

SENATE BILL REPORT

SB 6452

As Reported by Senate Committee On:
Ways & Means, February 5, 2014

Title: An act relating to providing a sales and use tax exemption for certain new building construction by maintenance repair operators for commercial airplanes.

Brief Description: Providing a sales and use tax exemption for certain new building construction by maintenance repair operators for commercial airplanes.

Sponsors: Senators Eide and Baumgartner.

Brief History:

Committee Activity: Ways & Means: 2/04/14, 2/05/14 [DPS, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6452 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Assistant Ranking Member on the Operating Budget; Bailey, Becker, Billig, Braun, Dammeier, Hatfield, Hewitt, Kohl-Welles, Padden, Parlette, Rivers, Schoesler and Tom.

Minority Report: Do not pass.
Signed by Senator Hasegawa.

Minority Report: That it be referred without recommendation.
Signed by Senator Frockt.

Staff: Dean Carlson (786-7305)

Background: 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 the property, digital products, or service when used in this state. The state, most cities, and all counties levy retail sales and use taxes.

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.

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.

In November the Legislature enacted ESSB 5952 which extended the following tax preferences in the aerospace industry from 2024 to 2040:

- preferential business and occupation (B&O) tax rate of 0.2904 percent for the manufacturing, wholesaling, and retailing of commercial airplanes and airplane components, the tooling used in the manufacturing of commercial airplanes and airplane components, and retailing by a Federal Aviation Regulation (FAR) Part 145 certificated repair station;
- 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 taxes on property used exclusively in manufacturing commercial airplanes or components of airplanes, aerospace product development, the manufacturing of tooling, and 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 commercial airplanes and components;
- sales and use tax exemption for the construction of facilities used in the manufacturing of superefficient airplanes; and
- sales and use tax exemption for the construction of facilities used in the manufacturing of commercial airplanes.

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 the state of Washington. If a decision to locate a significant commercial airplane manufacturing program is not made by June 30, 2017, ESSB 5952 is null and void. Furthermore, the ongoing availability of the preferential B&O tax rate for the production of a new or remodeled commercial airplane is contingent upon maintaining all final assembly and wing assembly of the airplane within the state.

Summary of Bill (Recommended Substitute): The sales and use tax exemption for the construction of facilities for the manufacturing of commercial airplanes is extended to include facilities used by maintenance repair operators to maintain commercial airplanes.

Maintenance repair operator means a repair station certified under FAA regulation 14 C.F.R. 145.

The bill is subject to the contingencies in ESSB 5952. If the contingencies in ESSB 5952 are not met, the exemption expires July 1, 2024; if they are met, it expires July 1, 2040.

If the FAR part 145 repair station sector does not have an increase of 250 jobs by 2020, anyone taking the exemption must pay back the sales tax.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): Added a tax performance statement. Added a sales tax clawback where if the FAR part 145 repair station sector does not have an increase of 250 jobs by 2020, anyone taking the exemption must pay back the sales tax.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: PRO: For Spokane County, this is about good quality jobs. This will provide jobs to veterans from Fairchild Air Force Base as well. This will create 100 jobs in the near term and 500 jobs over a five-year period. It could also provide another 500 jobs from suppliers. Aviation and Technical Services currently has 1000 employees in Everett and has a new facility in Moses Lake.

Persons Testifying: PRO: Al French, Spokane County, Spokane Airport Board; Robin Toth, Greater Spokane Incorporated; Larry Krauter, CEO, Spokane International Airport; Steve Gano, Aviation and Technical Services.