

SENATE BILL REPORT

SB 6068

As Reported by Senate Committee On:
Ways & Means, February 5, 2020

Title: An act relating to sales and use tax exemptions for large private airplanes.

Brief Description: Concerning sales and use tax exemptions for large private airplanes.

Sponsors: Senators Warnick, Mullet, Wilson, L., Takko, Short, Liias and Honeyford.

Brief History:

Committee Activity: Ways & Means: 1/21/20, 2/05/20 [DPS, DNP].

Brief Summary of First Substitute Bill

- Extends by ten years several tax preferences and an aircraft registration exemption for large, nonresident-owned private airplanes undergoing modification work in Washington.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6068 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Mullet, Capital Budget Cabinet; Braun, Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Becker, Billig, Carlyle, Conway, Darneille, Dhingra, Hunt, Keiser, Liias, Muzzall, Pedersen, Rivers, Schoesler, Van De Wege, Wagoner, Warnick and Wilson, L..

Minority Report: Do not pass.

Signed by Senator Hasegawa.

Staff: Jeffrey Mitchell (786-7438)

Background: Retail Sales Taxes. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services, including repair 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

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property, digital products, or services, then use taxes apply to the value of the property, digital product, or service when used in this state. The state, 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 depending on location.

Washington provides a sales and use tax exemption for nonresidents who modify their large private airplanes in Washington. For example, when nonresidents bring their large private airplanes to Washington for modification work, such as interior customization, they do not pay sales and use tax. These private planes are the size of a Boeing 737 or larger.

The tax preference was enacted in 2013, took effect January 1, 2014, and expires July 1, 2021.

Aircraft Registration. Generally, any aircraft operated or based within Washington must be registered with the state Department of Transportation (DOT) for the calendar year in which the aircraft is operated or based within the state. A \$15 fee is charged for initial and renewal registrations.

There are several exemptions from registration. One is for any aircraft owned by a nonresident and operated or based in this state for a period less than 90 days. A second applies to nonresident-owned large private airplanes in the state for a period not less than one year for the exclusive purpose of repairs, alterations, or reconstruction. To claim this exemption from aircraft registration, the nonresident must file a written statement with DOT indicating the aircraft is exempt from registration for the purpose of repairs, alterations, or reconstruction. This registration exemption took effect January 1, 2014, and is scheduled to expire July 1, 2021.

Aircraft Excise Tax. Washington applies an aircraft excise tax to private owners of planes used for personal or business purposes. The tax consists of an annual fee based on the type of aircraft, except for aircraft owned and operated by a commuter air carrier that is not an airplane company, who are required to pay an annual fee based on weight. The aircraft excise tax is in lieu of property taxes.

Generally, aircraft engaged principally in commercial flying that constitutes interstate or foreign commerce is exempt from aircraft excise tax, but subject to personal property tax. However, legislation enacted in 2013 imposes aircraft excise tax on commercial aircraft in the state exclusively for the purpose of continual storage of not less than one full calendar year, relating to modification work. This change expires on July 1, 2021.

Joint Legislative Audit and Review Committee Tax Preference Reviews. A tax preference is any exemption, exclusion, or deduction from the base of a state tax; a credit against a state tax; a deferral of a state tax; or a preferential state tax rate. All new tax preference legislation is required to include a tax preference performance statement. 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. An automatic ten-year expiration date is applied to new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

Summary of Bill (First Substitute): The changes made in the 2013 legislation related to taxation and registration requirements for large private aircraft is extended ten years from July 1, 2021, to July 1, 2031.

Therefore, the following will apply:

- large private airplanes sold to nonresidents or sales of labor and services for the repair, cleaning, and altering of such nonresident airplanes is exempt from sales and use taxes;
- large private airplanes are not required to be registered in Washington if these airplanes are in the state for a period not less than one year for the exclusive purpose of repairs, alterations, or reconstruction; and
- large private airplanes will continue to be subject to aircraft excise tax in lieu of property tax.

By January 1, 2027, JLARC must conduct its tax preference review, which will evaluate the economic impacts on Washington from the tax preferences and, to the extent practicable, estimate job growth in the aerospace cluster resulting from the tax preferences.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Removes language requiring JLARC to evaluate as part of its 2026 review whether the tax preferences have had an impact on job growth in the broader aerospace manufacturing industry.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: This bill has already proven its value. The bottom line is that this bill is fiscally sound policy. It is good for the aerospace cluster, it retains high paying jobs that have great wages and benefits, and it also furthers the aerospace cluster in Washington State. It is cool that that this tax preference actually worked. Before the original legislation, none of this work was being done in the state of Washington. The Legislature incentivized this work in Washington. The analysis by JLARC demonstrated that it is good responsible tax policy that incentives work in the state that would not otherwise occur. The work we do in Moses Lake is amazing. There are only four or five companies around the world that do what we do. The pay and benefits are really good. The port of Moses Lake owns and operates the Grant County International Airport and about 4500 hundred acres of quality infrastructure both in and around the airport. The airport has one of the largest airfields in the world and can accept the largest aircraft in the world and provide critical support for our airspace sector in both military and commercial test flight programs and aircraft modification work. Aerospace plays a positive role in the state's

economy and this policy will continue to attract new business and bring new high paying jobs to the state of Washington. The JLARC report concluded that the preference has likely resulted in new jobs and increased tax revenue to the state. The bill continues to make Washington State a more competitive state by driving economic activity that generates revenue for the state.

Persons Testifying: PRO: Senator Judy Warnick, Prime Sponsor; Trent House, Aerospace Futures Alliance; Bruce Beckett, Port of Moses Lake; Dennis Weirich, Aviation Technical Services; Stevce Gano, Aviation and Technical Services; Tommy Gantz, Association of Washington Business.

Persons Signed In To Testify But Not Testifying: No one.