BILL ANALYSIS

Labor Committee

HB 1786

Brief Description: Establishing a statewide wage standard for aerospace employment as a requirement to qualify for certain aerospace-related tax incentives.

Sponsors: Representatives Gregerson, Tarleton, Robinson, Sells, Ortiz-Self, McBride, Peterson, Cody, Bergquist, Moscoso, Jinkins, Ormsby, Stanford, Ryu, Pollet and S. Hunt.

Brief Summary of Bill

- Requires wage standards to be met for businesses to be eligible for certain aerospace related business and occupation tax incentives.

Hearing Date: 2/9/15

Staff: Joan Elgee (786-7106).

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. 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.

Aerospace Tax Incentives:
In 2003 a number of aerospace related tax incentives were adopted. The incentives included a reduction in the B&O tax rate for manufacturers, a B&O tax credit for development expenditures, and several tax exemptions. In 2006 and again in 2008 changes were made to the tax incentives.

In 2013 the expiration date for specific tax incentives was extended from 2024 to 2040. The extension of the incentives was contingent upon the Department of Revenue (DOR) making a

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determination that a final decision to locate a significant commercial airplane manufacturing program in the state had occurred by June 30, 2017. The DOR made the required determination on February 5, 2014.

The incentives for which the expiration date was extended include a:
- 0.2904 percent preferential B&O tax rate for businesses engaged in the manufacturing, wholesaling, or retailing of commercial airplanes or components;
- 0.2904 percent preferential B&O tax rate for businesses engaged in the manufacturing, wholesaling, or retailing of tooling used in the manufacturing of commercial airplanes and airplane components; and
- 1.5 percent B&O tax credit for certain aerospace product development expenditures.

Businesses that exercise any of these incentives must file an annual report with the DOR. The report must include employment, wage, and employer-provided health and retirement benefit information for full-time, part-time, and temporary positions in the state. However, persons engaged in manufacturing commercial airplanes or components may report the information per job at the manufacturing site for the year that the preference was claimed.

As part of the 2013 legislation, the Joint Legislative Audit and Review Committee (JLARC) was directed to review the tax preferences and report to the Legislature every five years beginning December 1, 2019. JLARC must specifically assess changes in aerospace industry employment in Washington in comparison with other states and internationally.

Summary of Bill:

Certain wage standards must be met to claim the preferential B&O tax rate for the manufacturing, wholesaling, or retailing of commercial airplanes or components, or the tooling used in the manufacture. The wage standard must also be met to claim the aerospace product development expenditure B&O tax credit.

The qualifying wage standard is based on the state median wage for a one-earner family as reported in the American Community Survey published by the United States Census Bureau. For 2013, that amount is $52,389. The DOR, in collaboration with the Employment Security Department (ESD), must calculate the fraction of employees for each business who earned at least the qualifying wage standard for the 12 month period ending on September 30. Only employees for whom wage data was reported to the ESD for at least 36 months are included. To be eligible for the preference, all of the employees must earn at least the wage standard. For taxes due and payable in 2016, the wage standard is 80 percent of the state median wage. For 2017, the wage standard is 90 percent of the state median wage, and in 2018 and later, the wage standard is 100 percent of the state median wage.

The DOR must determine whether a taxpayer is eligible for the preferential rate and notify affected businesses, to the extent possible, by January 1 of each year. Taxpayers disallowed from claiming the preference may claim the preference in subsequent years if the wage standard requirement is met. Wage data is not subject to certain confidentiality provisions.

The wage standard applies beginning with taxes due in calendar year 2016.

The reporting requirement is changed to delete the aerospace specific provision that employment, wage, and benefits information may be reported for the manufacturing site. The report must provide information for employment positions in Washington.

Increases in State General fund revenue collections resulting from the provisions must be used for state services that aid low-income individuals.

As part of its review, JLARC must also assess growth in high-wage employment, as defined by an annual or hourly wage equal or greater than the state median wage.

Appropriation: None.

Fiscal Note: Requested.

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