

Excise Tax Advisory

Excise Tax Advisories are interpretive statements authorized by RCW 34.05.230.

ETA 3210.2020

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This Excise Tax Advisory is only valid for tax reporting periods through March 31, 2020. For tax reporting requirements beginning April 1, 2020, refer to RCW 82.04.260 or dor.wa.gov for current reporting information.

Manufacturing Airplane Materials or Components and Eligibility for the Preferential Aerospace B&O Tax Rate

Purpose

This Excise Tax Advisory (ETA) explains how manufacturers of materials or components (“manufacturers”) subsequently sold to and used by other manufacturers for installation into commercial airplanes may be eligible for the preferential Aerospace B&O tax classification.

Preferential Aerospace B&O rate

RCW 82.04.260(11)(a) provides a preferential business and occupation (B&O) tax rate to manufacturers of commercial airplanes, or components of such airplanes, beginning July 1, 2007. The preferential rate also applies to retail or wholesale sales of commercial airplanes, or components of such airplanes, manufactured by the seller.

RCW 82.32.550 defines the terms “commercial airplane” and “component” as follows:

- **“Commercial airplane”** has its ordinary meaning, which is an airplane certified by the Federal Aviation Administration (FAA) for transporting persons or property, and any military derivative of such an airplane.
- **“Component”** means a part or system certified by the FAA for installation or assembly into a commercial airplane.

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Note: References to “installation” in this ETA refer to either installation or assembly.

Qualifying Components and Materials

As part of the process of manufacturing commercial airplanes, a manufacturer of components may sell these components directly to or through another components seller to an airplane manufacturer for installation into an airplane.

Under these circumstances, the manufacturer of the components is eligible for the preferential aerospace rate if the components are:

- (1) certified by the FAA, and
- (2) sold for installation into a commercial airplane.

As part of the process of manufacturing commercial airplanes and their components, some manufacturers may produce materials for sale to another manufacturer who, in turn, uses the materials to manufacture and/or sell a component to an airplane manufacturer for installation into a commercial airplane.

Under these circumstances, the materials manufacturer will be eligible for the preferential rate if the materials are:

- (1) certified by the FAA, and
- (2) sold to another manufacturer who uses the materials to produce a component for installation into a commercial airplane.

Materials sold directly to a manufacturer for installation into a commercial airplane also qualify for the preferential B&O tax rate, if the sales are documented as described below.

Qualification

For purposes of qualifying for the preferential rate, it does not matter that the components, including materials, undergo additional steps in the manufacturing process with another manufacturer as long as they are FAA certified, and ultimately the items are sold for installation into a commercial airplane.

Taxpayers must adequately document their activities to substantiate qualification for the preferential aerospace rate. See “Documenting FAA Certification” below.

Documenting FAA Certification

In general, the FAA certifies both commercial airplanes and commercial airplane parts. An airplane manufacturer may receive any of the following certificates from the FAA:

- **Type Certificate (TC)** for the airworthiness of an airplane design,
- **Production Certificate (PC)** to allow for production of duplicate models of the airplane for which they already have a TC, or

- **Supplemental Type Certificate (STC)** for modification or repair to an airplane for which a TC was previously issued.

Components or materials

Manufacturers of new materials or components for installation into new commercial airplanes may not receive a separate FAA certification for the materials or components. In this circumstance, the materials or components are deemed “FAA certified” when the manufacturer or seller can document that such materials or components are for use under the FAA certification issued to the airplane manufacturer, and that they are sold for installation into the new commercial airplane.

Examples of acceptable documentation include purchase orders, sales invoices, or other records that identify the FAA TC, PC, or STC issued to the commercial airplane manufacturer, under which the materials or components are sold for installation or assembly into the airplane.

Replacement parts

Manufacturers of replacement parts for installation into an existing commercial airplane receive a separate FAA certification for the replacement parts. Such manufacturers will document the FAA certification through an FAA Parts Manufacturer Approval (PMA) form and, when selling the parts, an FAA Form 8130.

Example

The following example identifies a number of facts and then states a conclusion. The example should be used only as a general guide. The tax results of other situations must be determined after a review of the facts and circumstances.

Modern Air Parts, Inc. manufactures aluminum sheeting for use in commercial, military, and private airplanes. Modern Air Parts sells the sheeting to another manufacturer, Flight Components, Inc., that uses the sheeting to produce airplane components. Flight Components then sells the components to commercial airplane manufacturers.

If Modern Air Parts can document in its books and records that the aluminum sheeting is manufactured and sold for use under the airplane manufacturer’s FAA certification (e.g., the PC number), and that the sheeting is ultimately sold for incorporation into a commercial airplane, then it will qualify for the preferential Aerospace B&O tax rate. If, however, Modern Air Parts’ records show only that it sold the sheeting to Flight Components without documentation that the materials were sold for installation in a new or used commercial airplane, then it will not qualify for the preferential rate.
