
Finance Committee

HB 2665

Brief Description: Encouraging economic growth in Washington by providing tax preferences for advanced spacecraft manufacturing.

Sponsors: Representatives Boehnke, Tarleton, Barkis and Eslick.

Brief Summary of Bill

- Provides a business and occupation tax credit to certain eligible taxpayers engaged in advanced spacecraft manufacturing.
- Provides a sale and use tax deferral and waiver to certain eligible taxpayers engaged in advanced spacecraft manufacturing on the construction of facilities and purchases of eligible machinery related to qualified research and development and pilot scale manufacturing.

Hearing Date: 2/27/20

Staff: Nick Tucker (786-7383).

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 the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

Retail 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 tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities 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 3.9 percent, depending on the location.

Tax Deferrals for High-Technology Businesses.

Chapter 82.63 RCW, which expired January 1, 2015, provided certain high-technology businesses with a sales and use tax deferral on qualified buildings, machinery and equipment, and labor and services associated with new or expanded research and development or pilot scale manufacturing operations.

Tax Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

Business and Occupation Tax Credit.

Beginning July 1, 2020, a B&O tax credit is provided to taxpayers who: (1) have an active tax registration with the Department of Revenue (DOR) and are actively engaged in advanced spacecraft manufacturing as of July 1, 2020; (2) spend at least 0.92 percent of their taxable amount subject to B&O tax on research and development (R&D); and (3) are in compliance with all applicable federal statutes and regulations governing payloads.

A taxpayer is not eligible for the credit if they claim: (1) an aerospace tax credit provided in RCW 82.04.4461; or (2) a preferential tax rate provided in RCW 82.04.250(3), 82.04.260(11), or 82.04.290(3).

The amount of the tax credit is calculated as follows:

1. determine the greater of the amounts of the total qualifying R&D expenditures conducted during the period or 80 percent of the compensation received for conducting qualifying R&D;
2. subtract 0.92 percent of the person's taxable amount from amount determined above; and
3. multiply the difference by 1.5 percent.

For a given year, the amount of the credit may not exceed the lesser of \$750,000 or the total B&O tax due.

A taxpayer who qualifies for the credit as a result of R&D conducted under contract may assign all or part of the credit to the taxpayer contracting for the performance of the R&D.

Any taxpayer claiming the credit must provide certain information to the DOR and complete an annual tax performance report.

The preference expires July 1, 2030.

Sales and Use Tax Deferral.

Beginning July 1, 2020, a taxpayer may apply for a state and local sales and use tax deferral if the taxpayer: (1) has an active tax registration with the DOR and is actively engaged in advanced spacecraft manufacturing as of July 1, 2020; and (2) does not claim an aerospace tax credit provided in RCW 82.04.4461 or a preferential tax rate provided in RCW 82.04.250(3), 82.04.260(11), or 82.04.290(3).

The deferral is provided for the state and local sales and use taxes due on the construction of facilities and purchases of eligible machinery related to qualified R&D and pilot scale manufacturing.

The amount of tax deferred may not exceed \$750,000 per taxpayer per project. A taxpayer may receive a deferral certificate for more than one project, but cannot defer more than \$750,000 per calendar year for all projects.

The deferred taxes are waived if the investment project is used for qualified R&D or pilot scale manufacturing for a period of eight years. If the project is used for any other purpose during this period, all or a portion of the deferred taxes are due. The deferred taxes also become due if meaningful construction on the project did not begin within five years of the date of application or if a project is not operationally complete within 10 years.

No new applications for deferral may be approved after October 31, 2030.

Appropriation: None.

Fiscal Note: Available.

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