

# Special Notice

*Intended audience: professionals at FAR part 145 repair stations, aerospace manufacturers, and aerospace non-manufacturers.*

**Jan. 2018**

## **Tax Incentives for Federal Aviation Regulation Part 145 Repair Stations**

If you are a Federal Aviation Regulation (FAR) part 145 repair stations operating in Washington, you are eligible for the following aerospace tax incentives (credits and exemptions). This also includes all certified FAR part 145 repair stations making retail sales in this state.

### **Retail Sales and Use Tax Exemption for Computers**

You are eligible for a retail sales and use tax exemption on the following purchases when you primarily use the purchases in developing, designing, providing, and engineering aerospace products and services:

- computer hardware
- software
- computer peripherals (components). Computer peripherals include keyboards, monitors, mouse devices, and other devices that operate outside the computer, excluding cables, conduit, wiring, and similar property.
- labor and service charges for the above items

The purchaser must provide the vendor with a completed Buyers' Retail Sales Tax Exemption Certificate. This exemption expires June 30, 2040 (Revised Code of Washington (RCW) 82.08.975 and RCW 82.12.975).

### **Business and Occupation (B&O) Tax Rate**

If you make retail sales in Washington, you are eligible for a preferential B&O tax rate of .2904%. This preferential rate expires June 30, 2040 (RCW 82.04.250).

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For tax assistance or to request this document in an alternate format, visit <http://dor.wa.gov> or call 1-800-647-7706. Teletype (TTY) users may use the Washington Relay Service by calling 711.

## **Qualified Aerospace Development Expenditures B&O Tax Credit**

The B&O tax credit is equal to 1.5% of qualified aerospace product development expenditures. You must complete the form each time you take the credit. You can find the form in our e-file system on the “credits” page. You do not need pre-approval from our department to use the credit. You may not claim credit for expenditures if you already claimed a credit 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 you accrue after July 1, 2008, cannot be carried over beyond the calendar year when you incurred the qualifying expenditures. This credit expires June 30, 2040 (RCW 82.04.4461).

## **Property and Leasehold Excise Tax B&O Tax Credits**

You are eligible for a B&O tax credit on property taxes or leasehold excise taxes that you paid on buildings, and land upon which the buildings are located. These buildings need to be:

- constructed after June 30, 2008, and
- used exclusively for aerospace product development or to provide aerospace services.

The credit is equal to the amount of property/leasehold tax you paid on the land and buildings. The credit is also available for property taxes from an increase in assessed value due to the renovation or expansion of these buildings. These credits expire June 30, 2040.

The credit is also available against property taxes you paid on computer hardware, computer peripherals (components) and software. You must have primarily used these items in developing, designing and engineering aerospace products or providing aerospace services (exempt under 82.08.975 or 82.12.975). You must have purchased these items after June 30, 2008. The credit is equal to the amount of property tax you paid on qualifying computer equipment. This credit expires June 30, 2040.

You cannot claim this tax credit until you’ve paid the property taxes associated with the qualifying land, buildings, or computer equipment. If your B&O tax obligation is less than the property taxes you paid on qualifying property, you may carry the credit forward one year. However, you may not carry the credit over a second year. Our department will not grant B&O tax refunds in lieu of a credit for your paid property taxes (RCW 82.04.4463).

## **Annual Reporting Requirements**

You must submit an annual report to our department if you report taxes under the preferential B&O tax rate or claim a tax credit or exemption under the aerospace incentive program. The report must:

- detail employment, wages and employer-provided health and retirement benefits for employment positions in Washington.
- detail employment by the total number of full-time, part-time and temporary positions.
- not include employee names.

You must electronically file all reports and documents. You must submit the report by May 31 of each year following the year when you take the preferential rate or incentive. The first report you file must include

employment, wage and benefit information for the calendar year immediately before you first use the decreased rate or tax credit program.

This information is not protected by confidentiality provisions laid out in law (RCW 82.32.330). This means our department may disclose any requested information to the public (RCW 82.04.534).

## Important Definitions

**“Aerospace product”** means commercial airplanes and their components ( RCW 82.32.550):

- machinery and equipment 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 a FAR part 145 certificated repair station performs these services.

**“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 you use the equipment.

**“Qualified aerospace product development expenditures”** means operating expenses, including wages, benefits, supplies, and computer expenses, that the person claiming the credit directly incurred in qualified aerospace product development. The term includes:

- expenses directly incurred in technological information discovery
- the translating of technological information into new or improved products, processes, techniques, formulas, or inventions
- the adaptation of existing products and models into new products or new models, or derivatives of products or models
- expenditures for tool design and engineering design for the manufacturing process

However, the term does not include:

- manufacturing expenditures or other production-oriented expenditures
- 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
- 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

## More information

Visit [dor.wa.gov](http://dor.wa.gov) for more information about these tax incentives.

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