



# Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

October 2017

## Non-manufacturer Aerospace Tax Incentives

SSB 6828 (Chapter 81, Laws of 2008) broadens several existing aerospace tax incentives to include nonmanufacturing businesses in Washington State. Currently, non-manufacturers are eligible for the qualified preproduction development spending business and occupation (B&O) tax credit and a sales and use tax exemption on computer equipment. ***This notice provides a comprehensive overview of new tax incentives available on July 1, 2008, to non-manufacturers who provide services in the aerospace industry.***

### Retail Sales and Use Tax Exemption for Computers

Non-manufacturers that perform aerospace product development in the state of Washington are eligible for a retail sales and use tax exemption on purchases of computer hardware, software and peripherals used primarily in the development, design and engineering of aerospace products or in providing aerospace services. The exemption also applies to charges for labor and services related to the installation of qualifying computer hardware, software and computer peripherals. Computer peripherals include keyboards, monitors, mouse devices, and other devices that operate outside the computer, excluding cables, conduit, wiring, and similar property. The purchaser must provide the vendor with a completed Buyers' Retail Sales Tax Exemption Certificate. The exemption expires June 30, 2040.

### Business and Occupation (B&O) Tax Rates

Aerospace non-manufacturers in Washington State engaged in the business of aerospace product development for others are eligible for a preferential B&O tax rate of .9%. The preferential rate expires June 30, 2040.

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

There is a B&O tax credit equal to 1.5% of qualified aerospace product development expenditures. Nonmanufacturers are currently eligible for the qualified preproduction development expenditures B&O tax credit. The new legislation expanded the definition of qualifying expenditures and requires non-manufacturers to complete a form each time the credit is taken. The form can be found within the Department's Electronic Filing (E-file) system on the "credits" page. Pre-approval from the Department of Revenue is not required to use the credit. 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). The credit cannot

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exceed B&O taxes due for any reporting period. Any unused credit accrued after July 1, 2008, cannot be carried over beyond the calendar year in which the qualifying expenditures are incurred.

**“Qualified aerospace product development expenditures”** are operating expenses, including wages, benefits, supplies, and computer expenses, directly incurred in qualified aerospace product development by a person claiming the credit. The term includes expenses directly incurred in 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. The term also includes expenditures for tool design and engineering design for the manufacturing process.

However, the term does not include manufacturing expenditures or other production-oriented expenditures. Nor does the term include the 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. In addition, the term does not include 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. This credit expires June 30, 2040.

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

Aerospace non-manufacturers are eligible for a B&O tax credit on property taxes or leasehold excise taxes paid on or with respect to, buildings (and land upon which the buildings are located) constructed after June 30, 2008 and used exclusively for aerospace product development. The credit is equal to the amount of property/leasehold excise tax paid on qualifying buildings and land. The credit is also available for property taxes attributable to an increase in assessed value due to the renovation or expansion of buildings used exclusively for aerospace product development. These credits expire June 30, 2040. In addition, the credit is available against property taxes paid on computer hardware, computer peripherals and software (exempt under 82.08.975 or 82.12.975) purchased after June 30, 2008, used primarily in the development, design and engineering of aerospace products. The credit is equal to the amount of property tax paid on qualifying computer equipment. This credit expires June 30, 2040.

This B&O tax credit cannot be claimed until the property taxes associated with the qualifying land, buildings or computer equipment have actually been paid. If your B&O tax obligation is less than the property taxes paid on qualifying property, the credit may carry forward one year but may not be carried over a second year. B&O tax refunds will not be granted in lieu of a credit for property taxes paid. This credit expires June 30, 2040.

## **Annual Reporting Requirements Change**

Non-manufacturers who report taxes under the preferential B&O tax rate or who claim a tax credit or exemption under the aerospace incentive program must submit an annual report to the Department of Revenue detailing employment, wages and employer-provided health and retirement benefits for employment positions in Washington.

This is a change for non-manufacturers who claimed a tax credit or exemption under existing aerospace incentive programs. Previously, non-manufacturers completed the annual survey. Non-manufacturers no longer need to file an annual survey, but instead, should file an annual report.

The report must detail employment by the total number of full-time, part-time and temporary positions. The report shall not include names of employees. You must submit this report by May 31 of each year.

The first report filed must include employment, wage and benefit information for the 12-month period immediately before first use of the decreased rate or tax credit programs listed above. This information is not subject to the confidentiality provisions of RCW 82.32.330 and may be disclosed to the public upon request.

## Electronic Filing Required

All reports and other such documents required by the Department of Revenue to take advantage of the aerospace tax incentives must be filed electronically.

## Definitions

**“Aerospace product”** means commercial airplanes and their components as defined in RCW 82.32.550; machinery and equipment that is 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.

**“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.

**“Providing aerospace services”** means the maintenance, repair, overhaul, or refurbishing of commercial airplanes or their components, but only when such services are performed by a FAR part 145 certificated repair station.

**“Primarily”** means greater than 50% of the equipment’s capacity or total time the equipment is used.