# Multiple Agency Fiscal Note Summary

| **Bill Number:** 1736 HB | **Title:** Aerospace tax preferences |
|---|---|

## Estimated Cash Receipts

| Agency Name | 2015-17 | | 2017-19 | | 2019-21 | |
|---|---|---|---|---|---|---|
| | GF- State | Total | GF- State | Total | GF- State | Total |
| Department of Revenue | (428,000) | (428,000) | (457,000) | (457,000) | (447,000) | (447,000) |
| **Total $** | **(428,000)** | **(428,000)** | **(457,000)** | **(457,000)** | **(447,000)** | **(447,000)** |

## Estimated Expenditures

| Agency Name | 2015-17 | | | 2017-19 | | | 2019-21 | | |
|---|---|---|---|---|---|---|---|---|---|
| | FTEs | GF-State | Total | FTEs | GF-State | Total | FTEs | GF-State | Total |
| Joint Legislative Audit and Review Committee | .1 | 12,000 | 12,000 | .1 | 12,000 | 12,000 | .0 | 6,000 | 6,000 |
| Department of Revenue | .0 | 0 | 0 | .0 | 0 | 0 | .0 | 0 | 0 |
| **Total** | **0.1** | **$12,000** | **$12,000** | **0.1** | **$12,000** | **$12,000** | **0.0** | **$6,000** | **$6,000** |

## Estimated Capital Budget Impact

NONE

| **Prepared by:** Kathy Cody, OFM | **Phone:** (360) 902-9822 | **Date Published:** Final 2/16/2015 |
|---|---|---|

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 39699

# Individual State Agency Fiscal Note

| Bill Number: 1736 HB | Title: Aerospace tax preferences | Agency: 014-Joint Leg. Audit & Review Committee |
|---|---|---|

## Part I: Estimates

☐ **No Fiscal Impact**

**Estimated Cash Receipts to:**

NONE

**Estimated Expenditures from:**

| | FY 2016 | FY 2017 | 2015-17 | 2017-19 | 2019-21 |
|---|---|---|---|---|---|
| FTE Staff Years | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 |
| **Account** | | | | | |
| General Fund-State 001-1 | 9,000 | 3,000 | 12,000 | 12,000 | 6,000 |
| **Total $** | 9,000 | 3,000 | 12,000 | 12,000 | 6,000 |

**Estimated Capital Budget Impact:**

NONE

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

| | | | |
|---|---|---|---|
| Legislative Contact: | Kirsten Lee | Phone: 360-786-7133 | Date: 02/05/2015 |
| Agency Preparation: | Dana Lynn | Phone: 360-786-5177 | Date: 02/10/2015 |
| Agency Approval: | Keenan Konopaski | Phone: 360-786-5187 | Date: 02/10/2015 |
| OFM Review: | Shane Hamlin | Phone: (360) 902-0547 | Date: 02/10/2015 |

## Part II: Narrative Explanation

**II. A - Brief Description Of What The Measure Does That Has Fiscal Impact**

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

The bill extends current tax preferences provided to the aerospace industry to businesses that manufacture or sell commercial rotorcrafts, components thereof, or commercial rotorcraft mission equipment, or tooling specifically designed for use in manufacturing such items.

The bill:
• Provides a preferential B&O tax rate of 0.2904 percent to businesses that manufacture or sell on a retail or wholesale basis, commercial rotorcrafts, components thereof, or commercial rotorcraft mission equipment, or tooling specifically designed for use in manufacturing such items. The preferential rate expires July 1, 2025, unless no taxpayer has used the preference by July 1, 2017, in which case the preference expires effective July 1, 2017.

• Provides a B&O tax credit for property taxes and leasehold excise taxes paid during the calendar year for:
- Property or leasehold excise taxes paid on buildings constructed after July 1, 2015 used exclusively to manufacture commercial rotorcrafts, their components, or commercial rotorcraft mission equipment, for product development, or for providing rotorcraft services; or
- Property taxes attributable to an increase in assessed value due to renovation or expansion after July 1, 2015, of such a building.

The preferential rate expires July 1, 2025, unless no taxpayer has used the preference by July 1, 2017, in which case the preference expires effective July 1, 2017.

• Provides a sales and use tax exemption for:
- New building construction labor and service charges made to manufacturers of commercial rotorcrafts, their components, or commercial rotorcraft mission equipment or to a port district, political subdivision, or municipal corporation when the facility will be leased to a manufacturer of commercial rotorcrafts or their components;
- Sales of tangible personal property that will be incorporated as an ingredient or component of such buildings; or
- Labor and service charges for installing building fixtures not otherwise exempt as manufacturing machinery and equipment.

The sales and use tax exemption expires July 1, 2025, unless no taxpayer has used the preference by July 1, 2017, then the preference expires effective July 1, 2017.

• Provides a preferential B&O tax rate of 0.2904 percent to businesses providing rotorcraft development services for others. The preferential rate expires July 1, 2017, unless it has been used by that date.
• Directs the Department of Revenue to determine whether any of the eligible activities have occurred by July 1, 2017, and, if not, is to notify the Legislature and Code Reviser.
• Requires businesses using any of the above preferences to file an annual report with the Department of Revenue.

The bill:
• Categorizes the preference as one intended to promote economic growth (RCW 82.32.808(2)(c).
• Includes a tax performance statement noting the specific public policy objective is to promote economic

growth and jobs.

The bill directs JLARC staff to review the preferences as part of their normal tax review process and must assess employment changes and tax revenue changes in the commercial rotorcraft industry in Washington compared to before the tax preferences took effect. If the review finds that the number of jobs in the rotorcraft industry has increased by an average of fifty jobs during the time the preferences were in effect, then the Legislature intends the Legislative Auditor to recommend extending the expiration date of the preferences.

**II. B - Cash receipts Impact**

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

**II. C - Expenditures**

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

JLARC staff will contact the Department of Revenue (DOR), the Employment Security Department, and the Bureau of Labor and Statistics immediately after the bill is passed to ensure that administrative and reporting requirements are implemented and data collected to ensure that JLARC is able to evaluate and measure all of the specific areas specified in the bill. JLARC staff will need to ensure that DOR includes any additional questions necessary to complete JLARC's analysis in DOR's annual report or reporting lines to the excise tax return to capture detail necessary for JLARC to conduct its analysis.

JLARC staff would need to check with the Department of Revenue after July 1, 2017, to determine whether any of the tax preferences provided in the bill would expire as of that date due to non-use.

The majority of the work to review the tax preference would be performed in 2022 and 2023. However, JLARC staff note that preliminary work on this review will be necessary in 2015 and in the years in between.

The assignment(s) of the bill will require an estimated 2.0 audit months, spread across the period of the assignment(s).

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's costs are calculated at approximately $15,000 per audit month.

## Part III: Expenditure Detail

### III. A - Expenditures by Object Or Purpose

| | FY 2016 | FY 2017 | 2015-17 | 2017-19 | 2019-21 |
|---|---|---|---|---|---|
| FTE Staff Years | 0.1 | | 0.1 | 0.1 | |
| A-Salaries and Wages | 5,900 | 2,000 | 7,900 | 7,900 | 4,000 |
| B-Employee Benefits | 1,900 | 600 | 2,500 | 2,500 | 1,200 |
| C-Professional Service Contracts | | | | | |
| E-Goods and Other Services | 1,100 | 400 | 1,500 | 1,500 | 800 |
| G-Travel | 100 | | 100 | 100 | |
| J-Capital Outlays | | | | | |
| M-Inter Agency/Fund Transfers | | | | | |
| N-Grants, Benefits & Client Services | | | | | |
| P-Debt Service | | | | | |
| S-Interagency Reimbursements | | | | | |
| T-Intra-Agency Reimbursements | | | | | |
| 9- | | | | | |
| **Total:** | $9,000 | $3,000 | $12,000 | $12,000 | $6,000 |

**III. B - Detail:** *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

| Job Classification | Salary | FY 2016 | FY 2017 | 2015-17 | 2017-19 | 2019-21 |
|---|---|---|---|---|---|---|
| Research Analyst | 87,219 | 0.1 | | 0.1 | 0.1 | |
| Support staff | 62,202 | | | | | |
| **Total FTE's** | 149,421 | 0.1 | | 0.1 | 0.1 | 0.0 |

## Part IV: Capital Budget Impact

NONE

## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

# Department of Revenue Fiscal Note

| Bill Number: 1736 HB | Title: Aerospace tax preferences | Agency: 140-Department of Revenue |
|---|---|---|

## Part I: Estimates

☐ **No Fiscal Impact**

**Estimated Cash Receipts to:**

| Account | FY 2016 | FY 2017 | 2015-17 | 2017-19 | 2019-21 |
|---|---|---|---|---|---|
| GF-STATE-State<br>01 - Taxes 05 - Bus and Occup Tax | (209,000) | (219,000) | (428,000) | (457,000) | (447,000) |
| **Total $** | (209,000) | (219,000) | (428,000) | (457,000) | (447,000) |

**Estimated Expenditures from:**

NONE

**Estimated Capital Budget Impact:**

NONE

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

| | | | |
|---|---|---|---|
| Legislative Contact: | Kirsten Lee | Phone: 360-786-7133 | Date: 02/05/2015 |
| Agency Preparation: | Steve Smith | Phone: 360-534-1518 | Date: 02/15/2015 |
| Agency Approval: | Don Gutmann | Phone: 360-534-1510 | Date: 02/15/2015 |
| OFM Review: | Kathy Cody | Phone: (360) 902-9822 | Date: 02/16/2015 |

# Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Current law provides for a number of tax incentives that apply to the aerospace sector. These include:
- the business and occupation tax (B&O tax) rate reduction for aerospace manufacturers, with a rate of 0.2904 percent instead of the normal manufacturing rate of 0.484 percent,
- the same rate for Federal Aviation Agency (FAA) certified repair stations,
- a B&O rate of 0.9 percent for the service activity of aerospace product development (for others) in place of the normal service rate of 1.5 percent,
- a B&O tax credit for aerospace manufacturers' preproduction development expenditures,
- a B&O tax credit for property taxes on land and buildings used by these firms,
- sales tax and use tax exemptions for computers used in development and design of airplanes, and
- a sales tax and use tax exemption for commercial airplane facilities.

This bill would extend the current aerospace incentive to firms that produce commercial rotorcraft, commercial rotorcraft components, and commercial rotorcraft mission equipment. Commercial rotorcraft are aircraft supported with lift provided by one or more rotors, including those having additional engines or propellers, and certified by the Federal Aviation Administration (FAA) for transporting persons or property; this definition also includes military derivatives of such aircraft. Commercial rotorcraft components are parts or systems certified by the FAA for installation or assembly into a commercial rotorcraft. Commercial rotorcraft mission equipment is equipment intended to be attached to a rotorcraft to engage in certain applications or tasks.

To facilitate review of this tax preference's effectiveness beneficiaries are required to file an annual report under RCW 82.32.534. In addition, the Joint Legislative Audit and Review Committee must review this tax preference as part of its normal review process.

The bill makes most of these incentives effective on July 1, 2015.

These incentives will expire on July 1, 2025.

If this tax preference is not used by July 1, 2017, then no tax preference is created.

The Department of Revenue (Department) must determine if these incentives have been used by July 1, 2017. The Department must provide written notice if the incentives have been used or if these provisions expire or no longer apply. The written notice must be provided to the chief clerk of the House of Representatives, the Secretary of the Senate, the Office of the Code Reviser, and others deemed appropriate.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

ASSUMPTIONS
- There are few if any existing taxpayers who might possibly qualify for some tax savings. Any such potential savings are believed to be very small.
- However, an out of state firm could conceivably move to Washington and take advantage of these incentives. It is therefore assumed that one hypothetical firm with the following characteristics will move to the state and take advantage of the program.
- It is assumed that a firm that designs and produces commercial rotorcraft components and/or commercial rotorcraft

mission equipment will move to Washington shortly after July 1, 2016.
- The firm is assumed to lease a turn-key facility, valued at $17 million, from a Washington port district.
- Taxable B&O revenues in Fiscal Year 2017 are assumed to be $16 million and rise rapidly for the next four years, then level off.
- B&O credits for aerospace manufacturers' preproduction development spending will be $362 per employee in the first year.

The incentives taken are assumed to be:
-A reduced B&O rate for various activities related to qualified rotorcraft, components, mission equipment and tooling.
-A B&O credit for manufacturers' preproduction development spending for these products.
-B&O credits for property tax and leasehold excise tax paid for land, buildings and certain equipment.

- Other incentives are assumed to be unusable by this type of small firm, or any benefits will be so small as to be minimal.
- It is assumed that all of the new incentives in the bill will be effective on July 1, 2015.
- The bill creates a series of new tax preferences which, if the contingency is met, will expire on July 1, 2025; otherwise those sections will expire on July 1, 2017.

DATA SOURCES
- The data used to construct the hypothetical firm is from Department of Revenue excise tax data for existing small aerospace firms.

REVENUE ESTIMATES

State revenues will decline $209,000 in Fiscal Year 2016.

State Government (cash basis, $000):
FY 2016 - ($ 209)
FY 2017 - ($ 219)
FY 2018 - ($ 225)
FY 2019 - ($ 232)
FY 2020 - ($ 226)
FY 2021 - ($ 221)

Local Government, if applicable (cash basis, $000): None

**II. C - Expenditures**

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

ASSUMPTIONS:
- Expenditures assume a low number of taxpayers will be affected by this legislation.
- A taxpayer claiming this new tax preference must file an annual survey (RCW 82.32.808). These expenditures include the costs to implement the new tax preference.

INITIAL COSTS
The Department will incur costs of $68,400 in Fiscal Year 2015 that are NOT included in the six year expenditure impact for this fiscal estimate. These start-up costs include:

Labor Costs - Time and effort equates to 0.7 FTE.
- Set up, program and test computer system changes for two new deduction codes.
- Modifications to the buyer's addendum, efile business and occupations deductions and annual surveys and reports.

ONGOING COSTS
There are no ongoing costs.

## Part III: Expenditure Detail

**III. A - Expenditures by Object Or Purpose**

NONE

## Part IV: Capital Budget Impact

*Identify acquisition and construction costs not reflected elsewhere on the fiscal note and dexcribe potential financing methods*

NONE

None.

## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

No rule-making required.