth in aerospace in Washington. These incentives make Washington more competitive, in the U.S. and around the world. Also, this industry provides many family wage jobs in Washington. There are a lot of businesses who provide services to the aerospace industry that have not benefitted from these tax incentives. It would be fair to extend them to related businesses. For example, there are a lot of FAR Part 145 maintenance providers that would like to qualify. Maintenance is a growing sector of the aerospace industry. All of these businesses will use savings to reinvest in more employees, more training, and more equipment to expand their enterprises. This bill expands upon existing law and provides technical corrections and clarifications that improve the incentives.

**Persons Testifying:** PRO: Senator Marr, prime sponsor; Bob Drewell, Puget Sound Regional Council; Todd Woodard, Spokane International Airport; Robert Klem, Soundair Aviation Services; Carlos Veliz, PCSI Design; Jeffrey Tomson, Machinists Inc.; Dan Mock, Teague; Tandall Julin, Absolute Aviation Services; Gil Brewer, Department of Revenue.