



Ten-Year Analysis

Bill Number 6690 E SB PL	Title Aerospace B&O taxes/WTO	Agency 140 Department of Revenue
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

No Cash Receipts

 Partially Indeterminate Cash Receipts

 Indeterminate Cash Receipts

Estimated Cash Receipts

Name of Tax or Fee	Acct Code	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	2020-29 TOTAL
B&O Tax	001	18,000,000	116,000,000	115,000,000	114,000,000	113,000,000	112,000,000	111,000,000	110,000,000	108,000,000	107,000,000	1,024,000,000
Total		18,000,000	116,000,000	115,000,000	114,000,000	113,000,000	112,000,000	111,000,000	110,000,000	108,000,000	107,000,000	1,024,000,000
Biennial Totals		134,000,000		229,000,000		225,000,000		221,000,000		215,000,000		1,024,000,000

Narrative Explanation (Required for Indeterminate Cash Receipts)

Note: This fiscal note reflects language in ESSB 6690 as passed in the 2020 Legislative Session.

CURRENT LAW:

The standard manufacturing business and occupation (B&O) tax rate is 0.484%, and the aerospace manufacturing B&O tax rate (specifically for commercial airplanes, their components, and tooling) is 0.2904%.

Most out-of-state manufacturers who sell their manufactured goods in Washington pay B&O tax at the standard tax rates, 0.471% for retail sales and 0.484% for wholesale sales. However, out-of-state aerospace manufacturers who sell their aerospace manufactured goods in Washington pay B&O tax for both retailing and wholesaling activities at a single B&O tax rate of 0.2904%.

When a business performs more than one taxable activity related to the production and sale of the same product, it reports each activity under the proper B&O tax classification. However, the business receives the multiple activities tax credit (MATC) so B&O tax is not paid more than once on the same product. For instance, a business that both manufactures and sells a product at wholesale in Washington is entitled to the MATC so that the business does not pay both manufacturing and wholesaling B&O tax.

PROPOSAL:



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Narrative Explanation (Required for Indeterminate Cash Receipts)

Beginning April 1, 2020, this bill makes the preferential B&O tax rate for aerospace manufacturers inapplicable and, instead, taxes aerospace manufacturing and wholesaling at the standard B&O tax rate of 0.484% and retailing at a B&O tax rate of either 0.471% for tooling or 0.484% for commercial airplanes and their component parts.

After March 31, 2021, the aerospace B&O tax rates are reduced to 0.357% if all of the following conditions are met:

- (1) The Department of Commerce verifies with the United States Trade Representative that the United States and the European Union have entered into a written agreement that resolves any World Trade Organization disputes involving large civil aircraft.
- (2) Such agreement expressly allows a B&O tax rate reduction for commercial airplane manufacturers to 0.357% or less.
- (3) The Department of Commerce notifies the Department of Revenue in writing that these conditions are met and provides a copy of the agreement between the United States and the European Union or other document providing for the B&O tax rate reduction to the Department of Revenue.
- (4) The Department of Labor and Industries notifies the Department of Revenue in writing that a significant commercial airplane manufacturer has at least a 0.3% aerospace apprenticeship utilization rate of its qualified apprenticeable workforce in Washington.

Any rate reduction to 0.357% must occur on the first day of the next calendar quarter that is at least 60 days after the Department of Revenue receives the last of the written notices described above.

If the aerospace B&O tax rates are reduced to 0.357%, both a significant commercial airplane manufacturer separately, and the rest of the aerospace industry as a whole, are subject to an aerospace apprenticeship utilization rate of 1.5% of their qualified apprenticeable workforce in Washington by the later of July 1, 2026, or five years after the effective date of the 0.357% tax rate. A “significant commercial airplane manufacturer” is defined as a manufacturer of commercial airplanes with at least 50,000 full-time employees in Washington as of January 1, 2021.

ASSUMPTIONS

- The B&O tax rate increase is effective April 1, 2020, impacting two months of collections in Fiscal Year 2020.
- Growth rates based on the Economic and Revenue Forecast Council November 2019 forecast for B&O tax and the IHS Markit November 2019 forecast for Aerospace Products & Parts.
- The 0.357% rate does not take effect within the scope of this estimate.

DATA SOURCES

- Department of Revenue Fiscal Year 2019 Excise Tax Return data.
- Economic and Revenue Forecast Council November 2019 B&O tax forecast.
- IHS Markit November 2019 forecast for Aerospace Products & Parts.



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Narrative Explanation (Required for Indeterminate Cash Receipts)

<p>REVENUE ESTIMATES This bill increases state revenues by an estimated \$134 million in the 2019-21 Biennium and by \$229 million in the 2021-23 Biennium. This bill does not impact local revenues.</p> <p>TOTAL REVENUE IMPACT:</p> <p>State Government (cash basis, \$000):</p> <p>FY 2020 - \$ 18,000 FY 2021 - \$ 116,000 FY 2022 - \$ 115,000 FY 2023 - \$ 114,000 FY 2024 - \$ 113,000 FY 2025 - \$ 112,000</p> <p>Local Government, if applicable (cash basis, \$000): None</p>

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