
Finance Committee

HB 1940

Brief Description: Providing excise tax relief for the development of commercial airplanes.

Sponsors: Representatives McIntire, Strow and Conway; by request of Department of Community, Trade, and Economic Development and Department of Revenue.

Brief Summary of Bill

- Extends tax incentives relating to the preproduction development of commercial airplanes to businesses other than manufacturers.

Hearing Date: 2/22/05

Staff: Mark Matteson (786-7145).

Background:

Business and Occupation, Retail Sales, and Use Taxes. 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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the state General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. Rates include 0.484 percent for manufacturers and wholesalers, in general, and 1.5 percent for most types of businesses that provide services.

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax is levied at a 6.5 percent rate by the state. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent. Currently, local rates levied range from 0.5 percent to 2.4 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

Tax Incentives Provided for Aerospace Industry Manufacturers. In 2003, the Legislature enacted certain tax incentives provided to manufacturers of airplanes and airplane components. Eligible firms include subcontractors and suppliers that are manufacturers. Two major incentives are sales

and use tax exemptions for certain computer equipment and a B&O tax credit for preproduction development spending.

The sales and use tax exemptions provided to aerospace manufacturers cover the acquisition of computer hardware, computer peripherals, and software used primarily in the development, design, and engineering of commercial airplanes or commercial airplane components, and labor and services for installing these items.

The credit against the B&O tax for preproduction development expenditures is equal to 1.5 percent multiplied by the amount of eligible expenditures. Preproduction development includes research, design, and engineering activities performed in relation to the development of a product, product line, model, or model derivative, including prototype development, testing, and certification.

Recent Activity in the Washington Aerospace Industry. In late 2003, the Boeing board of directors granted authority to offer for sale a superefficient airplane, now known as the 787. While production is expected to begin in 2006, a number of contracts have been let as of February 2005 to subcontractors for the preproduction development of the aircraft. Some of these contracts cover the research, design or engineering of certain aspects of the aircraft and have been let to firms within Washington that have no manufacturing presence in state. These firms do not qualify for the incentives enacted in 2003.

Summary of Bill:

Certain tax incentives that are provided to manufacturers who engage in the research, design, and engineering of airplanes and airplane components are extended to persons who provide such research, design, or engineering services but who are not manufacturers. The incentives are the sales and use tax exemption for certain computer equipment used primarily in the development, design, and engineering of airplanes and airplane components, and the B&O tax credit for preproduction development spending.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2005.