

# HOUSE BILL REPORT

## HB 1707

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**As Reported by House Committee On:**  
Technology & Economic Development

**Title:** An act relating to the taxation of large airplanes.

**Brief Description:** Concerning the taxation of large airplanes.

**Sponsors:** Representatives Springer, Warnick, Parker, Lias, Manweller and Lytton.

**Brief History:**

**Committee Activity:**

Technology & Economic Development: 2/13/13, 3/14/13, 3/19/13, 4/24/13 [DPS].

**Brief Summary of Substitute Bill**

- Exempts large private airplanes from the requirement of registering with the Department of Transportation when in the state for the purpose of repairs, alterations, reconstruction, or long-term storage.
- Exempts large private airplane sales and certain related labor and service charges from the retail sales and use tax, when the plane is also exempt from the registration requirement.
- Narrows the existing exemption from the excise tax for certain aircraft engaged principally in interstate or foreign commerce, removing the exemption when such aircraft are in the state exclusively for the purpose of continual storage of one full calendar year or longer.

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### HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 14 members: Representatives Morris, Chair; Habib, Vice Chair; Smith, Ranking Minority Member; Crouse, Assistant Ranking Minority Member; Dahlquist, Freeman, Hudgins, Kochmar, Magendanz, Maxwell, Tarleton, Vick, Walsh and Zeiger.

**Minority Report:** Without recommendation. Signed by 3 members: Representatives Morrell, Stonier and Wylie.

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*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.*

**Staff:** Jasmine Vasavada (786-7301).

**Background:**

Aircraft Registration.

Under current law, the owners of aircraft operated or based in Washington must register with the Department of Transportation (DOT) and pay a \$15 registration fee. Aircraft owned by nonresidents and registered in another state are not required to register in Washington, unless the aircraft remains in or is based in Washington for a period of 90 days or longer.

Retail Sales and Use Taxes.

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most goods and some services. If retail sales taxes are not collected when the goods or services are first acquired, then use taxes are often applied, at the same rate as the retail sales tax, when the goods or services are used. The state sales tax rate is 6.5 percent. State sales and use taxes are deposited in the State General Fund.

In 2007 Washington enacted legislation to conform to the National Streamlined Sales and Use Tax Agreement (SSUTA). The legislation took effect on July 1, 2008. The SSUTA is a voluntary multi-state effort to simplify and modernize sales and use tax administration for member states in order to substantially reduce the burden of tax compliance.

Excise Taxation of Aircraft.

Aircraft are subject to either the property tax or the aircraft excise tax, depending on the type of aircraft. General aviation aircraft (all aircraft except those owned by the government or by commercial airlines) must pay the aircraft excise tax, but are exempt from the personal property tax. This tax, an in-lieu of property tax, consists of an annual fee based on the type of aircraft, ranging from \$20 to \$125.

Interstate commercial aircraft are exempt from the excise tax, and as a result, the excise tax applies mainly to private owners of small planes used for personal or business purposes. Funds are deposited into the State General Fund. A portion is used for administrative expenses for the Aeronautics Account within the General Fund.

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**Summary of Substitute Bill:**

Registration with the Department of Transportation.

The current exemption from registration with the DOT for aircraft owned by nonresidents, when the aircraft are located in the state for less than 90 days, is extended beyond the 90-day limit when the airplane is a "large private airplane" that is in the state exclusively for the purpose of continual storage (for not less than one full calendar year) or repairs, alterations, or reconstruction. An airplane that is present in the state for flight testing related to the repairs, alterations, or reconstruction still qualifies for the exemption, so long as an employee of the facility providing these services is on board the airplane during any flight testing. A "large private airplane" means an airplane not used in interstate commerce, not owned or leased by a government entity, weighing more than 41,000 thousand pounds, and assigned a

category A, B, C, or D test flow management system aircraft weight class by the Federal Aviation Administration's office of aviation policy and plans.

Retail Sales and Use Tax Exemptions.

When a large private airplane is exempt from registration with the DOT, the nonresident owner or lessee may also claim an exemption from the retail sales and use tax. This exemption applies to the sale of the airplane and to sales of or charges made for labor and services in repairing, cleaning, altering, or improving the airplane. A seller wishing to make a tax-exempt sale must obtain an exemption certificate from the buyer, or capture the relevant data as allowed under the SSUTA. The retail sales and use tax exemption expires January 1, 2024.

Excise Tax Exemption.

Commercial aircraft engaged in interstate or foreign commerce that are in the state exclusively for the purpose of continual storage of one full calendar year or more are subject to the excise tax, and therefore exempt from property tax.

Joint Legislative Audit and Review Commission Review.

The Joint Legislative Audit and Review Commission (JLARC) must review the performance of the tax preferences. The review must consider the number and value of contracts for modification, completion work, retrofitting, or any other repair work or storage performed on planes owned by taxpayers claiming the tax preferences, and the difference in the amount of business and occupation tax revenue reported to the state by Washington businesses making tax exempt sales pursuant to the tax preferences.

**Substitute Bill Compared to Original Bill:**

The substitute bill makes the following changes:

- removes the requirement in the original bill that a written statement be filed with the DOT in order for a large private airplane, owned by a nonresident and located in the state for 90 days or more, when in the state exclusively for the purpose of continual storage (for not less than one full calendar year) or repairs, alterations, or reconstruction, to be exempt from the retail sales and use tax.
- removes the requirement that the large private airplane owned by a nonresident must be registered in another state in order to qualify for the tax exemptions.
- provides an expiration date of January 1, 2024, for the retail sales and use tax exemption.
- establishes benchmarks for review of the tax preferences' performance by the JLARC; and
- changes language in the intent section.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect on January 1, 2014, except for section 6 relating to a new excise tax exemption, which takes effect January 1, 2020.

**Staff Summary of Public Testimony:**

(In support) Some Washington aerospace companies who provide modification and repair services on large commercial aircraft have been trying to build their private aircraft modification and completion business, but current tax policy poses a challenge. Customers choose to take their business elsewhere to avoid tax liability. There is a projected demand for a large number of modified Boeing business jet sales to out-of-state businesses, and also an increasingly competitive global market. This bill is important in order to allow local companies to compete on a level playing field with competition elsewhere in the country. The state is in an excellent position to win a large percentage of the work over the next five to 10 years. The scale of these projects is large: if two or three modified and completed aircraft contracts are won each year, each one can take 12 to 24 months and employ 40 to 75 people. One company with business operations in Washington that focuses on interior redesign of large aircraft has taken three contracts to Kansas and another to Texas, because their tax regimes are more favorable. The interior completion industry gives rise to a cluster of associated businesses. Although gross revenues are very high, the profit margins are not, so most of these revenues are staying in the state. The strongest aerospace cluster in the world is in Washington and this sector has a lot of jobs that could be represented here but are not. The Port of Moses Lake is a significant infrastructure asset, with 4,500 acres of a former Air Force base available as space for the storage, rehabilitation, and dismantling of aircraft. Not only in Kansas and Texas, but in Arizona, New Mexico, and California there are dozens of aircraft on the ground undergoing ongoing maintenance and other services. This work could be done here. The size of the plane covered in this bill, 41,000 pounds, is a small 737 and above. Full conversion of a 747-8, for example, can create 70 jobs per plane. There could be 420 jobs in Moses Lake related to the storage of aircraft alone. Although this is a tax exemption, if these jobs are currently not here, we are not receiving revenues for these jobs. By creating the jobs, the state will actually receive additional business and occupation tax revenues. Washington also has technical college programs perfectly poised to develop the same skills that would be utilized by these companies.

(Opposed) None.

**Persons Testifying:** Linda Lanham and Gabe Duleac, Aviation Technical Services; Nima Seyedali, Greenpoint Technologies; and Pat Jones, Port of Moses Lake.

**Persons Signed In To Testify But Not Testifying:** None.