

# HOUSE BILL REPORT

## HB 2693

---

**As Reported by House Committee On:**  
Technology & Economic Development

**Title:** An act relating to extending specific aerospace tax preferences to include other types of commercial aircraft to encourage the migration of good wage jobs in the state.

**Brief Description:** Extending specific aerospace tax preferences to include other types of commercial aircraft to encourage the migration of good wage jobs in the state.

**Sponsors:** Representatives Orcutt, Takko, DeBolt and Blake.

**Brief History:**

**Committee Activity:**

Technology & Economic Development: 2/4/14, 2/5/14 [DPS].

**Brief Summary of Substitute Bill**

- Extends certain aerospace tax preferences to the design, engineering, manufacturing, and repairing of commercial rotorcraft, components, and mission equipment.

---

### HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 17 members: Representatives Morris, Chair; Habib, Vice Chair; Smith, Ranking Minority Member; Short, Assistant Ranking Minority Member; Dahlquist, DeBolt, Fey, Freeman, Hudgins, Kochmar, Magendanz, Stonier, Tarleton, Vick, Walsh, Wylie and Zeiger.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Morrell.

**Staff:** Kelly Leonard (786-7147).

**Background:**

Business and Occupation Tax.

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

---

*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.*

deduction for the costs of doing business. Businesses must pay B&O tax even though they may not have any profits or may be operating at a loss. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and activities not classified elsewhere. Several lower rates also apply to specific business activities.

#### Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital products, or service when used in this state. The state, most cities, and all counties levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.1 percent, depending on the location.

#### Property Tax.

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. Property owned by federal, state, or local governments is exempt from the property tax. However, private lessees of government property are subject to the leasehold excise tax. The purpose of the leasehold excise tax is to impose a tax burden on persons using publicly owned, tax-exempt property similar to the property tax that they would pay if they owned the property. The tax is collected by public entities that lease property to private parties.

#### Aerospace Tax Preferences.

In recent years, the Legislature has adopted, modified, and extended specific tax preferences for the aerospace industry. Tax preferences are currently available to the engineering, manufacturing, and repairing of commercial airplanes as well as research and design pertaining to commercial airplanes. "Commercial airplane" has its ordinary meaning, which is, an airplane certified by the Federal Aviation Administration (FAA) for transporting persons or property, and any military derivative of such an airplane.

Among other preferences, examples of those available to the aerospace industry include the following:

- preferential B&O tax rate of 0.2904 percent for the manufacturing of commercial airplanes and components and the tooling used in manufacturing commercial airplanes and components;
- preferential B&O tax rate of 0.9 percent for aerospace product development;
- B&O tax credit of 1.5 percent for aerospace product development expenditures;
- B&O tax credit for property taxes and leasehold excise taxes on property used exclusively for manufacturing commercial airplanes or components, for the manufacturing of tooling, for aerospace product development, or for aerospace services provided by Federal Aviation Regulation (FAR) Part 145 certificated repair stations;

- sales and use tax exemption for computer equipment and software, and its installation, used primarily in the development of aerospace products or for aerospace services provided by FAR Part 145 certificated repair stations; and
- sales and use tax exemption for the construction of facilities used in the manufacturing of superefficient airplanes.

Many aerospace tax preferences were scheduled to expire in 2024. However, the Legislature extended the preferences to 2040 by passing Engrossed Substitute Senate Bill (ESSB) 5952 in the 2013 third special session. The Legislature also expanded the sales and use tax exemption for the construction of facilities used in the manufacturing of superefficient airplanes to include commercial airplanes in general. The effect of ESSB 5952 is contingent upon the final decision to locate a significant commercial airplane manufacturing program in Washington by June 30, 2017.

#### Tax Preference Performance Statement.

In 2013 the Legislature passed ESSB 5882, which requires all new tax preference legislation to include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference.

---

#### **Summary of Substitute Bill:**

"Commercial rotorcraft" is defined as an aircraft supported in flight by one or more rotors to provide lift, which may also include rotorcrafts with additional thrust engines or propellers, certified by the FAA for transporting persons or property, and any military derivative of such an aircraft. "Commercial rotorcraft component" means a part or system certified by the FAA for installation or assembly into a commercial rotorcraft. "Commercial rotorcraft mission equipment" is defined as equipment intended to be attached to rotorcraft to engage in certain applications or tasks, including, but not limited to, firefighting, agricultural spraying, maintaining power lines, or maintaining windmills.

Certain aerospace tax preferences are extended to the rotorcraft industry, including the following:

- preferential B&O tax rate of 0.2904 for the manufacturing of commercial rotorcraft, components, and mission equipment as well as the tooling used in the manufacturing of commercial rotorcraft, components, and mission equipment;
- preferential B&O tax rate of 0.9 percent for rotorcraft product development;
- B&O tax credit of 1.5 percent for rotorcraft product development expenditures;
- B&O tax credit for property taxes and leasehold taxes on property used exclusively for manufacturing commercial rotorcraft, components, or mission equipment, for manufacturing of tooling, for rotorcraft product development, or for rotorcraft services provided by FAR Part 145 certificated repair stations;

- sales and use tax exemption for computer equipment and software, and its installation, used primarily in development of rotorcraft products or for rotorcraft services provided by FAR Part 145 certificated repair stations; and
- sales and use tax exemption for the construction of facilities used exclusively in the manufacturing of commercial rotorcraft, components, or mission equipment.

Businesses that exercise any of these preferences must file an annual report with the Department of Revenue.

The rotorcraft tax preferences expire on July 1, 2024. However, if none of the rotorcraft tax preferences are used by July 1, 2017, then all of the preferences expire on July 1, 2017.

The bill's tax preference performance statement specifies that the public policy objective is to create and retain jobs. The JLARC is required to assess employment changes and tax revenue changes in the commercial aircraft industry in comparison to employment and tax revenues prior to the extension of tax preferences to commercial rotorcraft. If the JLARC finds that the number of jobs in the rotorcraft industry has increased by an average of 50 jobs during the term of the tax preferences, then the Legislature intends for the legislative auditor to recommend extending the expiration date of the tax preferences. To the extent practicable, the JLARC must use data provided by state agencies responsible for administering unemployment insurance and collecting tax revenue as well data statistics provided by the Bureau of Labor Statistics.

#### **Substitute Bill Compared to Original Bill:**

The tax preferences created in the underlying bill are extended to the design, engineering, manufacturing, and repairing of commercial rotorcraft mission equipment.

The tax preference performance statement is modified by establishing a threshold number of jobs to be created through the tax preferences. If the JLARC finds that the number of jobs in the rotorcraft industry have increased by an average of 50 jobs during the term of the rotorcraft tax preferences, then the Legislature intends for the legislative auditor to recommend extending the expiration date of the rotorcraft tax preferences.

The effective and expiration dates linking the bill to current aerospace tax preferences and the contingency established in ESSB 5952 are removed. The rotorcraft tax preferences expire on July 1, 2024. However, if none of the rotorcraft tax preferences are used by July 1, 2017, then all of the preferences expire on July 1, 2017.

The sales and use tax exemption for the construction of facilities used in manufacturing of commercial rotorcraft are modified by adding the manufacturing of commercial rotorcraft components and mission equipment. The effective date of the exemption is modified to be July 1, 2014 (rather than the date of the siting of a significant commercial airplane manufacturing program in the state of Washington, as required by the contingency in ESSB 5952).

The B&O tax credit allowed for property taxes and leasehold excise taxes with respect to property used exclusively for manufacturing commercial rotorcrafts, commercial rotorcraft components, or commercial rotorcraft mission equipment is modified by limiting the credit to buildings constructed after July 1, 2014 and renovations or expansions completed after July 1, 2014.

---

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect July 1, 2014.

**Staff Summary of Public Testimony:**

(In support) To be viable and competitive, governments and businesses must adapt to constant changes in the industry. Washington's aviation industry is focused on fixed-wing business and is missing an opportunity to attract rotorcraft business. This is disadvantageous, as the rotorcraft industry supplies the same skilled jobs and uses the same precision suppliers. The bill is intended to attract an Oregon-based rotorcraft equipment manufacturer to Southwest Washington. Specifically, Simplex Aerospace is actively pursuing relocation to Cowlitz County, but is seeking legislation that will grant rotorcraft businesses the same tax position as fixed wing businesses.

Simplex Aerospace is the world leader in mission equipment for rotorcraft, which is used to protect the lives and homes of the citizenry, increase the production of food, and increase power production and transmission. The company's relocation will bring high paying technical aviation jobs and add to the diversity of the state's economy. The company will initially relocate 40 jobs to Washington, and then subsequently create an additional 20 jobs. This change is a step in the right direction for Cowlitz County.

Cowlitz County has a higher unemployment rate and lower household income rate compared to the entire state of Washington. This is in part due to the loss of jobs in the timber industry and other manufacturing industries. The siting of a major rotorcraft equipment manufacturer will increase the number of high paying jobs for college graduates in Cowlitz County and boost the local economy. By helping Cowlitz County, the Legislature can help the whole state.

(Opposed) None.

**Persons Testifying:** Representative Orcutt, prime sponsor; Larry Lichtenberger, Simplex Aerospace; Scot Walstra, Cowlitz Economic Development Council; and Mike Karnofski, Cowlitz County Board of Commissioners.

**Persons Signed In To Testify But Not Testifying:** None.