

Commercial Airplane Parts: Place of Sale

2019 JLARC TAX PREFERENCE REVIEW

Estimated 2021-23 beneficiary savings: \$620,000

Business and occupation (B&O) tax

With preference, sales of certain airplane parts whose final inspection takes place outside of Washington are exempt from B&O tax

MANUFACTURER	PLACE OF SALE
In-state manufacturer	Outside WA
	In WA
Out-of-state manufacturer	Outside WA
	In WA

Preference applies only to out-of-state manufacturers, when place of sale (final inspection) is outside WA.



The preference does not have an expiration date.

2014 review concluded that the preference appeared to conflict with a public policy objective to reduce the cost of doing business in state

When the Legislature expanded aerospace preferences to in-state suppliers in 2008, it stated **three broad public policy objectives**:

ONE More comprehensively address the cost of doing business in Washington compared to other states.

TWO Encourage the continued presence of the aerospace industry for a broader group of suppliers.

THREE Provide well-paying jobs.

When reviewing this preference in 2014, JLARC staff inferred a fourth objective:

FOUR Clarify place of sale of certain airplane parts. The preference met this objective by defining place of sale.

The 2014 review also found that it appeared to conflict with the stated objective reducing the cost of doing business in Washington as compared to other states. The preference provided greater tax advantages to out-of-state part manufacturers.

In 2014 review, Legislative Auditor recommended reviewing & clarifying the preference.

Limited data is available to analyze use of the tax preference

Because there is no specific reporting line for the preference, it is difficult to determine the exact number of beneficiaries that claim the preference or the actual amount of tax savings.

JLARC staff identified **three businesses** that claimed the preference in fiscal years 2016 and 2017.

Legislative Auditor's conclusions and recommendations from 2014 remain applicable

The Legislature has made no substantive changes to the preference since 2014.

As a result, the preference continues to provide greater tax advantages to out-of-state airplane part manufacturers than to in-state manufacturers.

LEGISLATIVE AUDITOR'S RECOMMENDATION

Review and clarify

As recommended in 2014, the Legislature should review and clarify the preferential tax treatment provided to out-of-state manufacturers because it seems to run counter to the Legislature's stated policy objective of reducing the cost of doing business for Washington compared to locations in other states.

In addition, the Legislature may want to consider adding reporting or other accountability requirements that would provide better information on out-of-state manufacturers' use of this preference.

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

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