

This draft is provided for discussion purposes only to determine what topics a possible proposed rule might address. This discussion draft is under no circumstances to be used to determine a tax liability and/or eligibility for tax exemptions.

NEW SECTION

**WAC 458-20-269 Tax adjustments for the aerospace industry.**

(1) **Introduction.** In 2003, the legislature provided comprehensive tax adjustments for the aerospace industry (chapter 1, Laws of 2003 2nd sp. sess.). The legislature found that the people of the state have benefited from the presence of the aerospace industry in Washington state by providing good wages and benefits for the thousands of engineers, mechanics, and support staff working directly in the industry throughout the state. The legislature declared that it is in the public interest to encourage the continued presence of this industry through tax adjustments to address the cost of doing business in Washington state compared to locations in other states.

This section contains examples that identify a number of facts and then state a conclusion regarding the eligibility of the tax adjustments. These examples should be used only as a general guide. The tax results in all situations must be determined after a review of all facts and circumstances.

(a) **Scope of this section.** This section explains the tax adjustments available to manufacturers and processors for hire of commercial airplanes and components of such airplanes and other eligible persons in the aerospace industry. These tax adjustments include:

A reduced business and occupation (B&O) tax rate (RCW 82.04.260(11) and 82.04.250(3));

A retail sales and use tax exemption for certain computer equipment (RCW 82.08.975, 82.08.981, 82.12.975, and 82.12.981);

A B&O tax credit for preproduction development expenditures (RCW 82.04.4461 and 82.04.4487); and

A B&O tax credit for property taxes or leasehold excise taxes paid on eligible property (RCW 82.04.4463).

(b) **Organization of this section.** The information provided in this section is divided into six parts.

Part I explains who is eligible to claim the aerospace industry tax adjustments.

Part II provides information about the reduced B&O tax rate.

Part III provides information about the retail sales and use tax exemption for certain computer equipment.

Part IV provides information about the B&O tax credit for

preproduction development expenditures.

Part V provides information about the B&O tax credit for property taxes or leasehold excise taxes paid on eligible property.

Part VI explains the reporting requirements for the tax adjustments.

## **PART I ELIGIBILITY**

(2) **Who is eligible to claim the tax adjustments?** The following tax adjustments are available only to persons engaged in manufacturing or processing for hire of commercial airplanes or components of such airplanes: The reduced B&O tax rate (RCW 82.04.260(11)), the retail sales and use tax exemption for certain computer equipment (RCW 82.08.975 and 82.12.975), and the B&O tax credit for preproduction development expenditures (RCW 82.04.4461). The B&O tax credit for property taxes or leasehold excise taxes paid on eligible property (RCW 82.04.4463) is available only to manufacturers of commercial airplanes or components of such airplanes. The manufacturing or processing for hire activities do not have to occur in Washington to be eligible.

The following tax adjustments are available to other eligible persons in the aerospace industry: The retail sales and use tax exemption for certain computer equipment (RCW 82.08.981 and 82.12.981) and the B&O tax credit for preproduction development expenditures (RCW 82.04.4487). The retail sales and use tax exemption for certain computer equipment is available to persons engaged in the development, design, or engineering of commercial airplanes or components of such airplanes. The B&O tax credit for preproduction development expenditures is available to persons engaged in qualified preproduction development.

The following tax adjustment is available to certain FAR part 145 certificated repair station: The reduced B&O tax rate (RCW 82.04.250(3)).

(a) **What is a manufacturer or processor for hire?** The terms "to manufacture," "manufacturer," and "processor for hire" have the meaning given to them in RCW 82.04.110, 82.04.120, and WAC 458-20-136.

(b) **What is a commercial airplane?** A "commercial airplane" has its ordinary meaning, which is an airplane certified by the Federal Aviation Administration or by any Civil Aviation Authority of a country (hereafter collectively referred to in this section as "FAA") for transporting persons or property, and any military derivative of such an airplane. A "commercial airplane" includes, for example, a sightseeing airplane or an airplane owned by a flight school if it is for commercial use

and certified by the FAA for transporting persons or property. "Commercial airplane" does not include crop dusters or aerial applicators. A "military derivative" is a commercial airplane that is manufactured with modifications for military applications.

(c) **What is a component of a commercial airplane?** The term "component" means a part or system certified by the FAA for installation or assembly into a commercial airplane. The term component also includes FAA certified parts or systems used in operating, controlling, or maintaining airworthiness of an airplane in flight that are affixed or attached to the airplane even if the property could be detached from the airplane for servicing, maintenance, or other purposes.

Materials to be incorporated as a component of a commercial airplane qualify for the tax adjustments, if such materials receive Technical Standard Order (TSO) authorizations from the FAA or if the materials meet the standards established in Metallic Materials Properties Development and Standardization (MMPDS) maintained by the FAA.

(3) **Examples to illustrate who qualifies for tax adjustments.**

(a) Company A is hired by a commercial airplane carrier to remodel the interiors of the carrier's airplanes. Company A does not qualify for any of the tax adjustments because it is not engaged in qualifying activities. Its activities are not manufacturing or processing for hire, qualified preproduction development, or development, design, or engineering of commercial airplanes or components of such airplanes. Company A is providing services on tangible personal property, which is classified as a retailing activity.

(b) Same facts as the previous example. As part of its remodeling activities, Company A is engaged in extensive development, design, and engineering of certain components of the carrier's airplanes. The only tax adjustment that Company A qualifies for is the retail sales and use tax exemption for certain computer equipment as provided in RCW 82.08.981 and 82.12.981. (c) The same facts as in the previous two examples apply to this example. Company B manufactures FAA certified airplane seats in California that are used by Company A in its remodeling activities. Company B qualifies for the tax adjustments because it is engaged in manufacturing components of commercial airplanes.

(d) Company C designs, engineers, and tests airplane components in Washington state that will be submitted to the FAA for certification for use in a commercial airplane. Company C does not manufacture any airplane components in this state. The company's production activities occur in Europe and Asia. Company C qualifies for the tax adjustments because it is engaged in manufacturing or processing for hire of components of

commercial airplanes. It is not required that a person's manufacturing activities occur within this state.

(e) Company D manufactures tools for sale to manufacturers of commercial airplanes. Company D does not qualify for the tax adjustments. Although Company D is engaged in manufacturing, it is not engaged in manufacturing of commercial airplanes or components of such airplanes. Tools used in the manufacturing process are not "components" of commercial airplanes. Also, Company D is not engaged in qualified preproduction development or in development, design, or engineering of commercial airplanes or components of such airplanes.

**(4) Examples to illustrate what components qualify for tax adjustments.**

(a) Company A manufactures airplane radar equipment. The radar equipment is FAA certified. Company A sells the radar equipment to manufacturers of both commercial airplanes and military airplanes. The manufacture and sale of radar equipment to commercial airplane manufacturers (which includes military derivatives of commercial airplanes) qualifies for the tax adjustments. The manufacture and sale of radar equipment to military airplane manufacturers does not qualify for the tax adjustments.

(b) Company B manufactures FAA certified air cargo containers for sale to commercial airplane manufacturers. The containers prevent the cargo from becoming a hazard from shifting within the cargo and baggage compartments. Although the containers will be detached from the airplane to unload the cargo, the manufacture and sale of air cargo containers qualifies for the tax adjustments because they are a part or system used in operating, controlling, or maintaining airworthiness of an airplane in flight.

(c) Company C manufactures blankets and pillows that meet FAA fire retardant standards for sale to commercial airplane manufacturers. The manufacture and sale of such blankets and pillows do not qualify for the tax adjustments. The blankets and pillows are not a "component" of a commercial airplane because the items are not installed, assembled, attached, or affixed in a commercial airplane.

(d) Company D manufactures oxygen dispensing systems for sale to commercial airplane manufacturers. The oxygen dispensing systems are FAA certified. The manufacture and sale of oxygen dispensing systems qualifies for the tax adjustments because they are FAA certified components installed in commercial airplanes.

(e) Same facts as in the previous example. However, Company D also sells oxygen separately to fill the tanks used with the dispensing systems. The oxygen is not manufactured by Company D. The sale of oxygen does not qualify for the tax adjustments because oxygen is not an FAA certified component,

and the oxygen was not manufactured by the seller.

(f) The same facts as in the previous two examples apply to this example, except that Company D sells oxygen dispensing systems with oxygen already filled in tanks. Company D sells the oxygen dispensing systems with oxygen in a lump sum price. The manufacture of oxygen dispensing systems and the sale of oxygen dispensing systems with oxygen qualifies for the tax adjustments. (g) Company E manufactures waste disposal equipment used by commercial airplane carriers to empty waste tanks in commercial airplanes. The manufacture and sale of such waste disposal equipment does not qualify for the tax adjustments because the waste disposal equipment is not an FAA certified component. In addition, such equipment is not installed or assembled into a commercial airplane, or attached or affixed to a commercial airplane to be used in operating, controlling, or maintaining airworthiness of an airplane in flight.

**PART II**  
**REDUCED B&O TAX RATE**

(5) **Information about the reduced B&O tax rate.** The legislation created a new B&O tax classification for manufacturers and processors for hire of commercial airplanes and components of such airplanes under RCW 82.04.260(11). The new classification includes both the manufacturing activity and the subsequent wholesale or retail sale of the product manufactured by the taxpayer. Activities covered by the new classification will be subject to a reduced B&O tax rate.

The legislation provided a separate B&O tax classification under RCW 82.04.250(3) for FAR part 145 certificated repair stations with airframe and instrument ratings and limited ratings for nondestructive testing, radio, Class 3 Accessory, and specialized services. The separate B&O tax classification is limited to retail sales that are exempt from retail sales tax by reason of RCW 82.08.0261, 82.08.0262, or 82.08.0263. Activities covered by the separate B&O tax classification will be subject to a reduced B&O tax rate.

(a) **When are the B&O tax rate reductions under RCW 82.04.260(11) scheduled to begin and expire?**

(i) The B&O tax rate for manufacturing and processing for hire of commercial airplanes and components of such airplanes, and for the subsequent wholesale or retail sale of the commercial airplanes or components of such airplanes by the manufacturer will be reduced according to the following schedule:

Reporting Period	B&O Tax Rate
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Dec. 1, 2003 - Sept. 30, 2005	0.484%
Oct. 1, 2005 - June 30, 2007*	0.4235%
July 1, 2007 - June 30, 2024*	0.2904%

\*The final reduction to the 0.2904% rate takes effect on the later of July 1, 2007, or when final assembly of a superefficient airplane has begun. The department will post information on its web site (www.dor.wa.gov) when final assembly of a superefficient airplane has begun.

(ii) The B&O tax rate reductions expire the earlier of July 1, 2024; or December 31, 2007, if assembly of a superefficient airplane does not begin by December 31, 2007.

(b) **What are the reporting requirements to qualify for the reduced B&O tax rate under RCW 82.04.260(11)?** Persons who qualify for the new tax rate will report their qualifying gross proceeds of sales, gross income of the business, and/or value of products for those qualifying activities under the new aerospace B&O tax classification on their excise tax return. In addition, persons must file an annual report detailing employment, wages, and employer-provided health and retirement benefits per job at the manufacturing site by March 31st following any calendar year in which they reported tax under the reduced B&O tax rate. See subsection (14) of this section for more information.

(c) **When are the B&O tax rate reductions under RCW 82.04.250(3) scheduled to begin and expire?** The reduced B&O tax rate for a FAR part 145 certificated repair station with airframe and instrument ratings and limited ratings for nondestructive testing, radio, Class 3 Accessory, and specialized services, is 0.2904 percent. Prior to July 1, 2006, the reduced B&O tax rate is 0.275 percent. The B&O tax rate reduction expires July 1, 2011.

(d) **What are the reporting requirements to qualify for the reduced B&O tax rate under RCW 82.04.250(3)?** Persons who qualify for the separate B&O tax rate must file an annual survey by March 31st or the extended due date under RCW 82.32.590 following any calendar year in which they reported tax under the reduced B&O tax rate. See subsection (14) of this section for more information.

### PART III

#### RETAIL SALES AND USE TAX EXEMPTION FOR COMPUTER EQUIPMENT

(6) **Information about the retail sales and use tax exemption for certain computer equipment.** Computer equipment purchased by a person, including a manufacturer or processor for hire of commercial airplanes, or components of such airplanes, used primarily in the development, design, or engineering of commercial airplanes or components of such airplanes is exempt from retail sales and use taxes. RCW 82.08.975, 82.08.981, 82.12.975, and 82.12.981. Labor and services rendered in respect to installing such computer equipment are also exempt from retail sales and use taxes. This exemption does not apply

to computer equipment otherwise exempt under the manufacturing machinery and equipment retail sales and use tax exemption provided by RCW 82.08.02565 and 82.12.02565.

(a) **When does this exemption begin and expire?** This exemption is available to manufacturers and processors for hire of commercial airplanes or components of such airplanes for purchases made on or after December 1, 2003. This exemption is available to other eligible persons for purchases made on or after July 1, 2006. The exemption expires July 1, 2024.

(b) **What kinds of computer equipment are eligible for the exemption?** The exemption is available for computer hardware, computer peripherals, and computer software used primarily in the development, design, or engineering of commercial airplanes or components of such airplanes. The term "peripherals" includes keyboards, monitors, mouse devices, and other accessories that operate outside of the computer, such as printers, plotters, routers, switches, and hubs. The term "peripherals" does not include cables, conduit, wiring, and other similar property. The term "computer software" has the same meaning as in RCW 82.04.215, and includes prewritten computer software upgrades.

(i) The term "used primarily" means that more than fifty percent of the equipment's capacity or total time is used in the development, design, or engineering of commercial airplanes or components of such airplanes. If an item of qualifying computer equipment that was eligible for the exemption fails to satisfy the "used primarily" test at any time, deferred retail sales or use tax is due at the time the item was put to nonqualifying use. "Used primarily" is measured by time or capacity, whichever is a greater percentage of use.

(ii) The retail sales and use tax exemptions include charges for the installation of the computer equipment. The exemptions do not include other services subject to retail sales or use tax, such as maintenance and repair services performed on the computer equipment. Also, the exemption does not apply to the sale of extended warranties, which is subject to retail sales and use tax on or after July 1, 2005, even if the computer equipment covered by an extended warranty is exempt.

(c) **What documentation is required?** The buyer must complete an exemption certificate and provide the completed certificate to the seller to document the exempt nature of the sale. This requirement may be satisfied by using the department's "buyers' retail sales tax exemption certificate," or another certificate with substantially the same information as it relates to the exemption provided by RCW 82.08.975. The seller must retain a copy of the certificate as part of its records.

A blank buyers' retail sales tax exemption certificate can be obtained through the following means:

(i) From the department's internet web site at <http://dor.wa.gov>;

(ii) By facsimile by calling Fast Fax at 360-705-6705 or 800-647-7706 (using menu options); or

(iii) By writing to: Taxpayer Services, Washington State Department of Revenue, P.O. Box 47478, Olympia, Washington 98504-7478.

**(7) Examples to illustrate computer equipment exemption.**

(a) Company A, a manufacturer of commercial airplane components, purchases a printer on January 1, 2004. Fifty-five percent of the printer's capacity is used in computer-aided design of commercial airplane components. The printer's remaining capacity is used for other purposes. The printer qualifies for the sales and use tax exemption because more than fifty percent of the printer's capacity is used in the development, design, or engineering of components of commercial airplanes.

(b) Company B, a manufacturer of commercial airplane components, purchases five personal computers and computer software on January 1, 2004. The five personal computers and the computer software are used by engineers exclusively for the design of landing gear for commercial airplanes. The personal computers and software qualify for the sales and use tax exemption because more than fifty percent of the capacity or total time of the computers and software is used in the development, design, or engineering of components of commercial airplanes.

(c) Same facts as in the previous example. Company B also purchases one computer server and computer cables on January 1, 2004. The five personal computers purchased for the engineers are connected to the computer server with the computer cables. The computer server is used by the company for a variety of purposes, including permitting the engineers to collaborate on designs. If the computer server is used more than fifty percent, measured by time or capacity, in the development, design or engineering of commercial airplanes or components of such commercial airplanes, it qualifies for the sales and use tax exemption. The computer cables are not eligible for the sales and use tax exemption, regardless of their use, because cables are excluded from the definition of "computer peripherals."

(d) The same facts as in the previous two examples apply to this example. In addition, presume that the computer server is exempt from sales and use tax. Company B hires Computer Help, Inc. to install the computer hardware and software. Company B also enters into a maintenance agreement with Computer Help, Inc. to service the computer hardware and software for a period of two years. The charges for the installation of the computer hardware and software qualify for the sales and use tax

exemptions. However, the charges for the maintenance agreement do not qualify for the sales and use tax exemptions because the exemption is limited to only installation services.

(e) On January 1, 2005, Company C purchases computer software to control the transport of materials used to produce FAA certified components of commercial airplanes. Because the computer equipment is used in production activities, and not used primarily in the development, design, or engineering of commercial airplanes or components of such airplanes, the computer software does not qualify for the sales and use tax exemption. (The computer software in this case may qualify for the manufacturing machinery and equipment (M&E) exemption from retail sales tax and use tax as provided in RCW 82.08.02565 and 82.12.02565. Refer to WAC 458-20-13601 for more information.)

(f) On August 1, 2005, Company F purchases a laptop computer to be used exclusively in computer-aided design of FAA certified commercial airplane components. The laptop computer is sold with a one-year warranty at no extra charge. Company F also purchases an optional three-year extended warranty for the laptop computer for an additional charge. The purchase of the laptop computer, including the one-year warranty, qualifies for the sales and use tax exemptions. However, the extended warranty is not exempt from sales and use taxes.

#### PART IV

#### B&O TAX CREDIT FOR PREPRODUCTION DEVELOPMENT EXPENDITURES

(8) **Information about the B&O tax credit for preproduction development expenditures.** A B&O tax credit is provided for qualified preproduction development expenditures incurred by a person, including a manufacturer or processor for hire of commercial airplanes, or components of such airplanes. RCW 82.04.4461 and 82.04.4487. This 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 credit). A person claiming the credit under RCW 82.04.4461 may not claim the credit under RCW 82.04.4487 for the same expenditures.

(a) **When does this credit begin and expire?** A manufacturer or processor for hire of commercial airplanes or components of such airplanes can begin earning credits for qualified preproduction development expenditures made on and after December 1, 2003, but cannot claim the credit until July 1, 2005. Other eligible persons can claim the credit for qualified preproduction development expenditures made on or after July 1, 2006. This credit expires July 1, 2024.

(b) **What is preproduction development?** "Preproduction development" means 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. "Preproduction development" includes:

- (i) The discovery of technological information;
- (ii) The translating of technological information into new or improved products, processes, techniques, formulas, or inventions;
- (iii) The adaptation of existing products and models into new products or new models, or derivatives of products or models; and
- (iv) Tool design and engineering design for the manufacturing process.

A person engaged in any one of the activities listed in (b)(i) through (iv) of this subsection is engaged in preproduction development.

Preproduction development does not include surveys and studies, social science and humanities research, market research or testing, quality control, sales promotion and service, computer software developed for internal use, and research in areas such as improved style, taste, or seasonal design. The term does not include manufacturing activities or other production-oriented activities.

(A) The discovery of technological information means to gain knowledge of technological information through purposeful investigation. The knowledge sought must be of something not previously known or, if known, only known by persons who have not made the knowledge available to the public. It is not required that the activities that are made to gain knowledge of technological information succeed in developing a new or improved product or model.

(B) Technological information is information related to the application of science, design, or engineering, with respect to industrial and commercial objectives. Industrial and commercial objectives include both sale and internal use (other than internal use software).

(C) The translation of technological information requires the application of scientific, design, or engineering methods or principles to achieve a desired result. The capability or method of or the appropriate design to achieving the desired result can be certain at the beginning of preproduction development.

The translation of technological information into new or improved products, processes, techniques, formulas, or inventions does not require the use of newly discovered technological information to qualify as preproduction development.

(D) The adaptation of existing products and models into new products or new models or derivatives of products and models means that an existing product or model has been improved, modified, or altered to perform a new, different, or improved

function or use. Superficial or cosmetic changes to existing products are insufficient to characterize the product or model as new or a derivative. An existing product that has been altered to the extent that it requires new, amended, or supplement Type Certificate or Technical Standard Order authorization from the FAA is presumed to be an adaptation or derivative of an existing product.

(E) Tool design and engineering design for the manufacturing process requires the application of scientific, design, or engineering methods and principles, with respect to the planning, organization, implementation, and control of the manufacturing process. Activities include the planning of production activities, flow of materials, plant layout, machinery and equipment placement, and tooling design.

(F) Preproduction development is complete when the product, process, technique, formula, invention, or model can be reliably reproduced for sale or commercial use.

(G) Preproduction development does not include computer software developed for internal use. Computer software is developed for internal use if it is to be used only by the person by whom it is developed or by the person for whom the software was developed. If it is to be available for sale, lease, or license, it is not developed for internal use, even though it may have some internal applications. If it is available for use by persons, other than the person by whom it is developed, who access or download it remotely, such as through the internet, it is not usually deemed to be developed for internal use. However, remotely accessed software is deemed to be developed for internal use if its purpose is to assist users in obtaining goods, services, or information provided by or through the person by whom the software is developed. For example, software is developed for internal use if it enables or makes easier the ordering of goods from or through the person by whom the software is developed. On the other hand, a search engine used to search the World Wide Web is an example of software that is not developed for internal use because the search engine itself is the service sought.

(c) **What are qualified preproduction development expenditures?** "Qualified preproduction development expenditures" means operating expenses, including wages, compensation of a proprietor or a partner in a partnership, benefits, supplies, and computer expenses directly incurred in qualified preproduction development in the field of aeronautics within this state by a person claiming the credit. The term "aeronautics" means the study of flight and the science of building and operating commercial aircraft.

Qualified preproduction development expenditures do not include amounts paid to a person other than a public educational or research institution to conduct qualified preproduction

development. A person is conducting qualified research and development when the person is in charge of a project or a phase of the project, and the activities performed by that person in the project or the phase of the project constitute qualified research and development.

Capital costs and overhead, such as expenses for land, structures, or depreciable property are also not qualified preproduction development expenditures. Depreciable property is any property with a useful life of at least one year, regardless of whether the property is depreciated or currently expensed. Expenses for depreciable property will not constitute qualified preproduction development expenditures even if such property may be fully deductible for federal income tax purposes in the year of acquisition.

(i) "Wages" means compensation paid to an individual for personal services, whether denominated as wages, salary, commission, or otherwise as reported on the W-2 forms of employees. Stock options granted as compensation to employees are "wages" to the extent they are required to be reported on the W-2 forms of the employees and are allowable as a deduction for federal income tax purposes by the employer. The compensation of a proprietor or a partner is determined in one of two ways:

(A) If there is net income for federal income tax purposes, the amount reported subject to self-employment tax is the compensation.

(B) If there is no net income for federal income tax purposes, reasonable cash withdrawals or cash advances are the compensation.

(ii) "Benefits" means compensation not paid as wages and includes retirement benefits, health care benefits, life insurance, vacation, holiday, sick leave, military leave, and jury duty. "Benefits" does not include any amount reported as wages. The cash value of employee benefits is qualified preproduction development expenditures.

(iii) If an employee, proprietor, or partner performs qualified preproduction development activities and also performs other activities, only the wages or compensation and benefits proportionate to the time spent on qualified preproduction development activities are qualified preproduction development expenditures. The wages or compensation of employees who supervise or are supervised by employees performing qualified preproduction development activities are qualified preproduction development expenditures to the extent the work of those supervising or being supervised involves qualified preproduction development.

(iv) Preemployment expenses related to employees who will perform qualified preproduction development are qualified preproduction development expenditures. Preemployment expenses

include recruiting and relocation expenses as well as employee placement fees.

(v) Training expenses for employees are qualified preproduction development expenditures if the training is directly related to the preproduction development being performed. Training expenses include registration fees, cost of materials, and travel expenses. Although qualified preproduction development expenditures must occur in Washington state, training may take place outside of the state.

(vi) "Supplies" mean tangible personal property having a useful life of less than one year used directly in preproduction development, regardless of whether the property is depreciated or currently expensed.

(vii) Computer expenses include internet subscriber fees, run time on a mainframe computer, and outside processing. Computer expenses do not include the purchase, lease, rental, maintenance, repair, or upgrade of computer hardware or software.

(viii) Qualified preproduction development expenditures include the cost of fees and testing for FAA certification of a product or model.

(ix) Qualified preproduction development expenditures do not include legal expenses, patent fees, or any other expense not incurred directly for qualified preproduction development.

(d) **Do staffing companies qualify for the credit?** In order to qualify for the credit, a staffing company must meet the following criteria:

(i) It must conduct qualified preproduction development through its employees;

(ii) Its employees must perform qualified preproduction development activities in a project or a phase of the project, without considering any activity performed:

(A) By the person contracting with the staffing company for such performance; or

(B) By any other person;

(iii) It must complete an annual report or survey by March 31st following any year in which the credit was taken; and

(iv) It must document any claim of the B&O tax credit.

(e) **How to calculate and claim the credit.** The credit is equal to the amount of qualified preproduction development expenditures of a person, multiplied by the rate of one and one-half percent. Before July 1, 2005, any credits earned by manufacturers or processors for hire of commercial airplanes or components of such airplanes under RCW 82.04.4461 must be accrued and carried forward and cannot be used until July 1, 2005. These credits may be used at any time thereafter and may be carried over until used. All credits earned on or after July 1, 2005, by manufacturers or processors for hire of commercial airplanes or components of such airplanes, cannot be carried

over beyond the taxes due for the calendar year in which the credit is earned. All credits earned on or after July 1, 2006, by persons claiming the credit under RCW 82.04.4487, cannot be carried over beyond the taxes due for the calendar year in which the credit is earned. The credit for each calendar year cannot exceed the amount of tax otherwise due for the calendar year. Refunds cannot be granted in the place of a credit.

**(f) May the credit be assigned to another person?**

(i) For manufacturers or processors for hire of commercial airplanes or components of such airplanes that claim the credit under RCW 82.04.4461, this credit cannot be assigned.

(ii) For persons that claim the credit under RCW 82.04.4487 and conduct qualified preproduction development under contract, this credit may be assigned. Such persons conducting qualified preproduction development under contract may assign all or any portion of the credit to the person contracting for the performance of the qualified preproduction development.

**(g) What are the reporting requirements to qualify for the credit?**

(i) A manufacturer or processor for hire of commercial airplanes or components of such airplanes that claims the credit under RCW 82.04.4461 must file an affidavit, in a form prescribed by the department, with each tax return in which a credit is claimed. The department has developed two affidavits to implement this credit. One affidavit is for expenditures made between December 1, 2003, and June 30, 2005, which earn credits that can be carried over until used. The second affidavit is for expenditures made on or after July 1, 2005, which earn credits that must be claimed against taxes due for the calendar year in which the expenditures are made. The use of two affidavits enables the department to distinguish between the credits being claimed.

The affidavit includes the amount of the credit claimed, an estimate of the anticipated preproduction development expenditures during the calendar year for which the credit is claimed, an estimate of the taxable amount during the calendar year for which the credit is claimed, and such additional information as the department may prescribe.

(ii) In addition to the affidavit, a manufacturer or processor for hire of commercial airplanes or components of such airplanes that claims the credit under RCW 82.04.4461 must file an annual report detailing employment, wages, and employer-provided health and retirement benefits per job at the manufacturing site by March 31st following any calendar year in which a person has claimed the credit. See subsection (14) of this section.

(iii) A person that claims the credit under RCW 82.04.4487 is not required to file an affidavit. Such person, however, must file an annual survey by March 31st following any calendar

year in which the person has claimed the credit. See subsection (14) of this section.

(h) **What are the statutes of limitations on the credit?** Statute of limitations begins to run when accrued credits are first claimed. For example, statute of limitations begins to run in 2007 when the credit earned and accrued in 2004 is claimed in 2007. Taxpayers must provide adequate documentation upon audit within the tax assessment period to support the accrued credit figures. See WAC 458-20-230 for more information.

For credits earned and accrued between December 1, 2003, and June 30, 2005, taxpayers must file the affidavit as provided in RCW 82.04.4461(4) within the statute of limitations, so that the credits earned and accrued can be carried forward and used at any time. For example, taxpayers must file the affidavit before December 31, 2008, in order for the credits earned and accrued before December 31, 2004, to carry forward and be used at any time.

(9) **Examples to illustrate the B&O tax credit for preproduction development expenditures.** The following examples identify a number of facts and then state a conclusion regarding the B&O tax credit for preproduction development expenditures. These examples should be used only as a general guide. The tax results of other situations must be determined after a review of all facts and circumstances.

Assume these facts for the following examples. Able Aerospace is a manufacturer of commercial airplane seats. On January 1, 2004, Able Aerospace contracts to supply pilot and passenger seats to a commercial airplane manufacturer. The seats must be certified by the FAA. The seats must also meet the commercial airplane manufacturer's specifications as to weight, height, strength, functionality, and comfort. The design process is performed on computers with a software program that is used to model, analyze, and test different materials and configurations. Prototypes are developed for certain seat designs that are determined to be feasible. Prototype seats are tested before and during the FAA certification process, which results in further revisions to the design. Able Aerospace receives FAA Type Certification for the passenger seats and begins fulfilling orders on January 1, 2006.

(a) Ten engineers are employed to design and develop the passenger seats. The annual salary of each engineer is seventy-five thousand dollars. Each engineer is also provided with a benefits package valued at twelve thousand dollars annually. The engineers devote all of their time to develop the passenger seat. The wages and benefits paid to the engineers are qualified preproduction development expenditures.

(b) An administrative assistant is employed to provide general assistance to the engineers assigned to design and

develop the passenger seats. The assistant is paid a salary of thirty-two thousand dollars annually and receives no benefits. The assistant performs financial and personnel matters for the engineers such as preparing time sheets, issuing payroll, and recording expenses. The assistant also transcribes laboratory results, compiles research data, and prepares materials for submission to the FAA. General administrative services such as attending to financial and personnel matters only indirectly benefit preproduction development activities, and therefore, the portion of the administrative assistant's salary for the time spent performing these activities is not qualified preproduction development expenditures. However, the amount of the administrative assistant's salary proportionate to the time spent transcribing laboratory results, compiling research data, and preparing materials for submission to the FAA is qualified preproduction development expenditures.

(c) Able Aerospace contracts with Staffing Company requiring Staffing Company to provide two engineers to design and develop the passenger seats under the direction of Able Aerospace. Staffing Company is not entitled to the credit because it is not conducting qualified preproduction development. Its employees work under the direction of Able Aerospace and are not responsible as a leader or manager for the outcome of qualified preproduction development. Able Aerospace, however, is entitled to the credit. The amounts paid to Staffing Company for its two engineers are qualified preproduction development expenditures for Able Aerospace.

(d) Able Aerospace contracts with Safety Systems to develop seatbelts for the passenger seats Able Aerospace is developing. The seatbelts must meet certain Able Aerospace specifications for strength and comfort and be certified by the FAA. The contract provides that Able Aerospace will pay for half of Safety Systems' preproduction development costs regardless of whether a seatbelt is successfully developed. If a seatbelt is successfully developed, Able Aerospace and Safety Systems will share the intellectual property rights from the preproduction development results. Both Able Aerospace and Safety Systems are entitled to the credit. However, the amounts Able Aerospace pays to Safety Systems are not qualified production development expenditures for Able Aerospace. Qualified preproduction development expenditures do not include amounts paid to a person, other than a public educational or research institution, to conduct qualified preproduction development.

(e) Safety Systems begins production of both the passenger and pilot seatbelts. During production, Safety Systems discovers that the fasteners used in the pilot seatbelt design are slightly too small for the shoulder straps in the seatbelt. Safety Systems simply reduces the width of the shoulder straps to accommodate the size of the fasteners and notes the changes

on the seatbelt drawings and specifications. Because the activities did not require the application of science, design, or engineering and are production oriented, the activities are not qualified preproduction development and do not qualify for the credit.

(f) Same facts as in the previous example. By reducing the width of the shoulder straps, Safety Systems discovers that the seatbelt no longer meets the strength and safety specifications required by the FAA. Safety Systems' engineers must determine the type of material that can meet the strength and safety specifications required by the FAA, but can also accommodate the width allowed by the fasteners. Using a process of experimentation, Safety Systems' engineers determine that several materials can meet its needs at varying widths. Safety Systems develops several prototypes of seatbelts using each material at various lengths and tests the prototypes for strength, safety, durability, and comfort to determine which material it will ultimately use. The redesign of the seatbelt is qualified preproduction development. Although the issue was discovered during production of the seatbelt, the activities undertaken to perfect the seatbelt required the application of science, design, or engineering, with respect to industrial and commercial objectives, in developing a new product.

#### **PART V**

#### **B&O TAX CREDIT FOR PROPERTY TAXES OR LEASEHOLD EXCISE TAXES PAID ON ELIGIBLE PROPERTY**

(10) **General information about the B&O tax credit for property taxes or leasehold excise taxes paid on eligible property.** RCW 82.04.4463 provides a B&O tax credit for property taxes paid on eligible property located within this state used exclusively in manufacturing commercial airplanes or components of such airplanes. Effective January 1, 2007, RCW 82.04.4463 also provides a B&O tax credit for leasehold excise taxes paid on eligible property located within this state used exclusively in manufacturing commercial airplanes or components of such airplanes.

(a) **When is this credit scheduled to begin and expire?** The credit for property taxes paid is available for eligible property built or acquired after December 1, 2003. The credit for leasehold excise taxes paid is effective January 1, 2007, available for eligible property built after January 1, 2006. The credit expires on July 1, 2024.

(b) **Who may claim this tax credit?** This credit is available only to manufacturers of commercial airplanes or components of such airplanes for property taxes or leasehold excise taxes paid on eligible property. Processors for hire are not eligible for this credit. A transferee (e.g., a purchaser)

of eligible property qualifies for the credit if the transferee meets all of the requirements for the credit. A lessee of eligible property qualifies for the credit if, in addition to other general requirements, the lessee is obligated by written contract with the lessor to pay the property taxes on the eligible property. The credit is not available to lessors of eligible property.

(11) **Eligible property.**

(a) **What property is eligible for the credit?**

(i) The credit is available for property taxes paid on the following property within this state:

(A)(I) New buildings built after December 1, 2003, and land upon which this property is located built after December 1, 2003; or

(II) Existing buildings that have been renovated or expanded after December 1, 2003 (but only for property taxes attributable to the increase in assessed value due to the renovation or expansion of the building); and

(B) Machinery and equipment exempt from retail sales and use taxes under RCW 82.08.02565 or 82.12.02565 and acquired after December 1, 2003.

The credit is not available for both property taxes paid on eligible new buildings and property taxes attributable to an increase in assessed value due to the renovation or expansion of eligible buildings.

(ii) Effective January 1, 2007, the credit is available for leasehold excise taxes paid on new buildings built after January 1, 2006, and the land upon which this property is located within this state.

(b) **What must the property be used for to qualify for the credit?**

Through December 31, 2005, all of the property identified above in this subsection must have been used in manufacturing commercial airplanes or components of commercial airplanes to be eligible for the credit. On and after January 1, 2006, machinery and equipment exempt from retail sales and use tax under RCW 82.08.02565 and 82.12.02565 does not have to be used in manufacturing commercial airplanes or components of commercial airplanes. As long as the machinery and equipment is exempt from sales and use tax under RCW 82.08.02565 and 82.12.02565, it is eligible for the credit. However, new buildings and renovated or expanded buildings are still required to be used exclusively in manufacturing commercial airplanes or components of commercial airplanes.

(c) **What level of use in manufacturing commercial airplanes or components of such airplanes is required to qualify for the credit?**

The level of use required to qualify for the credit depends on the type of eligible property and the period in which the credit is claimed.

(i) Through December 31, 2005, all eligible property must

be used at least a majority amount in qualifying activities (i.e., manufacturing commercial airplanes or components of commercial airplanes) to qualify for the credit. Expressed as a percentage, the minimum amount of use in qualifying activities must be greater than fifty percent of overall use. To determine whether the majority use requirement has been satisfied, a person claiming the credit must retain records documenting the measurement used to substantiate a claim for credit. If time, value, or volume is not the basis for measurement, a person must be able to establish by demonstrating through practice or routine that the majority use requirement is satisfied. The majority use test shall be decided on a case-by-case basis. Majority use is measured by looking at the use of an item during a calendar year in which the credit is claimed using any of the following:

(A) Time is measured using hours, days, or other unit of time, with qualifying use of the property the numerator, and total time used the denominator. Suitable records for time measurement include employee time sheets or equipment time use logs.

(B) Value means the value to the person, measured by revenue if the qualifying and nonqualifying activities both produce revenue. Value is measured using gross revenue, with revenue from qualifying activities of the property the numerator, and total revenue from all activities of the property the denominator. If there is no revenue associated with any activities on the property, the value basis may not be used. Suitable records for value measurement include taxpayer sales journals, ledgers, account books, invoices, and other summary records.

(C) Volume is measured using the amount of product. The numerator should include volume measurement for only qualifying activities. The denominator should include total volume from all activities of the property. Suitable records for volume measurement include production numbers, tonnage and dimensions.

(D) The department may allow a taxpayer to use another measure for comparison, provided that the method results in a consistent and fair comparison between qualifying and nonqualifying activities. For example, if work patterns or routines demonstrate typical behavior, the taxpayer may use worksite surveys to document use.

(ii) On or after January 1, 2006, new buildings, land under new buildings, and renovated or expanded buildings must be used exclusively in qualifying activities to qualify for the credit. The exclusive use requirement is not met if a new building, the land under such new building, or a renovated or expanded building is used for both qualifying activities and nonqualifying activities. For example, an accounting office that entirely and directly supports the operation of

manufacturing commercial airplanes is used for qualifying activities. On the other hand, an accounting office that entirely and directly supports the corporate headquarters is used for nonqualifying activities. If the unexpanded portion of the building is used for nonqualifying activities, the entire building does not qualify for the credit.

On or after January 1, 2006, machinery and equipment exempt from retail sales and use tax under RCW 82.08.02565 and 82.12.02565 does not have to be used in manufacturing commercial airplanes or components of such airplanes as of January 1, 2006.

(d) **Do buildings under construction qualify for the credit?** A new, renovated, or expanded building under construction and assessed for property tax purposes, or a new building under construction and assessed for leasehold excise tax purposes, qualifies for the credit if the building is used in qualifying activities within the calendar year that the building becomes operationally complete. "Operationally complete" means the building is capable of being used for its intended purpose. If the building is not used for qualifying activities within the calendar year that the building is operationally complete, the amount of taxes for which the credit is claimed is immediately due and payable.

(12) **Calculating the credit.** The credit is available up to the amount of property taxes and leasehold excise taxes paid on eligible property.

A worksheet for calculating the credit is available from the department's web site (<http://dor.wa.gov>). Persons with questions about how to complete the worksheet may contact the department's property tax division at 360-570-5900.

(a) **New buildings and land.** The credit is available for property taxes paid on new buildings built after December 1, 2003, used in manufacturing commercial airplanes or components of such airplanes. The credit is also available for property taxes paid on the land upon which these new buildings are located. Effective January 1, 2007, the credit is available for leasehold excise taxes paid on new buildings built after January 1, 2006, and the land upon which this property is located within this state, used in manufacturing commercial airplanes or components of such airplanes. Refer to subsection (11)(c) of this section for information on the required level of use in qualifying activities.

(i) If the new building is constructed on a parcel of land that contains no other buildings, the property taxes and leasehold excise taxes on the new building and the portion of land reasonably necessary to support the building can be claimed as a credit against the B&O tax. Property taxes and leasehold excise taxes on land which contains the new building's landscaping, parking area, and sidewalks also qualifies, but excess land unnecessary for the qualified building does not

qualify for the tax credit.

(ii) **Example:** (From county assessor's records)

	Example Without Excess Land	Example With Excess Land
Assessed Value of New Building	\$1,000,000	\$1,000,000
Assessed Value of Land Available for Credit	\$500,000  (2 acre parcel - 2 acres necessary for new building)	\$500,000  <i>AV of 3 acres = \$750,000 2 acres qualify for credit, therefore, (2 acres/3 acres) x \$750,000 = \$500,000</i>
Total Assessed Value	\$1,500,000	\$1,500,000
Property Tax Levy Rate (\$13.00 per \$1,000 of assessed value)	0.013	0.013
<b>Amount of Credit to Claim</b>	<b>\$1,500,000 x 0.013 = \$19,500</b>	<b>\$1,500,000 x 0.013 = \$19,500</b>

(iii) If the qualifying new building is constructed on a parcel of land that contains other buildings, it is necessary to isolate the amount of property taxes and leasehold excise taxes paid on the new building and the portion of land reasonably necessary to support that building. One way to accomplish this is to request the county assessor administratively segregate the parcel so that the value of the new building and associated land is on its own separate tax parcel. If administratively segregating the property is not possible, the taxes eligible for the credit must be determined by adding the assessed value of the new building and the assessed value of the associated land and multiplying the result by the levy rate. The assessed value for the new building improvement can typically be found on the notice of new construction or on the notice of assessed value provided by the assessor or by contacting the assessor directly.

The land value should be divided between the qualified new building and existing buildings on a proportionate basis in order to determine the assessed value of the land eligible for the credit. This can be done on a percentage basis by the area of each building or some other reasonable allocation. Refer below to subsection (13)(d) of this section for information about where to obtain assessed value and property tax or leasehold excise tax levy rate information.

(iv) The total assessed value of the eligible new building and the portion of land upon which the new building is located multiplied by the levy rate equals the property tax or leasehold

excise tax eligible for the credit.

(v) **Example:**

Fly-Rite Aerospace constructs a new building to be used exclusively for the manufacture of cockpit components. The new facility is located at the one-acre (forty-three thousand five hundred sixty square foot) Fly-Rite Aerospace campus located in Spokane, Washington. With the new facility, a total of three buildings are located on the Fly-Rite Aerospace campus. The new building is a two hundred foot by one hundred foot facility (twenty thousand square foot area). The county assessor values the new building at one million dollars. The county assessor values the one-acre parcel of land at seven hundred fifty thousand dollars.

Assessed Value of New Building	\$1,000,000
Assessed Value of 1-Acre Parcel of Land	\$750,000
Qualified Land Under New Building	46%
Assessed Value of Qualifying Land	$\$750,000 \times 0.46 = \$345,000$
Total Assessed Value	\$1,345,000
Property Tax Levy Rate (\$13.00 per \$1,000 of assessed value)	0.013
<b>Amount of Credit to Claim</b>	<b><math>\\$1,345,000 \times 0.013 = \\$17,485.00</math></b>

(b) **Renovation or expansion of existing buildings.** The credit is available for property taxes paid that are attributable to an increase in assessed value due to the renovation or expansion after December 1, 2003, of a building used for qualifying activities. Refer to subsection (11)(c) of this section for information on the required level of use in qualifying activities. Property taxes paid on the underlying land are not eligible for the credit.

(i) In order to calculate the credit for a renovation or expansion, it is necessary to isolate the amount of property taxes paid on the eligible renovation or expansion. The assessed value for new construction can be found on the valuation notice provided by the county assessor. Refer to subsection (13)(d) of this section for information about where to obtain assessed value and property tax levy rate information.

(ii) The increase in assessed value of the building attributable to the renovation or expansion multiplied by the property tax levy rate equals the property tax eligible for the credit.

(iii) **Example:**

Assessed Value of Building Before Qualifying Renovation or Expansion	\$500,000
Total Assessed Value of Building After Qualifying Renovation or Expansion	\$750,000
Assessed Value of New Construction - difference between AV value before and after qualifying renovation or expansion (\$750,000 - \$500,000 = \$250,000 (qualifying AV of renovation or expansion))	\$250,000
Property Tax Levy Rate (\$13.00 per \$1,000 of assessed value)	0.013
<b>Amount of Credit to Claim</b>	<b>\$250,000 x 0.013 = \$3,250</b>

(iv) County assessors are required to revalue all property on a systematic basis. Some assessors revalue all the property in the county each year, while others use a cyclical plan to accomplish the task. Under a cyclical plan, the assessor will value a portion of the county each year, e.g., one-fourth of the county each year. However, assessors may add new constructions to the assessment roll outside of their assessment cycles.

As the assessed value of the renovated or expanded property changes over time due to market conditions, the assessed value of the eligible property, including subsequent renovations or expansions, must be redetermined. The method for calculating credits in the future is to determine the base percentage of assessed value attributable to the qualifying renovation or expansion in the year of renovation or expansion compared to the total assessed value of the building. Once the base percentage is determined, it may be applied to the total assessed value of the building in subsequent years to ascertain the assessed value attributable to the renovation or expansion. If there are additional renovations or expansions, the base percentage must be redetermined as a part of the total assessed value of the property. The worksheet discussed at the beginning of this subsection may be helpful in tracking the value of renovations or expansions.

(v) **Example:**

Assume that Wright Brothers Aerospace doubles the size of its existing building that is used exclusively to produce airplane propellers in calendar year 2005. In 2007, Wright Brothers Aerospace renovates the area used to store raw materials used in the manufacturing process of the airplane propellers.

**2006 PROPERTY TAXES**

Year 1 Assessed Value of Qualifying Renovation or Expansion	\$250,000
Year 1 Total Assessed Value of Building After Qualifying Renovation or Expansion	\$500,000
Year 1 Assessed Value of Qualifying Renovation or Expansion as a Percentage of Total Value ( $\$250,000 \div \$500,000 = 0.50$ )	50%
Year 1 Assessed Value of Qualifying Renovation or Expansion (Increase in assessed value due to renovation or expansion)	\$250,000
Year 1 Property Tax Levy Rate ( $\$13.00$ per $\$1,000$ of assessed value)	0.013
<b>Year 1 Amount of Credit to Claim</b>	<b><math>\\$250,000 \times 0.013 = \\$3,250</math></b>

**2007 PROPERTY TAXES**

Year 2 Assessed Value of any New Qualifying Renovation or Expansion	\$0
Year 2 Total Assessed Value of Building After Qualifying Renovation or Expansion	\$700,000
Year 2 Assessed Value of Qualifying Renovation or Expansion as a Percentage of Total Value (from previous year)	50%
Year 2 Qualifying Value ( $\$700,000 \times 50\%$ )	\$350,000
Year 2 Property Tax Levy Rate ( $\$12.70$ per $\$1,000$ of assessed value)	0.0127
<b>Year 2 Amount of Credit to Claim</b>	<b><math>\\$350,000 \times 0.0127 = \\$4,445</math></b>

**2008 PROPERTY TAXES**

Year 3 Assessed Value of New Qualifying Renovation or Expansion	\$200,000
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Year 3 Total Assessed Value of the Entire Building After Qualifying Renovation or Expansion (Includes new construction value and value increase due to revaluation)	\$1,000,000
Year 3 Assessed Value of Previous Qualifying Renovation or Expansion as a Percentage of Total Value (from previous year)	50%
Year 3 Qualifying Assessed Value (\$1,000,000 - \$200,000 = \$800,000 \$800,000 × 50% = \$400,000 \$400,000 + \$200,000 = \$600,000)	\$600,000
Year 3 Assessed Value of Qualifying Renovation or Expansion as a Percentage of Total Value (\$600,000 ÷ \$1,000,000 = 0.60)	60%
Year 3 Property Tax Levy Rate (\$13.50 per \$1,000 of assessed value)	0.0135
<b>Year 3 Amount of Credit to Claim</b>	<b>\$600,000 x 0.0135 = \$8,100</b>

**2009 PROPERTY TAXES**

Year 4 Assessed Value of any New Qualifying Renovation or Expansion	\$0
Year 4 Total Assessed Value of Building After Qualifying Renovation or Expansion	\$1,200,000
Year 4 Assessed Value of Qualifying Renovation or Expansion as a Percentage of Total Value (from previous year)	60%

Year 4 Qualifying Assessed Value (\$1,200,000 × 60% = \$720,000)	\$720,000
Year 4 Property Tax Levy Rate (\$12.75 per \$1,000 of assessed value)	0.01275
<b>Year 4 Amount of Credit to Claim</b>	<b>\$720,000 x 0.01275 = \$9,180</b>

(c) **Machinery and equipment.** The credit is available for property taxes paid on machinery and equipment acquired after December 1, 2003, that is exempt from the retail sales and use tax under RCW 82.08.02565 and 82.12.02565. Machinery and equipment is purchased when the sale takes place as provided in WAC 458-20-103 (Time and place of sale). The manner in which the credit is calculated depends on the period in which the credit is claimed.

(i) For credit earned through December 31, 2005, the amount of the credit is simply the amount of property taxes paid on the eligible machinery and equipment. To be eligible, the machinery and equipment must be used at least a majority amount in qualifying activities to qualify for the credit. To determine the amount of credit, it is necessary to isolate the amount of property taxes paid on qualifying machinery and equipment from other nonqualifying machinery and equipment. This is done by multiplying the assessed value of the eligible machinery and equipment by the property tax levy rate. It may be helpful to request the county assessor to list the eligible machinery and equipment on a separate tax parcel account. Refer below to subsection (13)(d) of this section for information about where to obtain assessed value and property tax levy rate information.

**Example:**

Assessed Value of Eligible Machinery and Equipment	\$250,000
Property Tax Levy Rate (\$13.00 per \$1,000 of assessed value)	0.013
<b>Amount of Credit to Claim</b>	<b>\$250,000 x 0.013 = \$3,250</b>

(ii) For credit earned on and after January 1, 2006, the amount of the credit is determined by multiplying the amount of property taxes paid on eligible machinery and equipment by a fraction.

(A) The numerator of the fraction is the total amount subject to B&O tax for manufacturing commercial airplanes or components of such airplanes. The denominator of the fraction is the total amount subject to B&O tax under all manufacturing classifications in chapter 82.04 RCW. The total amounts

included in both the numerator and denominator of the fraction are the amounts required to be reported on the person's excise tax returns for the calendar year preceding the calendar year in which the credit is earned. If the fraction is greater than or equal to nine-tenths, then the fraction is rounded to one. For credits earned during calendar year 2007 and thereafter, a person can determine the amount subject to B&O tax for manufacturing commercial airplanes, or components of such airplanes, by reviewing the amounts reported on the person's excise tax returns under the new B&O tax classification for manufacturers and processors for hire of commercial airplanes and components of such airplanes. See subsection (5) of this section for detailed information about the B&O tax classification for manufacturers and processors for hire of commercial airplanes and components of such airplanes.

(B) No credit can be claimed for property taxes paid on machinery and equipment exempt from retail sales and use tax under RCW 82.08.02565 and 82.12.02565 if either the numerator or the denominator of the fraction is zero.

(C) **Example.** For purposes of this example, assume that the taxpayer reports the total amount of four hundred thousand dollars in aerospace manufacturing and a total amount of six hundred thousand dollars in other manufacturing during calendar year 2005.

Assessed Value of Eligible Machinery and Equipment (For taxes levied for collection in 2006)	\$250,000
Property Tax Levy Rate (\$13.00 per \$1,000 of assessed value)	0.013
Amount of Property Taxes due in 2006	\$3,250
2005 Total Amount Reported for Aerospace Manufacturing ÷ 2005 Total Amount Reported for All Manufacturing (\$400,000 ÷ \$1,000,000 = 0.40)	40%
<b>Amount of Credit to Claim</b>	<b>\$3,250 x 0.40 = \$1,300</b>

(13) **Additional information.**

(a) **When may the credit be claimed?** The credit can be claimed only after property taxes or leasehold excise taxes on the eligible property are paid. Property taxes and leasehold excise taxes are due and payable the year following the year of assessment (i.e., the year following the year in which the property is valued by the county assessor). For example, the taxpayer constructs a new building in the first half of Year 1.

The assessor sends a valuation notice to the taxpayer late in Year 1. In February of the subsequent year, Year 2, the county treasurer mails tax statements to the taxpayer for the new building and land assessed in Year 1. The same process is true for machinery and equipment assessment and taxation. Property taxes and leasehold excise taxes are due on April 30th of Year 2, but may be paid in two equal installments on April 30th and October 31st of Year 2.

(b) **Can the credit be carried over?** The credit for each calendar year cannot exceed the amount of tax otherwise due for the calendar year. If a person is unable to claim the credit in the calendar year in which the credit is earned, the credit can be claimed in the subsequent calendar year (but not beyond this subsequent calendar year). Refunds will not be granted in the place of a credit.

(c) **What are the reporting requirements to qualify for the credit?** This credit must be claimed on the person's excise tax returns. Preapproval is not required from the department to claim the credit.

In addition, persons must file an annual report detailing employment, wages, and employer-provided health and retirement benefits per job at the manufacturing site by March 31st following any calendar year in which a person has claimed the credit. See subsection (14) of this section.

(d) **What sources of information are relevant for calculating the credit?** Information relevant for calculating the credit and for determining the amount of property taxes and leasehold excise taxes paid on eligible Washington property may be found in county assessor valuation notices and county treasurer tax statements. Local building permits and acquisition invoices may also be useful in calculating the amount of the credit.

(i) Valuation notices mailed by the county assessor will include the assessed value of the property for which a credit is sought. The county assessor is responsible for sending valuation notices regarding the assessed value for property located within the county. The valuation notice may be entitled "assessor's notice of new construction valuation," "assessor's notice of value," or something similar.

(ii) The property tax or leasehold excise tax statement sent by the county treasurer will contain the property tax or leasehold excise tax levy rate and the amount of taxes due on each account or parcel. Rates are expressed in dollars and cents per thousand dollars of assessed value. For example, a levy rate of 0.013 means thirteen dollars per one thousand dollars of assessed value, and equals a 1.3% tax rate. Tax statements are typically mailed around February 14th each year.

(iii) Building permits are another good source of information that may help to identify the size or square footage

of eligible property.

(iv) In the case of qualifying machinery and equipment, invoices are useful in providing evidence of the purchase price of the machinery and equipment.

**PART VI**  
**ANNUAL REPORTING REQUIREMENTS FOR TAX ADJUSTMENTS**

(14) **What are the annual reporting requirements to qualify for tax adjustments covered by this section?** Manufacturers or processors for hire of commercial airplanes or components of such airplanes who claim the reduced B&O tax rate under RCW 82.04.260(11), the B&O tax credit for preproduction development expenditures under RCW 82.04.4461, or the B&O tax credit for property taxes or leasehold excise taxes paid on eligible property under RCW 82.04.4463 must file an annual report. Please refer to WAC 458-20-267 (Annual reports for certain tax adjustments) for a thorough explanation of the annual reports.

Persons who claim the reduced B&O tax rate under RCW 82.04.250(3) or the B&O tax credit for preproduction development expenditures under RCW 82.04.4487 must file an annual survey. Please refer to WAC 458-20-268 (Annual surveys for certain tax adjustments) for a thorough explanation of the annual surveys.

No annual report or survey is required for persons claiming the retail sales or use tax exemption for computer equipment used primarily in the development, design or engineering of commercial airplanes or components of such airplanes.