

Aircraft Part Prototypes

2019 JLARC TAX PREFERENCE REVIEW

Estimated 2021-23 beneficiary savings: \$0

Sales and use tax

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 was \$20 million or less in the previous year. A business may not claim more than \$100,000 in tax savings 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.



The preference has no expiration date.

A 2014 JLARC review of the preference includes additional detail and history.

Full 2014 report:

leg.wa.gov/jlarc/AuditAndStudyReports/documents/14-2.pdf

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.

LEGISLATURE'S STATED PUBLIC POLICY OBJECTIVES

Encourage, develop, and expand opportunities for family wage employment in manufacturing industries.

Solidify and enhance the state's competitive position.

2014 JLARC REVIEW RESULTS

No businesses claim the tax preference.

With no legislative changes to the preference and no beneficiaries, the Legislative Auditor's 2014 recommendation to terminate remains applicable

No substantive legislative changes. Since 2014, there has been no legislation considered that is specific to the provisions of this preference.

No businesses claimed 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.

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.

The complete report is on the JLARC web site: www.leg.wa.gov/jlarc

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