Multiple Agency Fiscal Note Summary

Bill Number: 2226 HB	Title: Spacecraft/aerosp. tax prefs

Estimated Cash Receipts

Agency Name	2015-17		2017-19		2019-21	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(871,000)	(871,000)	(1,183,000)	(1,183,000)	(1,298,000)	(1,298,000)
Total $	**(871,000)**	**(871,000)**	**(1,183,000)**	**(1,183,000)**	**(1,298,000)**	**(1,298,000)**

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	19,500	19,500	.0	12,000	12,000	.0	12,000	12,000
Department of Revenue	1.4	283,300	283,300	.3	57,000	57,000	.3	57,000	57,000
Total	**1.5**	**$302,800**	**$302,800**	**0.3**	**$69,000**	**$69,000**	**0.3**	**$69,000**	**$69,000**

Estimated Capital Budget Impact

NONE

Prepared by: Kathy Cody, OFM	Phone: (360) 902-9822	Date Published: Final 4/14/2015

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

** See local government fiscal note

FNPID: 42089

FNS029 Multi Agency rollup

Individual State Agency Fiscal Note

Bill Number: 2226 HB	Title: Spacecraft/aerosp. tax prefs	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	0.0	0.0
Account					
General Fund-State 001-1	13,500	6,000	19,500	12,000	12,000
Total $	13,500	6,000	19,500	12,000	12,000

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: 04/09/2015
Agency Preparation:	Dana Lynn	Phone: 360-786-5177	Date: 04/13/2015
Agency Approval:	Keenan Konopaski	Phone: 360-786-5187	Date: 04/13/2015
OFM Review:	Shane Hamlin	Phone: (360) 902-0547	Date: 04/13/2015

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.

BRIEF SUMMARY OF THE BILL
The bill extends current tax preferences provided to the aerospace industry to businesses that develop and manufacture spacecraft and spacecraft components.

The bill:
• Categorizes the preferences as intended to promote economic growth and jobs ((RCW 82.32.808(2)(c)).
• Includes a tax performance statement noting the specific public policy objective is to provide tax relief to spacecraft manufacturers to encourage migration of these businesses to Washington, which will create and retain good wage jobs and generate new tax revenue for the state.

SUMMARY OF IMPACT ON JLARC
The bill directs JLARC staff to review the preferences as part of their normal tax review process. JLARC is to:
• Assess employment changes and tax revenue changes in the spacecraft and the spacecraft component industry in Washington compared to before the tax preferences took effect.
• Assess the number of jobs created in the spacecraft manufacturing industry in Washington during the term the tax preferences were in effect.

If the review finds that the number of jobs in the spacecraft industry has increased by 10 percent during the time the preferences, then the Legislature intends the Legislative Auditor to recommend extending the expiration date of the preferences.

DETAIL
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, spacecraft or spacecraft components. The preferential rate begins October 1, 2015, and expires July 1, 2025. Businesses reporting under the preferential rate must file an annual report with the Department of Revenue (DOR).
• Provides a B&O tax credit for property taxes and leasehold excise taxes (LET) paid during the calendar year equal to:
  - Property tax or LET paid on buildings constructed after July 1, 2015, the land they are built on, or both, when used exclusively to manufacture spacecraft or spacecraft components, or spacecraft product development; or
  - Property taxes attributable to an increase in assessed value due to renovation or expansion after July 1, 2015, of such buildings; and
  - An amount equal to:
  - Property taxes paid on machinery and equipment exempt from sales tax as qualified manufacturing machinery and equipment that is acquired after July 1, 2015; or
  - Property taxes paid by service businesses on computer hardware, computer peripherals, and software exempt under other sections of this act and acquired after July 1, 2015.
  - The credit takes effect July 1, 2015, and has an expiration date of July 1, 2025.
  - Details are provided on how to calculate the credit. Unused credits may be carried over for one year. Businesses claiming the credit must file an annual report with DOR. “Spacecraft product development” and “spacecraft products” are defined.

• Provides an additional B&O tax credit for business conducting qualified spacecraft product development equal to 1.5% of the amount of qualified spacecraft development expenditures.
- Credits must be used against taxes due for the same calendar year the expenses were incurred and may not exceed the tax due. No refunds will be granted.
- Persons using the credit must file an annual report with DOR. The credit begins July 1, 2015, and expires July 1, 2025.
• Provides a sales and use tax exemption for:
- Sales of computer hardware, computer peripherals, or software, not otherwise exempt under the RCW 82.08.02565, used primarily to develop, design, and engineer spacecraft products, or charges for labor and services to install such items.
- The exemption begins October 1, 2015, and expires July 1, 2025.
• Provides a sales and use tax exemption for:
- Labor and services to construct new buildings or install new fixtures not otherwise exempt under RCW 82.08.02565(2)(b) for manufacturers of spacecraft or spacecraft components or a port district, city or county for lease to a spacecraft or component manufacturer.
- A person claiming the exemption must file an annual survey with DOR. The preference begins October 1, 2015, and expires July 1, 2025.
• Provides a preferential B&O tax rate of 0.9 percent to businesses performing spacecraft product development for others. The preferential rate begins October 1, 2015, and expires July 1, 2025.

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 and that DOR adds reporting lines to the excise tax return to capture detail necessary for JLARC to conduct its analysis.

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 2.9 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		
A-Salaries and Wages	8,900	3,900	12,800	7,800	7,800
B-Employee Benefits	2,800	1,300	4,100	2,600	2,600
C-Professional Service Contracts					
E-Goods and Other Services	1,600	700	2,300	1,400	1,400
G-Travel	200	100	300	200	200
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:	$13,500	$6,000	$19,500	$12,000	$12,000

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		
Support staff	62,202					
Total FTE's	149,421	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: 2226 HB	Title: Spacecraft/aerosp. tax prefs	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 01 - Taxes 01 - Retail Sales Tax	(3,000)	(5,000)	(8,000)	(10,000)	(10,000)
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	(327,000)	(536,000)	(863,000)	(1,173,000)	(1,288,000)
Total $	(330,000)	(541,000)	(871,000)	(1,183,000)	(1,298,000)

Estimated Expenditures from:

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	2.5	0.3	1.4	0.3	0.3
Account					
GF-STATE-State 001-1	253,500	29,800	283,300	57,000	57,000
Total $	253,500	29,800	283,300	57,000	57,000

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: 04/09/2015
Agency Preparation:	Steve Smith	Phone: 360-534-1518	Date: 04/14/2015
Agency Approval:	Don Gutmann	Phone: 360-534-1510	Date: 04/14/2015
OFM Review:	Kathy Cody	Phone: (360) 902-9822	Date: 04/14/2015

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,
- 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, buildings, machinery, and equipment (including computer hardware and software) used by these firms,
- sales tax and use tax exemptions for computers used in development and design of commercial airplanes, and
- a sales tax and use tax exemption for construction of commercial airplane facilities.

This bill would extend these current aerospace incentives to taxpayers engaged in similar activities involving the development and manufacturing of spacecraft and spacecraft components. Spacecraft are defined in the bill as all types of manned or transportation vehicles intended to be used for the purpose of operating in, or transporting a payload to, from, or within outer space, or in suborbital trajectory. A spacecraft component is defined as a part or system specifically designed for installation or assembly into a spacecraft.

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 is effective on October 1, 2015. However, two B&O tax credits; for property taxes on land, buildings, machinery and equipment, and for preproduction development expenditures, are individually described as effective on July 1, 2015.

These incentives will expire on July 1, 2025.

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
- It is assumed that there are currently six firms that would qualify for these incentives.
- It is assumed that taxpayers in the spacecraft sector will use these incentive programs to the same relative extent as the small to moderate sized taxpayers in the commercial aircraft sector make use of the current, equivalent aerospace incentives.
- All components of the bill are assumed to be effective on October 1, 2015. It is assumed that the two inconsistent effective dates will be changed to conform with the effective date for the entire bill.
- Fiscal Year 2016 collections are assumed to begin in November, 2015 resulting in eight months of cash collections.

DATA SOURCES
- Department of Revenue excise tax data for Fiscal Year 2014.
- The February, 2015 economic forecast from the Economic and Revenue Forecast Council.

REVENUE ESTIMATES

The general fund will lose $330,000 in Fiscal Year 2016 and $541,000 in Fiscal Year 2017.

Local jurisdictions will lose $1,000 in Fiscal Year 2016 and $2,000 in Fiscal Year 2017.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):
FY 2016 - ($ 330)
FY 2017 - ($ 541)
FY 2018 - ($ 578)
FY 2019 - ($ 605)
FY 2020 - ($ 634)
FY 2021 - ($ 664)

Local Government, if applicable (cash basis, $000):
FY 2016 - ($ 1)
FY 2017 - ($ 2)
FY 2018 - ($ 2)
FY 2019 - ($ 2)
FY 2020 - ($ 2)
FY 2021 - ($ 2)

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:
- Up to 20 taxpayers will be affected by this legislation.
- A taxpayer claiming this new tax preference must file an annual report and annual survey (RCW 82.32.808). These expenditures include the costs to implement the new tax preference.
- A buyer that reports taxes to the Department of Revenue (Department) must report the total sales or uses on an addendum to its tax return (RCW 82.32.808). These expenditures include the costs to implement the new tax preference.

INITIAL COSTS:
The Department will incur costs of $55,000 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 0.6 FTE.
- Develop new forms and new line, reason, refund and transaction codes.

FIRST YEAR COSTS:
The Department will incur total costs of $253,500 in Fiscal Year 2016. These costs include:

Labor Costs - Time and effort equates to 2.4 FTEs.
- Set up, program and test computer system changes for four new line codes with deductions, modify the MATC credit for the new reporting lines and add two new credits one with a carryover,
- Add a new sales tax exemption to the sales tax preference addendum in e-file.
- Add three new annual reports and four new annual surveys.
- Create six new reports for monitoring new line codes and new credits.
- Resolve additional error and out of balance and amended returns, manage document imaging, respond to secure

messages and correspondence, answer telephone questions, monitor reports and assist taxpayers with reporting.
- Amend two administrative rules. Due to the efficiency of amending rules simultaneously expenditures reflect the cost of one amendment.

SECOND YEAR COSTS:
The Department will incur total costs of $29,800 in Fiscal Year 2017. These costs include:

Labor Costs - Time and effort equates to 0.3 FTE.
- Resolve additional error and out of balance and amended returns, manage document imaging, respond to secure messages and correspondence, answer telephone questions, monitor reports and assist taxpayers with reporting.
- Policy assistance and interpretive support for Department divisions to respond to letter rulings and administrative issues.

ONGOING COSTS:
Ongoing costs for the 2017-2019 Biennium equal $57,000 and include similar activities described in the second year costs. Time and effort equates to 0.3 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	2.5	0.3	1.4	0.3	0.3
A-Salaries and Wages	159,300	19,100	178,400	38,200	38,200
B-Employee Benefits	47,800	5,700	53,500	11,400	11,400
E-Goods and Other Services	30,600	3,500	34,100	6,400	6,400
J-Capital Outlays	15,800	1,500	17,300	1,000	1,000
Total $	$253,500	$29,800	$283,300	$57,000	$57,000

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
ADM ASST 5	47,014	0.0		0.0		
EMS BAND 4	103,896	0.0		0.0		
EXCISE TAX EX 3	50,563	0.1	0.1	0.1	0.1	0.1
EXCISE TAX EX 4	55,839	0.3		0.2		
HEARINGS SCHEDULER	32,688	0.0		0.0		
IT SPEC 4	63,195	0.6		0.3		
IT SPEC 5	69,756	1.4		0.7		
TAX POLICY SP 2	61,628	0.0		0.0		
TAX POLICY SP 3	69,756	0.0	0.2	0.1	0.2	0.2
TAX POLICY SP 4	75,080	0.0		0.0		
Total FTE's	629,415	2.5	0.3	1.4	0.3	0.3

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.

Should this legislation become law, the Department will use the expedited rule-making processes to amend WAC

458-20-267, titled: “Annual reports for certain tax adjustments”; and WAC 458-20-268, titled: "Annual surveys for certain tax adjustments". Persons affected by this rule-making would include aerospace firms and vendors.