

SPECIAL NOTICE

June 1, 2004

For further information contact:
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1-800-647-7706 or (360) 486-2345

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Aerospace Industry B&O Tax Credit for Preproduction Development Expenditures

HB 2294 (Second Special Session, Chapter 1, Laws of 2003) provides a package of tax incentive programs for manufacturers and processors for hire of commercial airplanes and component parts of commercial airplanes. The Department of Revenue issued a Special Notice dated January 15, 2004, providing general information about the programs that make up the tax incentive package. This notice provides detailed information about one of these programs.

Effective December 1, 2003, there is a B&O tax credit equal to 1.5% of *qualified preproduction development expenditures* used in manufacturing commercial airplanes or component parts of commercial airplanes by manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes.

- ◆ The credit can accrue for expenditures made on and after December 1, 2003, but cannot be used until July 1, 2005.
- ◆ The credit should be reported under the Credits section of the excise tax return for periods starting July 1, 2005.
- ◆ The credit cannot exceed B&O taxes due for any reporting period. However, the credit can be carried over from one period to another within the same calendar year.
- ◆ Unused credit accrued from December 1, 2003, through June 30, 2005, may be carried over until used.
- ◆ Unused credit accrued after June 30, 2005, cannot be carried over beyond the calendar year in which it is accrued.
- ◆ 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).
- ◆ Pre-approval is not required from the Department of Revenue to use the credit, but an *affidavit* prescribed by the Department of Revenue must be filed with the Department when the credit is taken. In addition, an **annual report** must be filed. The affidavit will be available December 31, 2004 on the Department's web site at <http://dor.wa.gov>, or by contacting Taxpayer Account Administration at (360) 902-7175.

Definitions

“**Commercial airplane**” means an airplane certified by the Federal Aviation (FAA) for transporting persons or property or 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.

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

“**Qualified preproduction development expenditures**” means operating expenses, including wages, benefits, supplies, and computer expenses, directly incurred in research, design, and engineering activities performed within this state in the field of aeronautics in relation to the development of a product, product line, model, or model derivative, including prototype development, testing, and certification.

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.

The term also 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 preproduction development, other than a public educational or research institution.

Annual Reporting Requirements

A person who claims this credit must submit an **annual report** to the Department of Revenue detailing employment, wages, and employer-provided health and retirement benefits per job at the manufacturing site. The report is due by March 31 following the year in which the credit is taken. The reporting requirements are discussed in further detail in the Special Notice issued on January 15, 2004, setting forth general information about the aerospace tax incentive program. The Department is developing an educational letter and forms for complying with the annual reporting requirements, which when completed will be available on the Department’s web site at <http://dor.wa.gov>.

Persons with questions about this program can contact Geir Jonsson at (360) 570-6135.

To inquire about the availability of this document in an alternate format for the visually impaired, please call (360) 486-2342. Teletype (TTY) users please call 1-800-451-7985.

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**Important Information on
Aerospace Industry B&O Tax Credit
for Preproduction Development Expenditures
Enclosed**



Washington State Department of Revenue