Topics

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Aerospace Tax Incentives
The Incentives

- Preferential B&O tax rate
- B&O tax credit for aerospace product development
- Sales and use tax exemption on computers, hardware, and peripherals
- B&O tax credit for property taxes/leasehold taxes paid
Preferential B&O Tax Rate
Preferential B&O Tax Rate

Manufacturers & Processors for hire

Manufacturing - 40% reduced rate (.2904%)

Wholesaling - 40% reduced rate (.2904%)

Retailing – 38% reduced rate (.2904%)

Commercial airplanes & their component parts, tooling specifically designed for use in manufacturing commercial airplanes & component parts *(RCW 82.04.260)*
Example

Regular manufacturer:

\[ \$100,000 \times 0.00484 = \$484 \text{ B&O tax due} \]

Aerospace manufacturer:

\[ \$100,000 \times 0.002904 = \$290.40 \text{ B&O tax due} \]

Savings = \$193.60
Preferential B&O Tax Rate

Aerospace Product Development businesses
50% reduced rate (.9%) - 40% reduced rate in July 2013

Aerospace Products:
Commercial airplanes & their component parts

Machinery & equipment designed and used primarily for maintenance, repair, overhaul or refurbishing of commercial airplanes or their components by FAR Part 145 stations

Tooling specifically designed for use in manufacturing commercial airplanes or their components \((RCW 82.04.290)\)
Certificated FAR Part 145 Repair Stations
38% reduced rate (.2904%)

Retail sales exempt from tax under RCW 82.08.261, 262 and 263, made in Washington by certificated FAR part 145 stations (RCW 82.04.250)
Aerospace Product Development Expenditures B&O Tax Credit
B&O tax credit equal to the amount of qualified aerospace product development expenditures multiplied by 1.5%
What is aerospace product development?

*(RCW 82.04.4461)*

“Research, design and engineering activities performed in relation to the development of an aerospace product or of a product line, model, or model derivative of an aerospace product, including prototype development, testing, and certification”

The term also includes “tool design and engineering design for the manufacturing process”
Qualifying Expenditures

What expenditures qualify for the aerospace product development credit?

- Wages – salaries, commission, stock options, payroll taxes
- Benefits – retirement, health care, life insurance, vacation, holiday, sick leave, military leave, jury duty
- Training expenses – registration fees, materials, travel expenses
Qualifying Expenditures

What expenditures qualify for the aerospace product development credit?

• Supplies – tangible personal property with a useful life of less than one year

• Cost for FAA certification of a product or model

• Computer expenses such as internet subscriber fees, run time on a mainframe computer, outside processing
ABC Aerospace had the following aerospace product development expenditures in Q1 of 2010:

- $20,000 wages & benefits
- $5,000 supplies
- $1,000 training costs
- $5,000 FAA certification expenditures

Total $31,000 X 1.5% = $465.00 B&O tax credit
Non-qualifying expenditures

What expenditures do not qualify for the aerospace product development credit?

- Development expenditures incurred outside the state
- Capitol costs and overhead such as expenses for land, structures, depreciable property
- Legal expenses, patent fees
- Amounts paid to someone else to conduct aerospace product development
- Any other expense not directly incurred in aerospace product development
What *isn’t* Aerospace Product Development?

• Surveys, studies, social science, humanities research
• Market research or testing
• Quality Control
• Sales promotion and service
• Computer software developed for internal use
• Research in areas such as improved style, taste and seasonal design
• Credit cannot exceed B&O taxes due in a calendar year

• Unused credit *cannot* be carried over beyond the calendar year in which the qualifying expenditures are incurred
Sales and Use Tax Exemption for Computers/Hardware and Peripherals
Sales and Use Tax Exemption for Computers and Peripherals

- Retail sales and use tax does not apply on purchases of computers, software and peripherals used primarily* in the development, design, and engineering of aerospace products, or in providing aerospace services.

- Exemption also applies to charges made for labor and services rendered in respect to installation.

*Primarily means more than 50% of the time
What are “aerospace services”?

“Aerospace services means the maintenance, repair, overhaul, or refurbishing of commercial airplanes or their components, but only when such services are performed by a FAR part 145 certificated repair station”

(RCW 82.08.975)
What qualifies for the exemption?

- Computer hardware, software and peripherals used in the development, design and engineering of aerospace products & in providing aerospace services

- Peripherals includes – keyboards, monitors, mouse devices, printers, plotters, routers, switches and hubs
Sales and Use Tax Exemption

- Does not include maintenance agreements, cables, conduit, wiring.
- Buyer must provide the seller with a completed “Buyers Retail Sales Tax Exemption Certificate”, check box “6(j)”
- Form can be found on DOR website
Who is eligible?

- Manufacturers of commercial airplanes, component parts, and aerospace tooling for same
- Aerospace product development businesses and certificated FAR Part 145 Repair Stations

Who is *not* eligible?

- Processors for hire
Manufacturers of commercial airplanes and component parts are eligible for a B&O tax credit equal to property taxes paid on:

- New buildings & land upon which the buildings are located, constructed after Dec. 1, 2003
- The increased value of renovated buildings constructed after Dec. 1, 2003 (RCW 82.04.4463)

Buildings & land must be used exclusively to manufacture commercial airplanes and components
Manufacturers of commercial airplanes and component parts are also eligible for a B&O tax credit for property taxes paid on:

✓ Machinery and Equipment exempt under M&E acquired after Dec. 1, 2003

(RCW 82.04.4463)

For M&E, the credit is equal to property taxes paid, multiplied by a fraction. No “used exclusively” clause.
Example:

2008

\$500,000 aerospace manufacturing taxable income
\$1,000,000 all manufacturing taxable income

2009

Property tax fraction = \( \frac{1}{2} \) or 0.5

Multiply property taxes paid on M&E equipment in 2009 by 0.5 to calculate amount of B&O tax credit
Tooling manufacturers are eligible for a B&O tax credit equal to property taxes paid on:

- New buildings & land upon which the buildings are located, constructed after June 30, 2008
- The increased value of renovated buildings constructed after June 30, 2008 (RCW 82.04.4463)

Buildings & land *must* be used *exclusively* to manufacture aerospace tooling.
Manufacturers of aerospace tooling specifically designed for use in manufacturing commercial airplanes and their component parts are also eligible for a B&O tax Credit for property taxes paid on:

✓ Machinery and Equipment exempt under M&E acquired after June 30, 2008 *(RCW 82.04.4463)*

For M&E, the credit is equal to property taxes paid, multiplied by a fraction. No “used exclusively” clause.
B&O Tax Credit for Property Tax Paid – FAR Part 145’s & Aerospace Product Development Businesses

FAR Part 145’s and aerospace product development businesses are eligible for a B&O tax credit equal to property taxes paid on:

- New buildings & land upon which the buildings are located, constructed after June 30, 2008
- The increased value of renovated buildings constructed after June 30, 2008 (RCW 82.04.4463)

Buildings & land must be used exclusively for aerospace product development or in providing aerospace services.
FAR Part 145’s and aerospace product development businesses are also eligible for a B&O tax credit equal to property taxes paid on:

- Computer hardware, computer peripherals, and software exempt under RCW 82.08.975 and 82.12.975 \((RCW 82.04.4463)\)

Computer hardware, software, and peripherals must be usedprimarily for aerospace product development or in providing aerospace services.
Manufacturers of commercial airplanes & component parts are eligible for a B&O tax credit equal to leasehold taxes paid on:

✓ Buildings (and land upon which the buildings are located) constructed after January 1, 2006*

Tooling manufacturers, FAR Part 145’s, and aerospace product development businesses are eligible for a B&O tax credit equal to leasehold taxes paid on:

✓ Buildings (and land upon which the buildings are located) constructed after June 30, 2008*

*Both have exclusive use clauses with respect to leasehold taxes (RCW 82.04.4463)
• Credit cannot be claimed until the property taxes are paid

• Excess credit can be carried forward one year, but may not be carried over a second year

• Credit cannot exceed amount of B&O tax due in a calendar year
Annual Report Requirement
Annual Report Requirement

• Annual report due by April 30th following the year in which a business uses an incentive

• File report online (mandatory E-file)

• Report asks for number of full-time, part-time and temporary positions

• Report does not ask for any financial information
Annual Report Requirement

• Failure to file will nullify incentives taken and the business will be billed for amount of credit taken plus interest, no penalties *(RCW 82.32.534)*

• This information is not subject to the confidentiality provisions of RCW 82.32.330
Visit our Tax Incentives page:

dor.wa.gov under *Quick clicks* select *Tax incentive programs*

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Questions?