
**Technology & Economic Development
Committee**

HB 1736

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, Blake, Pike, Vick, Harris, Wilson, Young, Takko, Muri and Buys.

Brief Summary of Bill

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

Hearing Date: 2/17/15

Staff: Kirsten Lee (786-7133).

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 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.

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.

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.

Examples of preferences 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, in 2013 the tax preferences were extended to 2040. The extension of the preferences was contingent upon the Department of Revenue (DOR) making a determination, by June 30, 2017, that a significant commercial airplane manufacturing program would be located in Washington. The DOR has made the required determination.

Tax Preference Performance Statement.

In 2013 legislation was enacted requiring 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 Bill:

B & O Tax Preferences

Certain aerospace tax preferences are extended to the rotorcraft industry, including the following, beginning July 1, 2015:

- 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;
- sales and use tax exemption for computer equipment and software, and its installation, used primarily in development of rotorcraft products or for rotorcraft services; 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 DOR.

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.

Tax Preference Performance Statement.

The tax preference performance statement specifies that the public policy objective is to create economic growth and 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 JLARC 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.

Definitions.

The following definitions are added:

"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.

Appropriation: None.

Fiscal Note: Requested on February 5, 2015.

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