

# SPECIAL NOTICE

June 6, 2006

For further information contact:

Telephone Information Center  
1-800-647-7706 or (360) 705-6676

Alternate Formats (360) 705-6715  
Teletype 1-800-451-7985

## Non-manufacturer Aerospace Tax Incentives

*Aerospace Manufacturers B&O Credit for Leasehold Excise Tax Paid*

*Low B&O Rate for FAR part 145 Repair Stations*

The 2006 Legislature approved several tax incentives for non-manufacturer businesses effective July 1, 2006. (HB 2466 Chapter 177, Laws of 2006)

Persons who develop, design, and engineer, but do not manufacture commercial airplanes or component parts of commercial airplanes, are eligible for a **sales and use tax exemption** for certain computer equipment purchases and a business and occupation (**B&O**) **tax credit** based on certain preproduction development expenditures. Similar programs were previously available only to aerospace manufacturers and processors for hire. These two programs expire July 1, 2024.

The preferential B&O tax rate for FAR part 145 repair stations has been changed to 0.002904. The expiration date has been extended to December 31, 2012.

A B&O tax credit for aerospace manufacturers based on the property taxes paid on land and buildings used exclusively for manufacturing commercial airplanes or component parts has been expanded to include leasehold excise tax paid on such property. This credit expires July 1, 2024.

### Sales and Use Tax Exemption

Purchases and installation of computer hardware, peripherals, or software, used to develop, design, and engineer commercial airplanes or component parts of commercial airplanes by persons who develop, design, and engineer, but do not manufacture such items, are eligible for a sales and use tax exemption.

To take advantage of the sales tax exemption, the buyer must provide the seller with a completed *Buyers' Retail Exemption Certificate*. The certificate is available on our web site at <http://dor.wa.gov/content/forms>.

### B&O Tax Credit

Persons who develop, design, and engineer, but do not manufacture commercial airplanes and component parts, are eligible for a B&O tax credit on qualified preproduction development expenditures made after July 1, 2006.

- The credit is equal to the amount of qualified preproduction development expenditures incurred, multiplied by the rate of 1.5 percent.
- The credit must be taken against taxes due for the same calendar year in which the qualified preproduction development expenditures are incurred. **Credits may not be carried over.**
- The credit for each calendar year may not exceed the amount of B&O tax due. Refunds will not be granted in the place of a credit.
- The credit may not be claimed for expenditures for which a credit is claimed under RCW 82.04.4452 (High Tech B&O credit) or RCW 82.04.4461 (Aerospace Manufacturer Preproduction Expenditure B&O credit).

### **Important Definitions**

“Qualified preproduction development expenditures” means operating expenses, including wages, compensation of a proprietor or a partner in a partnership (as determined by the Department), benefits, supplies, and computer expenses, directly incurred in **qualified preproduction development** by a person claiming the B&O tax credit. It does not include amounts paid to a person other than a public education or research institution to conduct qualified preproduction development. It also does not include capital costs and overhead, such as expenses for land, structures, or depreciable property.

“Qualified preproduction development” means **preproduction development** performed within Washington in the field of **aeronautics**.

“Aeronautics” means the study of flight and the science of building and operating commercial aircraft.

“Preproduction development” means research, design, and engineering activities performed in relation to the development of a product, product line, model, or model derivative, including prototype development, testing, and certification. It 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. It does not include manufacturing activities or other production-oriented activities. The term does not include 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.

### **FAR Part 145 Repair Stations**

The preferential B&O tax rate for FAR part 145 repair stations has changed to .002904 from .0027 and has been extended to December 31, 2012. The .275 rate was scheduled to expire June 30, 2006.

## **Filing Requirements**

Eligible businesses taking advantage of either the aerospace programs for non-manufacturers or the FAR part 145 repair stations tax rate must:

- File tax returns electronically; and
- File an Annual Survey\* detailing employee information by March 31 of each year.

\* This is a different form from the *Annual Report*, which must be filed by aerospace manufacturers who take advantage of RCW 82.04.4463 and other aerospace tax incentive programs.

## **More Information**

For more information about these tax incentives, contact Gary Grossmann at (360) 705-6646.

To inquire about the availability of this document in an alternate format for the visually impaired, please call (360) 705-6715. Teletype (TTY) users please call 1-800-451-7985.