

# Aerospace Tax Preferences

2019 JLARC TAX PREFERENCE REVIEW

Estimated 2021-23 beneficiary savings: \$569 million

Multiple taxes

**9** Nine tax preferences for businesses that manufacture commercial airplanes, develop aerospace products, or repair aircraft.

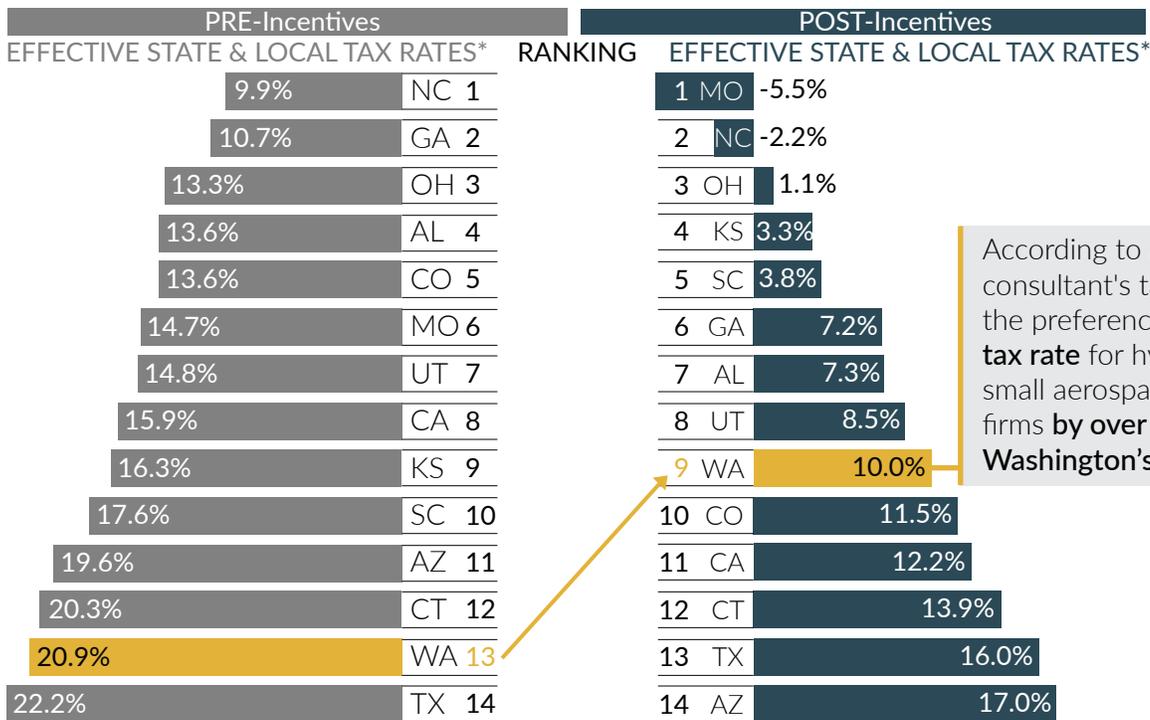
They include:

- ③ preferential business and occupation (B&O) tax rates
- ② B&O tax credits
- ② sales and use tax exemptions
- ① property tax exemption
- ① leasehold excise tax exemption



The preferences are scheduled to expire July 1, 2040.

## The preferences reduce the cost of doing business and improve competitiveness with other states



According to an independent consultant's tax accounting analysis, the preferences **cut the effective tax rate** for hypothetical large and small aerospace manufacturing firms **by over 50% and improve Washington's competitive position.**

Note: Graph shows results for a hypothetical large aerospace firm.

\*Effective tax rate is the estimated reduction in rate of return due to state and local taxes.

## Washington's aerospace industry leads the nation in output and employment

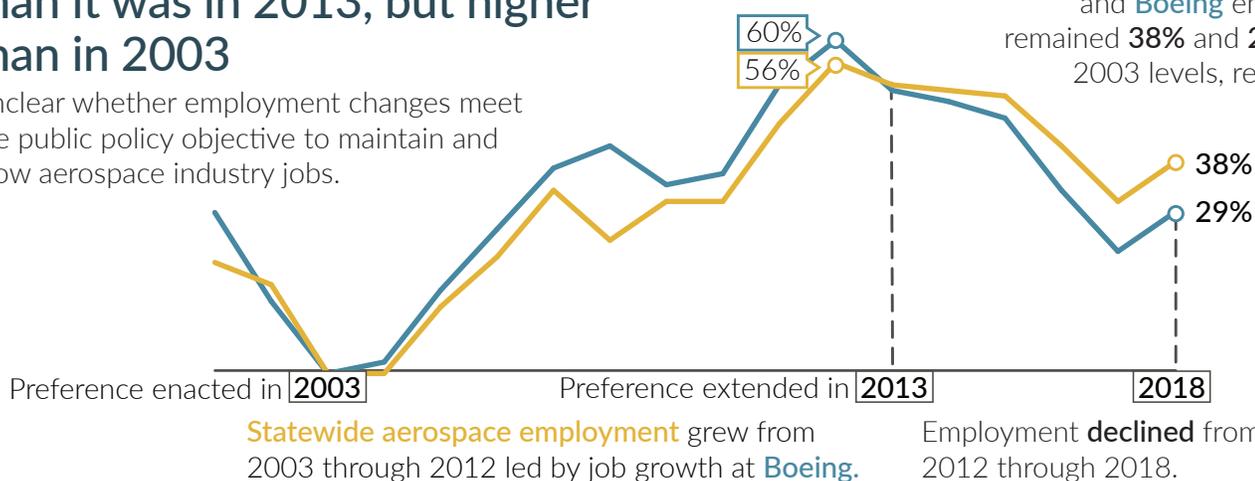
In addition, employees of tax preference beneficiaries earn wages above the state average and are provided benefits.



# Aerospace employment is lower than it was in 2013, but higher than in 2003

Unclear whether employment changes meet the public policy objective to maintain and grow aerospace industry jobs.

2018 **statewide aerospace** and **Boeing** employment remained **38%** and **29%** above 2003 levels, respectively.



## It is unclear whether the preferences prevented greater job losses

If the preferences led Boeing to remain in Washington, they may have kept the state from losing more jobs. If not, they reduced government spending and may have contributed to job losses.

### THREE HYPOTHETICAL SCENARIOS

modeled what could have happened if the preferences were not extended.

#### SCENARIO 1

Boeing locates 777X production outside WA

Washington aerospace employment declines by over 13,000, with statewide job losses of over 71,000.

#### SCENARIO 2

Boeing locates all future production outside WA

Washington aerospace employment declines by over 68,000, with statewide job losses of over 360,000.

#### SCENARIO 3

Boeing locates 777X production in WA without preferences

Increase in employment from government spending offsets minor aerospace job losses resulting in an economy-wide increase of 4,700 jobs.

The effect of the preferences on aerospace employment depends on whether they influenced Boeing's decision to keep production in Washington.

## LEGISLATIVE AUDITOR'S RECOMMENDATION

### Clarify

The Legislature should clarify its expectations for the level of aerospace industry employment. Providing additional detail in the tax preference performance statement such as a baseline level of employment would facilitate future reviews of these preferences.

