



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

JUNE 13, 2008

Aerospace Manufacturers Tax Incentives

SSB 6828 (Chapter 81, Laws of 2008) broadens several existing aerospace tax incentives and requires business that take advantage of the incentives to file their return electronically (E-file). For manufacturers and processors for hire of commercial airplanes and component parts of commercial airplanes, the new law changed the definition of “preproduction development expenditures” and broadened it to include “aerospace product development expenditures.” This notice provides a comprehensive overview of the tax incentives available to aerospace manufacturers and processors for hire.

Retail Sales and Use Tax Exemption for Computers

Effective December 1, 2003, manufacturers and processors for hire of commercial airplanes and component parts of commercial airplanes were 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 commercial airplanes and component parts of commercial airplanes.

Effective July 1, 2008, the exemption is broadened to include 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**. This exemption expires July 1, 2024.

Business and Occupation Tax Rate Decrease

The preferential business and occupation (B&O) tax rate for manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes is outlined below. The rate applies to both the manufacturing activity and the subsequent sale of the manufactured product by the manufacturer. The manufacturer is also eligible for the multiple activities tax credit (MATC). Persons who qualify for this B&O tax rate decrease should report the income under the Aerospace B&O tax classification on the Electronic Filing (E-file) return.

Period	Rate
December, 1, 2003 - September 30, 2005	.00484
October 1, 2005 - June 30, 2007	.004235 (reduction of 12.5%)
July 1, 2007 - June 30, 2024	.002904 (reduction of 40.0%)

The rate expires on July 1, 2024.

Property and Leasehold Excise Tax B&O Tax Credits

The law provides a B&O tax credit equal to the property taxes paid on new buildings, the land upon which the new buildings are located and the increased value of renovated buildings when the buildings, land and renovations are used exclusively in manufacturing commercial airplanes or component parts of commercial airplanes.

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The law also provides for a B&O tax credit on machinery and equipment acquired after December 1, 2003, used in manufacturing commercial airplanes or component parts of commercial airplanes. The amount of credit is equal to the amount of property taxes paid on the equipment exempt under the Manufacturers' Machinery and Equipment Sales and Use Tax Exemption (M&E), (see RCW 82.08.02565) multiplied by a fraction. The numerator of the fraction is the total taxable amount subject to the tax imposed under RCW 82.04.260(11) and the denominator of the fraction is the total taxable amount subject to the tax imposed under all manufacturing classifications in Chapter 82.04 RCW. The fraction for the year in which the credit is earned is calculated using amounts reported on the previous year's combined excise tax returns. If either the numerator or denominator of the fraction is zero, no credit is available. If the fraction is greater than or equal to nine-tenths, then the fraction is rounded to one.

This B&O tax credit cannot be claimed until the property taxes associated with the qualifying land, buildings or machinery and equipment have actually been paid. If a persons 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. These credits expire July 1, 2024.

Qualified Aerospace Product Development Expenditures B&O Tax Credit

Effective December 1, 2003, the law provided 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.

Effective July 1, 2008, SSB 6828 broadens the definition of qualified preproduction development expenditures to include aerospace product development expenditures.

"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.

Credit may not be claimed for expenditures claimed for purposes of the High Technology Research and Development B&O tax credit provided by RCW 82.04.4452.

Unused preproduction development expenditure credits accrued from December 1, 2003, through June 30, 2005, may be carried over until used. Unused preproduction development expenditure credits accrued after June 30, 2005, cannot be carried over beyond the calendar year in which they are accrued. The expenditures that qualify for the credit during the periods outlined above are only those defined as preproduction expenditures and not aerospace product development expenditures.

Any unused aerospace product development expenditure credits accrued after July 1, 2008, cannot be carried over beyond the calendar year in which the qualifying expenditures are incurred.

The credit cannot exceed B&O taxes due. Pre-approval from the Department of Revenue is not required to use the credit, but a form prescribed by the Department of Revenue must be filed when the credit is taken. The form can be found within E-file on the "credits" page. This credit expires July 1, 2024.

Annual Reporting Requirements

Manufacturers and processors for hire 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.

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. The report must be submitted by March 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.

Important 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.

“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.

“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.

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

“Commercial airplane” means an airplane certified by the Federal Aviation Administration (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.



Special Notice

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JUNE 13, 2008

Aerospace Tooling Manufacturers Tax Incentives

SSB 6828 (Chapter 81, Laws of 2008) broadens several existing aerospace tax incentives to include manufacturers of tooling. ***Effective July 1, 2008, the legislation provides a package of tax incentive programs for manufacturers and processors for hire of tooling specifically designed for use in manufacturing commercial airplanes and component parts of commercial airplanes, and for manufacturers that sell such tooling at retail or wholesale.*** This notice provides a comprehensive overview of the tax incentives available.

Retail Sales and Use Tax Exemption for Computers

Manufacturers and processors for hire of tooling specifically designed for use in manufacturing commercial airplanes and component parts of commercial airplanes 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*. This exemption expires July 1, 2024.

Business and Occupation (B&O) Tax Rate

Manufacturers and processors for hire of tooling specifically designed for use in manufacturing commercial airplanes and component parts of commercial airplanes are eligible for a preferential B&O tax rate of .2904%. The rate will apply to both the manufacturing activity and the subsequent sale of the manufactured product by the manufacturer. The manufacturer is also eligible for the multiple activities tax credit (MATC). Persons who qualify for this preferential B&O tax rate should report the income under the aerospace B&O tax classifications on the Electronic Filing (E-file) return. This rate expires on July 1, 2024.

Property and Leasehold Excise Tax B&O Tax Credits

Manufacturers and processors for hire of tooling specifically designed for use in manufacturing commercial airplanes and component parts of commercial airplanes are eligible for a B&O tax credit on property taxes or leasehold excise taxes paid on buildings (and land upon which the buildings are located) constructed after June 30, 2008, that are used exclusively for manufacturing qualifying tooling, aerospace product development and providing aerospace services. The credit is equal to the amount of property/leasehold tax paid on the land and buildings. 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 manufacturing qualifying tooling, aerospace product development or in providing aerospace services. These credits expire July 1, 2024.

The law also provides for a B&O tax credit on machinery and equipment acquired after June 30, 2008, used in manufacturing tooling specifically designed for use in manufacturing commercial airplanes or component parts of commercial airplanes. The amount of credit is equal to the amount of property taxes paid on the equipment exempt under the Manufacturers' Machinery and Equipment Sales and Use Tax Exemption (M&E), (see RCW 82.08.02565) multiplied by a fraction. The numerator of the fraction is the total taxable amount subject to the

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tax imposed under RCW 82.04.260(11) and the denominator of the fraction is the total taxable amount subject to the tax imposed under all manufacturing classifications in Chapter 82.04 RCW. The fraction for the year in which the credit is earned is calculated using amounts reported on the previous year's combined excise tax returns. If either the numerator or denominator of the fraction is zero, no credit is available. If the fraction is greater than or equal to nine-tenths, then the fraction is rounded to one.

This B&O tax credit cannot be claimed until the property taxes associated with the qualifying land, buildings or machinery and 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 July 1, 2024.

Qualified Aerospace Development Expenditures B&O Tax Credit

There is a B&O tax credit equal to 1.5% of qualified aerospace product development expenditures incurred by tooling manufacturers and processors for hire that manufacture and sell tooling specifically designed for use in manufacturing commercial airplanes and component parts of commercial airplanes. A form must be completed each time the credit is taken. The form can be found within the Department's E-file system on the "credits" page. Pre-approval is not required from the Department of Revenue 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 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 July 1, 2024.

Annual Reporting Requirements

Tooling manufacturers and processors for hire 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.

The report must detail employment by the total number of full-time, part-time and temporary positions. It shall not include names of employees. The report must be submitted by March 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.

Important 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.

“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.

“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.

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

“Tooling” means articles of tangible personal property used in the manufacture, repair, overhaul and/or replacement process, including, but not limited to, dies, die blocks, fixtures, gages, molds, patterns, templates, and other manufacturing and inspection aids required in those processes.



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WASHINGTON STATE DEPARTMENT OF REVENUE

JUNE 13, 2008

Non-manufacturer Aerospace Tax Incentives

SSB 6828 (Chapter 81, Laws of 2008) broadens several existing aerospace tax incentives to include non-manufacturing 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 July 1, 2024.

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 July 1, 2024.

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. Non-manufacturers 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 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.

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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 July 1, 2024.

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 July 1, 2024. 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 July 1, 2024.

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 July 1, 2024.

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. The report must be submitted by March 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

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Important 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 air-planes 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.

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**Important Information on
Tax Incentives for Aerospace
Manufacturers and Non-manufacturers
Enclosed**



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