Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE JUNE 13, 2008

Aerospace Tooling Manufacturers Tax Incentives

SSB 6828 (Chapter 81, Laws of 2008) broadens several existing aerospace tax incentives to include manufacturers of tooling. ***Effective July 1, 2008, the legislation provides a package of tax incentive programs for manufacturers and processors for hire of tooling specifically designed for use in manufacturing commercial airplanes and component parts of commercial airplanes, and for manufacturers that sell such tooling at retail or wholesale***. This notice provides a comprehensive overview of the tax incentives available.

Retail Sales and Use Tax Exemption for Computers

Manufacturers and processors for hire of tooling specifically designed for use in manufacturing commercial airplanes and component parts of commercial airplanes are eligible for a retail sales and use tax exemption on purchases of computer hardware, software and peripherals used primarily in the development, design and engineering of aerospace products or in providing aerospace services. The exemption also applies to charges for labor and services related to the installation of qualifying computer hardware, software and computer peripherals. Computer peripherals include keyboards, monitors, mouse devices, and other devices that operate outside the computer, excluding cables, conduit, wiring, and similar property. The purchaser must provide the vendor with a completed *Buyers' Retail Sales Tax Exemption Certificate*. This exemption expires July 1, 2024.

Business and Occupation (B&O) Tax Rate

Manufacturers and processors for hire of tooling specifically designed for use in manufacturing commercial airplanes and component parts of commercial airplanes are eligible for a preferential B&O tax rate of .2904%. The rate will apply to both the manufacturing activity and the subsequent sale of the manufactured product by the manufacturer. The manufacturer is also eligible for the multiple activities tax credit (MATC). Persons who qualify for this preferential B&O tax rate should report the income under the aerospace B&O tax classifications on the Electronic Filing (E-file) return. This rate expires on July 1, 2024.

Property and Leasehold Excise Tax B&O Tax Credits

Manufacturers and processors for hire of tooling specifically designed for use in manufacturing commercial airplanes and component parts of commercial airplanes are eligible for a B&O tax credit on property taxes or leasehold excise taxes paid on buildings (and land upon which the buildings are located) constructed after June 30, 2008, that are used exclusively for manufacturing qualifying tooling, aerospace product development and providing aerospace services. The credit is equal to the amount of property/leasehold tax paid on the land and buildings. The credit is also available for property taxes attributable to an increase in assessed value due to the renovation or expansion of buildings used exclusively for manufacturing qualifying tooling, aerospace product development or in providing aerospace services. These credits expire July 1, 2024.

The law also provides for a B&O tax credit on machinery and equipment acquired after June 30, 2008, used in manufacturing tooling specifically designed for use in manufacturing commercial airplanes or component parts of commercial airplanes. The amount of credit is equal to the amount of property taxes paid on the equipment exempt under the Manufacturers' Machinery and Equipment Sales and Use Tax Exemption (M&E), (see RCW 82.08.02565) multiplied by a fraction. The numerator of the fraction is the total taxable amount subject to the

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tax imposed under RCW 82.04.260(11) and the denominator of the fraction is the total taxable amount subject to the tax imposed under all manufacturing classifications in Chapter 82.04 RCW. The fraction for the year in which the credit is earned is calculated using amounts reported on the previous year's combined excise tax returns. If either the numerator or denominator of the fraction is zero, no credit is available. If the fraction is greater than or equal to nine-tenths, then the fraction is rounded to one.

This B&O tax credit cannot be claimed until the property taxes associated with the qualifying land, buildings or machinery and equipment have actually been paid. If your B&O tax obligation is less than the property taxes paid on qualifying property, the credit may carry forward one year but may not be carried over a second year. B&O tax refunds will not be granted in lieu of a credit for property taxes paid. This credit expires July 1, 2024.

Qualified Aerospace Development Expenditures B&O Tax Credit

There is a B&O tax credit equal to 1.5% of qualified aerospace product development expenditures incurred by tooling manufacturers and processors for hire that manufacture and sell tooling specifically designed for use in manufacturing commercial airplanes and component parts of commercial airplanes. A form must be completed each time the credit is taken. The form can be found within the Department's E-file system on the "credits" page. Pre-approval is not required from the Department of Revenue to use the credit. Credit may not be claimed for expenditures for which a credit is claimed under RCW 82.04.4452 (High Technology Research and Development B&O tax). The credit cannot exceed B&O taxes due for any reporting period. Any unused credit accrued after July 1, 2008, cannot be carried over beyond the calendar year in which the qualifying expenditures are incurred.

"Qualified aerospace product development expenditures" are operating expenses, including wages, benefits, supplies, and computer expenses, directly incurred in qualified aerospace product development by a person claiming the credit. The term includes expenses directly incurred in the discovery of technological information, the translating of technological information into new or improved products, processes, techniques, formulas, or inventions, and the adaptation of existing products and models into new products or new models, or derivatives of products or models. The term also includes expenditures for tool design and engineering design for the manufacturing process. However, the term does not include manufacturing expenditures or other production-oriented expenditures. Nor does the term include the cost of surveys and studies, social science and humanities research, market research or testing, quality control, sale promotion and service, computer software developed for internal use, and research in areas such as improved style, taste and seasonal design. In addition, the term does not include capital costs and overhead, such as expenses for land, structures or depreciable property, or amounts paid to a person to conduct qualified aerospace product development, or to the state and any of its departments and institutions, other than a public educational or research institution. This credit expires July 1, 2024.

Annual Reporting Requirements

Beginning July 9, 2014, you must electronically file both the Annual Tax Incentive Survey and Annual Tax Incentive Report. The due date is May 31 of the year following the year you became eligible to claim the preference, beginning with reports and surveys due in 2017. For more information, see our Special Notice, New and Extended Aerospace Tax Preferences.

Electronic Filing Required

All reports and other such documents required by the Department of Revenue to take advantage of the aerospace tax incentives must be filed electronically.

Important Definitions

"Aerospace product" means commercial airplanes and their components as defined in RCW 82.32.550; machinery and equipment that is designed and used primarily for the maintenance, repair overhaul or refurbishing of commercial airplanes or their components by federal aviation regulation (FAR) part 145 certificated repair stations; and tooling specifically designed for use in manufacturing commercial airplanes or their components.

“Providing 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.

“Aerospace product development” means research, design and engineering activities performed in relation to the development of an aerospace product, including prototype development, testing and certification. The term includes the discovery of technological information, the translating of technological information into new or improved products, processes, techniques, formulas, or inventions, and the adaptation of existing products and models into new products or new models or derivatives of products or models.

“Primarily” means greater than 50% of the equipment’s capacity or total time the equipment is used.

“Tooling” means articles of tangible personal property used in the manufacture, repair, overhaul and/or replacement process, including, but not limited to, dies, die blocks, fixtures, gages, molds, patterns, templates, and other manufacturing and inspection aids required in those processes.