

PRELIMINARY REPORT: 2019 TAX PREFERENCE PERFORMANCE REVIEWS

Aircraft Part Prototypes

LEGISLATIVE AUDITOR'S CONCLUSION:

The preference has not been claimed and does not contribute to the public policy objectives, so the Legislative Auditor continues to recommend termination.

July 2019

Preference applies to the sale of materials used to make prototypes of aircraft parts and equipment

The exemption applies to sales or use of:

- Materials incorporated into a prototype for aircraft parts, auxiliary equipment, or modifications.
- Materials that are incorporated into a prototype but later destroyed in the testing or development of the prototype.

The preference is limited to businesses whose gross income and value of products manufactured had a combined total value of \$20 million or less in the previous year, minus any [multiple activities tax credit claims](#)¹. A business may not claim more than \$100,000 in tax savings from this preference in a calendar year. To claim the preference, a business must first pay the tax on a sale subject to the preference, and then apply to the Department of Revenue (DOR) for a refund. A 2014 JLARC [review of the preference](#) includes additional detail.

**Estimated Biennial
Beneficiary Savings**
None

Tax Type
Sales & Use Tax
RCWs 82.08.02566,
82.12.02566
Applicable Statutes

The preference does not have an expiration date.

In 2014, the Legislative Auditor found no businesses were claiming the tax preference and recommended termination

The Legislature stated two public policy objectives when it enacted the tax preference in 1996. The preference was part of a larger bill that addressed machinery and equipment used in research, development, and testing. The objectives applied to all exemptions in the bill.

¹The multiple activities tax credit is specified in RCW 82.04.440

JLARC staff [reviewed the preference in 2014](#). Because the review found no businesses were claiming the tax preference, the Legislative Auditor recommended that the Legislature terminate the preference as it had not contributed to the stated public policy objectives.

Objectives (Stated)	2014 JLARC Review Results
Encourage, develop, and expand opportunities for family wage employment in manufacturing industries.	No businesses claim the tax preference.
Solidify and enhance the state's competitive position.	

With no legislative changes to the preference and no beneficiaries, the Legislative Auditor's 2014 conclusions and recommendations remain applicable

No substantive legislative changes. Since 2014, three bills have proposed broad changes to all tax preferences. While each bill would have affected this preference, none included provisions specific to it. None of the bills passed.

No businesses claim the preference. Beneficiaries must pay the sales or use tax and then apply for a refund from DOR. This process allows DOR to track the number of firms that claim the exemption. DOR reports that there have been no requests for refunds, and thus, no beneficiaries. Efforts to reach two Washington companies that supported the legislation to create the preference in 1996 were unsuccessful. In 2014 these same companies indicated they were not claiming the preference.

Recommendations

Legislative Auditor's Recommendation: Terminate

The Legislature should terminate the sales and use tax exemption for prototypes for aircraft parts, auxiliary equipment, and modifications because the tax preference is not being used and has not contributed to the stated public policy objectives.

The Legislature may wish to consider other strategies beyond this tax incentive to accomplish the public policy objectives.

More information is available on the Recommendations Tab.

Commissioners' Recommendation

[Available October 2019.](#)

ADDITIONAL DETAILS

Applicable statutes

RCWs 82.08.02566, 82.12.02566

Sales Tax

RCW 82.08.02566

Exemptions - Sales of tangible personal property incorporated in prototype for parts, auxiliary equipment, and aircraft modification - limitation on yearly exemption.

(1) The tax levied by RCW [82.08.020](#) shall not apply to sales of tangible personal property incorporated into a prototype for aircraft parts, auxiliary equipment, or modifications; or to sales of tangible personal property that at one time is incorporated into the prototype but is later destroyed in the testing or development of the prototype.

(2) This exemption does not apply to sales to any person whose total taxable amount during the immediately preceding calendar year exceeds twenty million dollars. For purposes of this section, "total taxable amount" means gross income of the business and value of products manufactured, less any amounts for which a credit is allowed under RCW [82.04.440](#).

(3) State and local taxes for which an exemption is received under this section and RCW [82.12.02566](#) shall not exceed one hundred thousand dollars for any person during any calendar year.

(4) Sellers shall collect tax on sales subject to this exemption. The buyer shall apply for a refund directly from the department.

[2003 c 168 § 208; 1997 c 302 § 1; 1996 c 247 § 4.]

SELECTED NOTES:

Findings—Intent—1996 c 247: "The legislature finds that the health, safety, and welfare of the people of the state of Washington are heavily dependent upon the continued encouragement, development, and expansion of opportunities for family wage employment in the state's manufacturing industries.

The legislature also finds that sales and use tax exemptions for manufacturing machinery and equipment enacted by the 1995 legislature have improved Washington's ability to compete with other states for manufacturing investment, but that additional incentives for manufacturers need to be adopted to solidify and enhance the state's competitive position.

The legislature intends to accomplish this by extending the current manufacturing machinery and equipment exemptions to include machinery and equipment used for research and development with potential manufacturing applications." [1996 c 247 § 1.]

Use Tax

RCW 82.12.02566

Exemptions—Use of tangible personal property incorporated in prototype for aircraft parts, auxiliary equipment, and aircraft modification—Limitations on yearly exemption.

(1) The provisions of this chapter shall not apply with respect to the use of tangible personal property incorporated into a prototype for aircraft parts, auxiliary equipment, or modifications; or in respect to the use of tangible personal property that at one time is incorporated into the prototype but is later destroyed in the testing or development of the prototype.

(2) This exemption does not apply in respect to the use of tangible personal property by any person whose total taxable amount during the immediately preceding calendar year exceeds twenty million dollars. For purposes of this section, "total taxable amount" means gross income of the business and value of products manufactured, less any amounts for which a credit is allowed under RCW [82.04.440](#).

(3) State and local taxes for which an exemption is received under this section and RCW [82.08.02566](#) shall not exceed one hundred thousand dollars for any person during any calendar year.

(4) Sellers obligated to collect use tax shall collect tax on sales subject to this exemption. The buyer shall apply for a refund directly from the department.

[2003 c 168 § 209; 1997 c 302 § 2; 1996 c 247 § 5.]

SELECTED NOTES:

Findings—Intent—1996 c 247: See note following RCW 82.08.02566.

RECOMMENDATIONS & RESPONSES

Legislative Auditor's Recommendation

Legislative Auditor's Recommendation: Terminate

The Legislature should terminate the sales and use tax exemption for prototypes for aircraft parts, auxiliary equipment, and modifications because the tax preference is not being used and has not contributed to the stated public policy objectives.

Legislation Required: Yes

Fiscal Impact: None

Letter from Commission Chair

[Available October 2019.](#)

Commissioners' Recommendation

[Available October 2019.](#)

Agency Response

If applicable, available December 2019.

MORE ABOUT THIS REVIEW

Study questions



Proposed Study Questions: Aircraft Part Prototypes

State of Washington Joint Legislative Audit and Review Committee • September 2018

Citizen Commission scheduled a JLARC study of the sales and use tax exemption for aircraft part prototypes

The 2006 Legislature directed the staff of the Joint Legislative Audit and Review Committee (JLARC) to conduct performance audits of tax preferences. This preference is included in the 10-year review schedule set by the Citizen Commission for Performance Measurement of Tax Preferences.

The preference is a sales and use tax exemption for sales of materials used to make prototypes for aircraft parts and auxiliary equipment. A prototype is an original model of a product that may be developed in the future.

The exemption is available to businesses whose taxable income and value of manufactured products was \$20 million or less in the previous year. Businesses may claim up to \$100,000 annually in tax savings from this preference. Eligible businesses must first pay the tax, and then apply to the Department of Revenue (DOR) for a refund.



Sales and use tax exemption to encourage family-wage employment and improve the state's competitive position

The preference has two stated public policy objectives:

- To encourage, develop, and expand opportunities for family-wage employment in manufacturing industries.
- To solidify and enhance the state's competitive position for aerospace manufacturing.

Legislative Auditor recommended terminating this preference in 2014

JLARC staff previously reviewed the preference in 2014 and determined that no businesses used it. In that review, the Legislative Auditor recommended terminating the preference.

DOR reports no other businesses have applied for a refund for this sales & use tax exemption since 2014.

Study will answer two questions

- 1) Has there been legislative action, change, or discussion of the preference since 2014?
- 2) Are the Legislative Auditor's 2014 conclusions and recommendations still applicable to current circumstances?

Study Timeframe

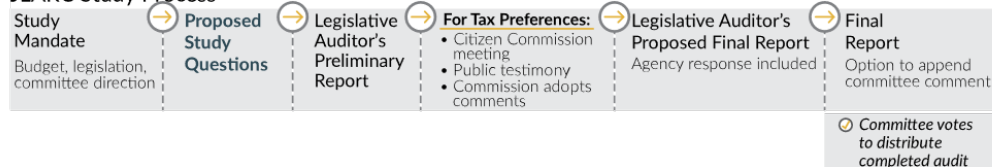
Preliminary Report: July 2019

Proposed Final Report: December 2019

Study Team

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JLARC Study Process



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