

CERTIFICATION OF ENROLLMENT

HOUSE BILL 2294

Chapter 1, Laws of 2003

58th Legislature
2003 2nd Special Session

AEROSPACE INDUSTRY--TAX INCENTIVES

EFFECTIVE DATE: Contingent

Passed by the House June 11, 2003
Yeas 79 Nays 10

FRANK CHOPP

Speaker of the House of Representatives

Passed by the Senate June 11, 2003
Yeas 42 Nays 1

BRAD OWEN

President of the Senate

Approved June 18, 2003.

GARY F. LOCKE

Governor of the State of Washington

CERTIFICATE

I, Cynthia Zehnder, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **HOUSE BILL 2294** as passed by the House of Representatives and the Senate on the dates hereon set forth.

CYNTHIA ZEHNDER

Chief Clerk

FILED

June 18, 2003 - 10:29 a.m.

**Secretary of State
State of Washington**

HOUSE BILL 2294

Passed Legislature - 2003 2nd Special Session

State of Washington 58th Legislature 2003 1st Special Session

By Representatives Pettigrew, Priest, Morris and Hinkle; by request of Governor Locke

Read first time . Referred to .

1 AN ACT Relating to retaining and attracting the aerospace industry
2 to Washington state; amending RCW 82.04.260, 82.04.260, 82.04.270, and
3 82.04.440; reenacting and amending RCW 82.04.250; adding new sections
4 to chapter 82.04 RCW; adding new sections to chapter 82.08 RCW; adding
5 new sections to chapter 82.12 RCW; adding a new section to chapter
6 82.29A RCW; adding a new section to chapter 84.36 RCW; adding a new
7 section to chapter 82.32 RCW; creating a new section; providing a
8 contingent effective date; and providing expiration dates.

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

10 NEW SECTION. **Sec. 1.** The legislature finds that the people of the
11 state have benefited from the presence of the aerospace industry in
12 Washington state. The aerospace industry provides good wages and
13 benefits for the thousands of engineers, mechanics, and support staff
14 working directly in the industry throughout the state. The suppliers
15 and vendors that support the aerospace industry in turn provide a range
16 of jobs. The legislature declares that it is in the public interest to
17 encourage the continued presence of this industry through the provision
18 of tax incentives. The comprehensive tax incentives in this act

1 address the cost of doing business in Washington state compared to
2 locations in other states.

3 **Sec. 2.** RCW 82.04.250 and 1998 c 343 s 5 and 1998 c 312 s 4 are
4 each reenacted and amended to read as follows:

5 (1) Upon every person except persons taxable under RCW 82.04.260
6 (5) or (13), 82.04.272, or subsection (2) of this section engaging
7 within this state in the business of making sales at retail, as to such
8 persons, the amount of tax with respect to such business shall be equal
9 to the gross proceeds of sales of the business, multiplied by the rate
10 of 0.471 percent.

11 (2) Upon every person engaging within this state in the business of
12 making sales at retail that are exempt from the tax imposed under
13 chapter 82.08 RCW by reason of RCW 82.08.0261, 82.08.0262, or
14 82.08.0263, except persons taxable under RCW 82.04.260(13), as to such
15 persons, the amount of tax with respect to such business shall be equal
16 to the gross proceeds of sales of the business, multiplied by the rate
17 of 0.484 percent.

18 **Sec. 3.** RCW 82.04.260 and 2003 c 261 (2SHB 1240) s 11 are each
19 amended to read as follows:

20 (1) Upon every person engaging within this state in the business of
21 manufacturing:

22 (a) Wheat into flour, barley into pearl barley, soybeans into
23 soybean oil, canola into canola oil, canola meal, or canola byproducts,
24 or sunflower seeds into sunflower oil; as to such persons the amount of
25 tax with respect to such business shall be equal to the value of the
26 flour, pearl barley, oil, canola meal, or canola byproduct
27 manufactured, multiplied by the rate of 0.138 percent;

28 (b) Seafood products which remain in a raw, raw frozen, or raw
29 salted state at the completion of the manufacturing by that person; as
30 to such persons the amount of tax with respect to such business shall
31 be equal to the value of the products manufactured, multiplied by the
32 rate of 0.138 percent;

33 (c) By canning, preserving, freezing, processing, or dehydrating
34 fresh fruits and vegetables, or selling at wholesale fresh fruits and
35 vegetables canned, preserved, frozen, processed, or dehydrated by the
36 seller and sold to purchasers who transport in the ordinary course of

1 business the goods out of this state; as to such persons the amount of
2 tax with respect to such business shall be equal to the value of the
3 products canned, preserved, frozen, processed, or dehydrated multiplied
4 by the rate of 0.138 percent. As proof of sale to a person who
5 transports in the ordinary course of business goods out of this state,
6 the seller shall annually provide a statement in a form prescribed by
7 the department and retain the statement as a business record;

8 (d) Dairy products that as of September 20, 2001, are identified in
9 21 C.F.R., chapter 1, parts 131, 133, and 135, including byproducts
10 from the manufacturing of the dairy products such as whey and casein;
11 or selling the same to purchasers who transport in the ordinary course
12 of business the goods out of state; as to such persons the tax imposed
13 shall be equal to the value of the products manufactured multiplied by
14 the rate of 0.138 percent. As proof of sale to a person who transports
15 in the ordinary course of business goods out of this state, the seller
16 shall annually provide a statement in a form prescribed by the
17 department and retain the statement as a business record; and

18 (e) Alcohol fuel, biodiesel fuel, or biodiesel feedstock, as those
19 terms are defined in RCW 82.29A.135; as to such persons the amount of
20 tax with respect to the business shall be equal to the value of alcohol
21 fuel, biodiesel fuel, or biodiesel feedstock manufactured, multiplied
22 by the rate of 0.138 percent. This subsection (1)(e) expires July 1,
23 2009.

24 (2) Upon every person engaging within this state in the business of
25 splitting or processing dried peas; as to such persons the amount of
26 tax with respect to such business shall be equal to the value of the
27 peas split or processed, multiplied by the rate of 0.138 percent.

28 (3) Upon every nonprofit corporation and nonprofit association
29 engaging within this state in research and development, as to such
30 corporations and associations, the amount of tax with respect to such
31 activities shall be equal to the gross income derived from such
32 activities multiplied by the rate of 0.484 percent.

33 (4) Upon every person engaging within this state in the business of
34 slaughtering, breaking and/or processing perishable meat products
35 and/or selling the same at wholesale only and not at retail; as to such
36 persons the tax imposed shall be equal to the gross proceeds derived
37 from such sales multiplied by the rate of 0.138 percent.

1 (5) Upon every person engaging within this state in the business of
2 making sales, at retail or wholesale, of nuclear fuel assemblies
3 manufactured by that person, as to such persons the amount of tax with
4 respect to such business shall be equal to the gross proceeds of sales
5 of the assemblies multiplied by the rate of 0.275 percent.

6 (6) Upon every person engaging within this state in the business of
7 manufacturing nuclear fuel assemblies, as to such persons the amount of
8 tax with respect to such business shall be equal to the value of the
9 products manufactured multiplied by the rate of 0.275 percent.

10 (7) Upon every person engaging within this state in the business of
11 acting as a travel agent or tour operator; as to such persons the
12 amount of the tax with respect to such activities shall be equal to the
13 gross income derived from such activities multiplied by the rate of
14 0.275 percent.

15 (8) Upon every person engaging within this state in business as an
16 international steamship agent, international customs house broker,
17 international freight forwarder, vessel and/or cargo charter broker in
18 foreign commerce, and/or international air cargo agent; as to such
19 persons the amount of the tax with respect to only international
20 activities shall be equal to the gross income derived from such
21 activities multiplied by the rate of 0.275 percent.

22 (9) Upon every person engaging within this state in the business of
23 stevedoring and associated activities pertinent to the movement of
24 goods and commodities in waterborne interstate or foreign commerce; as
25 to such persons the amount of tax with respect to such business shall
26 be equal to the gross proceeds derived from such activities multiplied
27 by the rate of 0.275 percent. Persons subject to taxation under this
28 subsection shall be exempt from payment of taxes imposed by chapter
29 82.16 RCW for that portion of their business subject to taxation under
30 this subsection. Stevedoring and associated activities pertinent to
31 the conduct of goods and commodities in waterborne interstate or
32 foreign commerce are defined as all activities of a labor, service or
33 transportation nature whereby cargo may be loaded or unloaded to or
34 from vessels or barges, passing over, onto or under a wharf, pier, or
35 similar structure; cargo may be moved to a warehouse or similar holding
36 or storage yard or area to await further movement in import or export
37 or may move to a consolidation freight station and be stuffed,
38 unstuffed, containerized, separated or otherwise segregated or

1 aggregated for delivery or loaded on any mode of transportation for
2 delivery to its consignee. Specific activities included in this
3 definition are: Wharfage, handling, loading, unloading, moving of
4 cargo to a convenient place of delivery to the consignee or a
5 convenient place for further movement to export mode; documentation
6 services in connection with the receipt, delivery, checking, care,
7 custody and control of cargo required in the transfer of cargo;
8 imported automobile handling prior to delivery to consignee; terminal
9 stevedoring and incidental vessel services, including but not limited
10 to plugging and unplugging refrigerator service to containers,
11 trailers, and other refrigerated cargo receptacles, and securing ship
12 hatch covers.

13 (10) Upon every person engaging within this state in the business
14 of disposing of low-level waste, as defined in RCW 43.145.010; as to
15 such persons the amount of the tax with respect to such business shall
16 be equal to the gross income of the business, excluding any fees
17 imposed under chapter 43.200 RCW, multiplied by the rate of 3.3
18 percent.

19 If the gross income of the taxpayer is attributable to activities
20 both within and without this state, the gross income attributable to
21 this state shall be determined in accordance with the methods of
22 apportionment required under RCW 82.04.460.

23 (11) Upon every person engaging within this state as an insurance
24 agent, insurance broker, or insurance solicitor licensed under chapter
25 48.17 RCW; as to such persons, the amount of the tax with respect to
26 such licensed activities shall be equal to the gross income of such
27 business multiplied by the rate of 0.484 percent.

28 (12) Upon every person engaging within this state in business as a
29 hospital, as defined in chapter 70.41 RCW, that is operated as a
30 nonprofit corporation or by the state or any of its political
31 subdivisions, as to such persons, the amount of tax with respect to
32 such activities shall be equal to the gross income of the business
33 multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5
34 percent thereafter. The moneys collected under this subsection shall
35 be deposited in the health services account created under RCW
36 43.72.900.

37 (13)(a) Beginning October 1, 2005, upon every person engaging
38 within this state in the business of manufacturing commercial

1 airplanes, or components of such airplanes, as to such persons the
2 amount of tax with respect to such business shall, in the case of
3 manufacturers, be equal to the value of the product manufactured, or in
4 the case of processors for hire, be equal to the gross income of the
5 business, multiplied by the rate of:

6 (i) 0.4235 percent from October 1, 2005, through the later of June
7 30, 2007, or the day preceding the date final assembly of a
8 superefficient airplane begins in Washington state, as determined under
9 section 17 of this act; and

10 (ii) 0.2904 percent beginning on the later of July 1, 2007, or the
11 date final assembly of a superefficient airplane begins in Washington
12 state, as determined under section 17 of this act.

13 (b) Beginning October 1, 2005, upon every person engaging within
14 this state in the business of making sales, at retail or wholesale, of
15 commercial airplanes, or components of such airplanes, manufactured by
16 that person, as to such persons the amount of tax with respect to such
17 business shall be equal to the gross proceeds of sales of the airplanes
18 or components multiplied by the rate of:

19 (i) 0.4235 percent from October 1, 2005, through the later of June
20 30, 2007, or the day preceding the date final assembly of a
21 superefficient airplane begins in Washington state, as determined under
22 section 17 of this act; and

23 (ii) 0.2904 percent beginning on the later of July 1, 2007, or the
24 date final assembly of a superefficient airplane begins in Washington
25 state, as determined under section 17 of this act.

26 (c) For the purposes of this subsection (13), "commercial
27 airplane," "component," and "final assembly of a superefficient
28 airplane" have the meanings given in section 17 of this act.

29 (d) In addition to all other requirements under this title, a
30 person eligible for the tax rate under this subsection (13) must report
31 as required under section 16 of this act.

32 (e) This subsection (13) does not apply after the earlier of: July
33 1, 2024; or December 31, 2007, if assembly of a superefficient airplane
34 does not begin by December 31, 2007, as determined under section 17 of
35 this act.

36 **Sec. 4.** RCW 82.04.260 and 2003 c 339 (EHB 2146) s 11 are each
37 amended to read as follows:

1 (1) Upon every person engaging within this state in the business of
2 manufacturing:

3 (a) Wheat into flour, barley into pearl barley, soybeans into
4 soybean oil, canola into canola oil, canola meal, or canola byproducts,
5 or sunflower seeds into sunflower oil; as to such persons the amount of
6 tax with respect to such business shall be equal to the value of the
7 flour, pearl barley, oil, canola meal, or canola byproduct
8 manufactured, multiplied by the rate of 0.138 percent;

9 (b) Seafood products which remain in a raw, raw frozen, or raw
10 salted state at the completion of the manufacturing by that person; as
11 to such persons the amount of tax with respect to such business shall
12 be equal to the value of the products manufactured, multiplied by the
13 rate of 0.138 percent;

14 (c) By canning, preserving, freezing, processing, or dehydrating
15 fresh fruits and vegetables, or selling at wholesale fresh fruits and
16 vegetables canned, preserved, frozen, processed, or dehydrated by the
17 seller and sold to purchasers who transport in the ordinary course of
18 business the goods out of this state; as to such persons the amount of
19 tax with respect to such business shall be equal to the value of the
20 products canned, preserved, frozen, processed, or dehydrated multiplied
21 by the rate of 0.138 percent. As proof of sale to a person who
22 transports in the ordinary course of business goods out of this state,
23 the seller shall annually provide a statement in a form prescribed by
24 the department and retain the statement as a business record;

25 (d) Dairy products that as of September 20, 2001, are identified in
26 21 C.F.R., chapter 1, parts 131, 133, and 135, including byproducts
27 from the manufacturing of the dairy products such as whey and casein;
28 or selling the same to purchasers who transport in the ordinary course
29 of business the goods out of state; as to such persons the tax imposed
30 shall be equal to the value of the products manufactured multiplied by
31 the rate of 0.138 percent. As proof of sale to a person who transports
32 in the ordinary course of business goods out of this state, the seller
33 shall annually provide a statement in a form prescribed by the
34 department and retain the statement as a business record; and

35 (e) Alcohol fuel or wood biomass fuel, as those terms are defined
36 in RCW 82.29A.135; as to such persons the amount of tax with respect to
37 the business shall be equal to the value of alcohol fuel or wood
38 biomass fuel manufactured, multiplied by the rate of 0.138 percent.

1 (2) Upon every person engaging within this state in the business of
2 splitting or processing dried peas; as to such persons the amount of
3 tax with respect to such business shall be equal to the value of the
4 peas split or processed, multiplied by the rate of 0.138 percent.

5 (3) Upon every nonprofit corporation and nonprofit association
6 engaging within this state in research and development, as to such
7 corporations and associations, the amount of tax with respect to such
8 activities shall be equal to the gross income derived from such
9 activities multiplied by the rate of 0.484 percent.

10 (4) Upon every person engaging within this state in the business of
11 slaughtering, breaking and/or processing perishable meat products
12 and/or selling the same at wholesale only and not at retail; as to such
13 persons the tax imposed shall be equal to the gross proceeds derived
14 from such sales multiplied by the rate of 0.138 percent.

15 (5) Upon every person engaging within this state in the business of
16 making sales, at retail or wholesale, of nuclear fuel assemblies
17 manufactured by that person, as to such persons the amount of tax with
18 respect to such business shall be equal to the gross proceeds of sales
19 of the assemblies multiplied by the rate of 0.275 percent.

20 (6) Upon every person engaging within this state in the business of
21 manufacturing nuclear fuel assemblies, as to such persons the amount of
22 tax with respect to such business shall be equal to the value of the
23 products manufactured multiplied by the rate of 0.275 percent.

24 (7) Upon every person engaging within this state in the business of
25 acting as a travel agent or tour operator; as to such persons the
26 amount of the tax with respect to such activities shall be equal to the
27 gross income derived from such activities multiplied by the rate of
28 0.275 percent.

29 (8) Upon every person engaging within this state in business as an
30 international steamship agent, international customs house broker,
31 international freight forwarder, vessel and/or cargo charter broker in
32 foreign commerce, and/or international air cargo agent; as to such
33 persons the amount of the tax with respect to only international
34 activities shall be equal to the gross income derived from such
35 activities multiplied by the rate of 0.275 percent.

36 (9) Upon every person engaging within this state in the business of
37 stevedoring and associated activities pertinent to the movement of
38 goods and commodities in waterborne interstate or foreign commerce; as

1 to such persons the amount of tax with respect to such business shall
2 be equal to the gross proceeds derived from such activities multiplied
3 by the rate of 0.275 percent. Persons subject to taxation under this
4 subsection shall be exempt from payment of taxes imposed by chapter
5 82.16 RCW for that portion of their business subject to taxation under
6 this subsection. Stevedoring and associated activities pertinent to
7 the conduct of goods and commodities in waterborne interstate or
8 foreign commerce are defined as all activities of a labor, service or
9 transportation nature whereby cargo may be loaded or unloaded to or
10 from vessels or barges, passing over, onto or under a wharf, pier, or
11 similar structure; cargo may be moved to a warehouse or similar holding
12 or storage yard or area to await further movement in import or export
13 or may move to a consolidation freight station and be stuffed,
14 unstuffed, containerized, separated or otherwise segregated or
15 aggregated for delivery or loaded on any mode of transportation for
16 delivery to its consignee. Specific activities included in this
17 definition are: Wharfage, handling, loading, unloading, moving of
18 cargo to a convenient place of delivery to the consignee or a
19 convenient place for further movement to export mode; documentation
20 services in connection with the receipt, delivery, checking, care,
21 custody and control of cargo required in the transfer of cargo;
22 imported automobile handling prior to delivery to consignee; terminal
23 stevedoring and incidental vessel services, including but not limited
24 to plugging and unplugging refrigerator service to containers,
25 trailers, and other refrigerated cargo receptacles, and securing ship
26 hatch covers.

27 (10) Upon every person engaging within this state in the business
28 of disposing of low-level waste, as defined in RCW 43.145.010; as to
29 such persons the amount of the tax with respect to such business shall
30 be equal to the gross income of the business, excluding any fees
31 imposed under chapter 43.200 RCW, multiplied by the rate of 3.3
32 percent.

33 If the gross income of the taxpayer is attributable to activities
34 both within and without this state, the gross income attributable to
35 this state shall be determined in accordance with the methods of
36 apportionment required under RCW 82.04.460.

37 (11) Upon every person engaging within this state as an insurance
38 agent, insurance broker, or insurance solicitor licensed under chapter

1 48.17 RCW; as to such persons, the amount of the tax with respect to
2 such licensed activities shall be equal to the gross income of such
3 business multiplied by the rate of 0.484 percent.

4 (12) Upon every person engaging within this state in business as a
5 hospital, as defined in chapter 70.41 RCW, that is operated as a
6 nonprofit corporation or by the state or any of its political
7 subdivisions, as to such persons, the amount of tax with respect to
8 such activities shall be equal to the gross income of the business
9 multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5
10 percent thereafter. The moneys collected under this subsection shall
11 be deposited in the health services account created under RCW
12 43.72.900.

13 (13)(a) Beginning October 1, 2005, upon every person engaging
14 within this state in the business of manufacturing commercial
15 airplanes, or components of such airplanes, as to such persons the
16 amount of tax with respect to such business shall, in the case of
17 manufacturers, be equal to the value of the product manufactured, or in
18 the case of processors for hire, be equal to the gross income of the
19 business, multiplied by the rate of:

20 (i) 0.4235 percent from October 1, 2005, through the later of June
21 30, 2007, or the day preceding the date final assembly of a
22 superefficient airplane begins in Washington state, as determined under
23 section 17 of this act; and

24 (ii) 0.2904 percent beginning on the later of July 1, 2007, or the
25 date final assembly of a superefficient airplane begins in Washington
26 state, as determined under section 17 of this act.

27 (b) Beginning October 1, 2005, upon every person engaging within
28 this state in the business of making sales, at retail or wholesale, of
29 commercial airplanes, or components of such airplanes, manufactured by
30 that person, as to such persons the amount of tax with respect to such
31 business shall be equal to the gross proceeds of sales of the airplanes
32 or components multiplied by the rate of:

33 (i) 0.4235 percent from October 1, 2005, through the later of June
34 30, 2007, or the day preceding the date final assembly of a
35 superefficient airplane begins in Washington state, as determined under
36 section 17 of this act; and

37 (ii) 0.2904 percent beginning on the later of July 1, 2007, or the

1 date final assembly of a superefficient airplane begins in Washington
2 state, as determined under section 17 of this act.

3 (c) For the purposes of this subsection (13), "commercial
4 airplane," "component," and "final assembly of a superefficient
5 airplane" have the meanings given in section 17 of this act.

6 (d) In addition to all other requirements under this title, a
7 person eligible for the tax rate under this subsection (13) must report
8 as required under section 16 of this act.

9 (e) This subsection (13) does not apply after the earlier of: July
10 1, 2024; or December 31, 2007, if assembly of a superefficient airplane
11 does not begin by December 31, 2007, as determined under section 17 of
12 this act.

13 **Sec. 5.** RCW 82.04.270 and 2001 1st sp.s. c 9 s 3 are each amended
14 to read as follows:

15 Upon every person except persons taxable under RCW 82.04.260 (5) or
16 (13), 82.04.298, or 82.04.272 engaging within this state in the
17 business of making sales at wholesale; as to such persons the amount of
18 tax with respect to such business shall be equal to the gross proceeds
19 of sales of such business multiplied by the rate of 0.484 percent.

20 **Sec. 6.** RCW 82.04.440 and 1998 c 312 s 9 are each amended to read
21 as follows:

22 (1) Every person engaged in activities which are within the purview
23 of the provisions of two or more of sections RCW 82.04.230 to
24 82.04.290, inclusive, shall be taxable under each paragraph applicable
25 to the activities engaged in.

26 (2) Persons taxable under RCW 82.04.250, 82.04.270, or 82.04.260
27 (4) or (13) with respect to selling products in this state shall be
28 allowed a credit against those taxes for any (a) manufacturing taxes
29 paid with respect to the manufacturing of products so sold in this
30 state, and/or (b) extracting taxes paid with respect to the extracting
31 of products so sold in this state or ingredients of products so sold in
32 this state. Extracting taxes taken as credit under subsection (3) of
33 this section may also be taken under this subsection, if otherwise
34 allowable under this subsection. The amount of the credit shall not
35 exceed the tax liability arising under this chapter with respect to the
36 sale of those products.

1 (3) Persons taxable under RCW 82.04.240 or 82.04.260(1)(b) shall be
2 allowed a credit against those taxes for any extracting taxes paid with
3 respect to extracting the ingredients of the products so manufactured
4 in this state. The amount of the credit shall not exceed the tax
5 liability arising under this chapter with respect to the manufacturing
6 of those products.

7 (4) Persons taxable under RCW 82.04.230, 82.04.240, or 82.04.260
8 (1), (2), (4), (~~(6)~~) (6), or (13) with respect to extracting or
9 manufacturing products in this state shall be allowed a credit against
10 those taxes for any (i) gross receipts taxes paid to another state with
11 respect to the sales of the products so extracted or manufactured in
12 this state, (ii) manufacturing taxes paid with respect to the
13 manufacturing of products using ingredients so extracted in this state,
14 or (iii) manufacturing taxes paid with respect to manufacturing
15 activities completed in another state for products so manufactured in
16 this state. The amount of the credit shall not exceed the tax
17 liability arising under this chapter with respect to the extraction or
18 manufacturing of those products.

19 (5) For the purpose of this section:

20 (a) "Gross receipts tax" means a tax:

21 (i) Which is imposed on or measured by the gross volume of
22 business, in terms of gross receipts or in other terms, and in the
23 determination of which the deductions allowed would not constitute the
24 tax an income tax or value added tax; and

25 (ii) Which is also not, pursuant to law or custom, separately
26 stated from the sales price.

27 (b) "State" means (i) the state of Washington, (ii) a state of the
28 United States other than Washington, or any political subdivision of
29 such other state, (iii) the District of Columbia, and (iv) any foreign
30 country or political subdivision thereof.

31 (c) "Manufacturing tax" means a gross receipts tax imposed on the
32 act or privilege of engaging in business as a manufacturer, and
33 includes (i) the taxes imposed in RCW 82.04.240 and 82.04.260 (1), (2),
34 (~~and~~) (4), and (13), and (ii) similar gross receipts taxes paid to
35 other states.

36 (d) "Extracting tax" means a gross receipts tax imposed on the act
37 or privilege of engaging in business as an extractor, and includes the

1 tax imposed in RCW 82.04.230 and similar gross receipts taxes paid to
2 other states.

3 (e) "Business", "manufacturer", "extractor", and other terms used
4 in this section have the meanings given in RCW 82.04.020 through
5 82.04.212, notwithstanding the use of those terms in the context of
6 describing taxes imposed by other states.

7 NEW SECTION. **Sec. 7.** A new section is added to chapter 82.04 RCW
8 to read as follows:

9 (1)(a) In computing the tax imposed under this chapter, a credit is
10 allowed for each person for preproduction development spending
11 occurring after the effective date of this act.

12 (b) Before July 1, 2005, any credits earned under this section must
13 be accrued and carried forward and may not be used until July 1, 2005.
14 These carryover credits may be used at any time thereafter, and may be
15 carried over until used. Refunds may not be granted in the place of a
16 credit.

17 (2) The credit is equal to the amount of qualified preproduction
18 development expenditures of a person, multiplied by the rate of 1.5
19 percent.

20 (3) Except as provided in subsection (1)(b) of this section the
21 credit shall be taken against taxes due for the same calendar year in
22 which the qualified preproduction development expenditures are
23 incurred. Credit earned on or after July 1, 2005, may not be carried
24 over. The credit for each calendar year shall not exceed the amount of
25 tax otherwise due under this chapter for the calendar year. Refunds
26 may not be granted in the place of a credit.

27 (4) Any person claiming the credit shall file an affidavit form
28 prescribed by the department that shall include the amount of the
29 credit claimed, an estimate of the anticipated preproduction
30 development expenditures during the calendar year for which the credit
31 is claimed, an estimate of the taxable amount during the calendar year
32 for which the credit is claimed, and such additional information as the
33 department may prescribe.

34 (5) The definitions in this subsection apply throughout this
35 section.

36 (a) "Aeronautics" means the study of flight and the science of
37 building and operating commercial aircraft.

1 (b) "Person" means a person as defined in RCW 82.04.030, who is a
2 manufacturer or processor for hire of commercial airplanes, or
3 components of such airplanes, as those terms are defined in section 17
4 of this act.

5 (c) "Preproduction development" means research, design, and
6 engineering activities performed in relation to the development of a
7 product, product line, model, or model derivative, including prototype
8 development, testing, and certification. The term includes the
9 discovery of technological information, the translating of
10 technological information into new or improved products, processes,
11 techniques, formulas, or inventions, and the adaptation of existing
12 products and models into new products or new models, or derivatives of
13 products or models. The term does not include manufacturing activities
14 or other production-oriented activities, however the term does include
15 tool design and engineering design for the manufacturing process. The
16 term does not include surveys and studies, social science and
17 humanities research, market research or testing, quality control, sale
18 promotion and service, computer software developed for internal use,
19 and research in areas such as improved style, taste, and seasonal
20 design.

21 (d) "Preproduction development spending" means qualified
22 preproduction development expenditures plus eighty percent of amounts
23 paid to a person other than a public educational or research
24 institution to conduct qualified preproduction development.

25 (e) "Qualified preproduction development" means preproduction
26 development performed within this state in the field of aeronautics.

27 (f) "Qualified preproduction development expenditures" means
28 operating expenses, including wages, compensation of a proprietor or a
29 partner in a partnership as determined by the department, benefits,
30 supplies, and computer expenses, directly incurred in qualified
31 preproduction development by a person claiming the credit provided in
32 this section. The term does not include amounts paid to a person other
33 than a public educational or research institution to conduct qualified
34 preproduction development. The term does not include capital costs and
35 overhead, such as expenses for land, structures, or depreciable
36 property.

37 (g) "Taxable amount" means the taxable amount subject to the tax

1 imposed in this chapter required to be reported on the person's tax
2 returns during the year in which the credit is claimed, less any
3 taxable amount for which a credit is allowed under RCW 82.04.440.

4 (6) In addition to all other requirements under this title, a
5 person taking the credit under this section must report as required
6 under section 16 of this act.

7 (7) Credit may not be claimed for expenditures for which a credit
8 is claimed under RCW 82.04.4452.

9 (8) This section expires July 1, 2024.

10 NEW SECTION. **Sec. 8.** A new section is added to chapter 82.04 RCW
11 to read as follows:

12 (1) In computing the tax imposed under this chapter, a credit is
13 allowed for the investment related to design and preproduction
14 development computer software and hardware acquired between July 1,
15 1995, and the effective date of this act, and used by an eligible
16 person primarily for the digital design and development of commercial
17 airplanes. The credit shall be equal to the purchase price of such
18 property, multiplied by 8.44 percent. Credit taken in any one calendar
19 year may not exceed ten million dollars, and total lifetime credit
20 taken under this section by any one person may not exceed twenty
21 million dollars. Credit may be carried over until used.

22 (2) The definitions in this subsection apply throughout this
23 section.

24 (a) "Commercial airplane" has the meaning given in section 17 of
25 this act.

26 (b) "Design and preproduction development computer software and
27 hardware" means computer-aided three-dimensional interactive
28 applications and other solid modeling computer technology that allow
29 for electronic design and testing during product development.

30 (c) "Eligible person" means a person as defined in RCW 82.04.030,
31 who is a manufacturer of commercial airplanes.

32 (3) An application must be made to the department before taking the
33 credit under this section. The application shall be made to the
34 department in a form and manner prescribed by the department. The
35 application shall contain information regarding the uses of the
36 computer software and hardware, purchase price, dates of acquisition,
37 and other information required by the department. The department shall

1 rule on the application within sixty days. All applications must be
2 received by the department within one year of the effective date of
3 this act.

4 (4) This section expires July 1, 2024.

5 NEW SECTION. **Sec. 9.** A new section is added to chapter 82.08 RCW
6 to read as follows:

7 (1) The tax levied by RCW 82.08.020 shall not apply to sales of
8 computer hardware, computer peripherals, or software, not otherwise
9 eligible for exemption under RCW 82.08.02565, to a manufacturer or
10 processor for hire of commercial airplanes or components of such
11 airplanes, used primarily in the development, design, and engineering
12 of such products, or to sales of or charges made for labor and services
13 rendered in respect to installing the computer hardware, computer
14 peripherals, or software. The exemption is available only when the
15 buyer provides the seller with an exemption certificate in a form and
16 manner prescribed by the department. The seller shall retain a copy of
17 the certificate for the seller's files.

18 (2) As used in this section, "commercial airplane" and "component"
19 have the meanings given in section 17 of this act. "Peripherals"
20 includes keyboards, monitors, mouse devices, and other accessories that
21 operate outside of the computer, excluding cables, conduit, wiring, and
22 other similar property.

23 (3) This section expires July 1, 2024.

24 NEW SECTION. **Sec. 10.** A new section is added to chapter 82.12 RCW
25 to read as follows:

26 (1) The provisions of this chapter shall not apply in respect to
27 the use of computer hardware, computer peripherals, or software, not
28 otherwise eligible for exemption under RCW 82.12.02565, by a
29 manufacturer or processor for hire of commercial airplanes or
30 components of such airplanes, used primarily in the development,
31 design, and engineering of such products, or to the use of labor and
32 services rendered in respect to installing the computer hardware,
33 computer peripherals, or software.

34 (2) As used in this section, "commercial airplane" and "component"
35 have the meanings given in section 17 of this act. "Peripherals"

1 includes keyboards, monitors, mouse devices, and other accessories that
2 operate outside of the computer, excluding cables, conduit, wiring, and
3 other similar property.

4 (3) This section expires July 1, 2024.

5 NEW SECTION. **Sec. 11.** A new section is added to chapter 82.08 RCW
6 to read as follows:

7 (1) The tax levied by RCW 82.08.020 shall not apply to charges made
8 for labor and services rendered in respect to the constructing of new
9 buildings by a manufacturer engaged in the manufacturing of
10 superefficient airplanes or by a port district, to be leased to a
11 manufacturer engaged in the manufacturing of superefficient airplanes,
12 to sales of tangible personal property that will be incorporated as an
13 ingredient or component of such buildings during the course of the
14 constructing, or to labor and services rendered in respect to
15 installing, during the course of constructing, building fixtures not
16 otherwise eligible for the exemption under RCW 82.08.02565(2)(b). The
17 exemption is available only when the buyer provides the seller with an
18 exemption certificate in a form and manner prescribed by the
19 department. The seller shall retain a copy of the certificate for the
20 seller's files.

21 (2) No application is necessary for the tax exemption in this
22 section, however in order to qualify under this section before starting
23 construction the port district must have entered into an agreement with
24 the manufacturer to build such a facility. A person taking the
25 exemption under this section is subject to all the requirements of
26 chapter 82.32 RCW. In addition, the person must report as required
27 under section 16 of this act.

28 (3) The exemption in this section applies to buildings, or parts of
29 buildings, that are used exclusively in the manufacturing of
30 superefficient airplanes, including buildings used for the storage of
31 raw materials and finished product.

32 (4) For the purposes of this section, "superefficient airplane" has
33 the meaning given in section 17 of this act.

34 (5) This section expires July 1, 2024.

35 NEW SECTION. **Sec. 12.** A new section is added to chapter 82.12 RCW
36 to read as follows:

1 (1) The provisions of this chapter do not apply with respect to the
2 use of tangible personal property that will be incorporated as an
3 ingredient or component of new buildings by a manufacturer engaged in
4 the manufacturing of superefficient airplanes or owned by a port
5 district and to be leased to a manufacturer engaged in the
6 manufacturing of superefficient airplanes, during the course of
7 constructing such buildings, or to labor and services rendered in
8 respect to installing, during the course of constructing, building
9 fixtures not otherwise eligible for the exemption under RCW
10 82.08.02565(2)(b).

11 (2) The eligibility requirements, conditions, and definitions in
12 section 11 of this act apply to this section.

13 (3) This section expires July 1, 2024.

14 NEW SECTION. **Sec. 13.** A new section is added to chapter 82.29A
15 RCW to read as follows:

16 (1) All leasehold interests in port district facilities exempt from
17 tax under section 11 or 12 of this act and used by a manufacturer
18 engaged in the manufacturing of superefficient airplanes, as defined in
19 section 17 of this act, are exempt from tax under this chapter. A
20 person taking the credit under section 15 of this act is not eligible
21 for the exemption under this section.

22 (2) In addition to all other requirements under this title, a
23 person taking the exemption under this section must report as required
24 under section 16 of this act.

25 (3) This section expires July 1, 2024.

26 NEW SECTION. **Sec. 14.** A new section is added to chapter 84.36 RCW
27 to read as follows:

28 (1) Effective January 1, 2005, all buildings, machinery, equipment,
29 and other personal property of a lessee of a port district eligible
30 under sections 11 and 12 of this act, used exclusively in manufacturing
31 superefficient airplanes, are exempt from property taxation. A person
32 taking the credit under section 15 of this act is not eligible for the
33 exemption under this section. For the purposes of this section,
34 "superefficient airplane" and "component" have the meanings given in
35 section 17 of this act.

1 (2) In addition to all other requirements under this title, a
2 person taking the exemption under this section must report as required
3 under section 16 of this act.

4 (3) Claims for exemption authorized by this section shall be filed
5 with the county assessor on forms prescribed by the department and
6 furnished by the assessor. The assessor shall verify and approve
7 claims as the assessor determines to be justified and in accordance
8 with this section. No claims may be filed after December 31, 2023.
9 The department may adopt rules, under the provisions of chapter 34.05
10 RCW, as necessary to properly administer this section.

11 (4) This section applies to taxes levied for collection in 2006 and
12 thereafter.

13 (5) This section expires July 1, 2024.

14 NEW SECTION. **Sec. 15.** A new section is added to chapter 82.04 RCW
15 to read as follows:

16 (1) In computing the tax imposed under this chapter, a credit is
17 allowed for property taxes paid during the calendar year.

18 (2) The credit is equal to:

19 (a)(i) Property taxes paid on new buildings, and land upon which
20 this property is located, built after the effective date of this act,
21 and used in manufacturing commercial airplanes or components of such
22 airplanes; or

23 (ii) Property taxes attributable to an increase in assessed value
24 due to the renovation or expansion, after the effective date of this
25 act, of a building used in manufacturing commercial airplanes or
26 components of such airplanes; and

27 (b) Property taxes paid on machinery and equipment exempt under RCW
28 82.08.02565 or 82.12.02565 used in manufacturing commercial airplanes
29 or components of such airplanes and acquired after the effective date
30 of this act.

31 (3) For the purposes of this section, "commercial passenger
32 airplane" and "component" have the meanings given in section 17 of this
33 act.

34 (4) A person taking the credit under this section is subject to all
35 the requirements of chapter 82.32 RCW. In addition, the person must
36 report as required under section 16 of this act. A credit earned
37 during one calendar year may be carried over to be credited against

1 taxes incurred in a subsequent calendar year, but may not be carried
2 over a second year. No refunds may be granted for credits under this
3 section.

4 (5) In addition to all other requirements under this title, a
5 person taking the credit under this section must report as required
6 under section 16 of this act.

7 (6) This section expires July 1, 2024.

8 NEW SECTION. **Sec. 16.** A new section is added to chapter 82.32 RCW
9 to read as follows:

10 (1) The legislature finds that accountability and effectiveness are
11 important aspects of setting tax policy. In order to make policy
12 choices regarding the best use of limited state resources the
13 legislature needs information on how a tax incentive is used.

14 (2)(a) A person who reports taxes under RCW 82.04.260(13) or who
15 claims an exemption or credit under sections 7 and 11 through 15 of
16 this act shall make an annual report to the department detailing
17 employment, wages, and employer-provided health and retirement benefits
18 per job at the manufacturing site. The report shall not include names
19 of employees. The report shall also detail employment by the total
20 number of full-time, part-time, and temporary positions. The first
21 report filed under this subsection shall include employment, wage, and
22 benefit information for the twelve-month period immediately before
23 first use of a preferential tax rate under RCW 82.04.260(13), or tax
24 exemption or credit under sections 7 and 11 through 15 of this act.
25 The report is due by March 31st following any year in which a
26 preferential tax rate under RCW 82.04.260(13) is used, or tax exemption
27 or credit under sections 7 and 11 through 15 of this act is taken.
28 This information is not subject to the confidentiality provisions of
29 RCW 82.32.330 and may be disclosed to the public upon request.

30 (b) If a person fails to submit an annual report under (a) of this
31 subsection by the due date of the report, the department shall declare
32 the amount of taxes exempted or credited, or reduced in the case of the
33 preferential business and occupation tax rate, for that year to be
34 immediately due and payable. Excise taxes payable under this
35 subsection are subject to interest but not penalties, as provided under
36 this chapter. This information is not subject to the confidentiality

1 provisions of RCW 82.32.330 and may be disclosed to the public upon
2 request.

3 (3) By November 1, 2010, and by November 1, 2023, the fiscal
4 committees of the house of representatives and the senate, in
5 consultation with the department, shall report to the legislature on
6 the effectiveness of chapter . . . , Laws of 2003 1st sp. sess. (this
7 act) in regard to keeping Washington competitive. The report shall
8 measure the effect of chapter . . . , Laws of 2003 1st sp. sess. (this
9 act) on job retention, net jobs created for Washington residents,
10 company growth, diversification of the state's economy, cluster
11 dynamics, and other factors as the committees select. The reports
12 shall include a discussion of principles to apply in evaluating whether
13 the legislature should reenact any or all of the tax preferences in
14 chapter . . . , Laws of 2003 1st sp. sess. (this act).

15 NEW SECTION. **Sec. 17.** A new section is added to chapter 82.32 RCW
16 to read as follows:

17 (1)(a) Chapter . . . , Laws of 2003 1st sp. sess. (this act) takes
18 effect on the first day of the month in which the governor and a
19 manufacturer of commercial airplanes sign a memorandum of agreement
20 regarding an affirmative final decision to site a significant
21 commercial airplane final assembly facility in Washington state. The
22 department shall provide notice of the effective date of chapter . . . ,
23 Laws of 2003 1st sp. sess. (this act) to affected taxpayers, the
24 legislature, and others as deemed appropriate by the department.

25 (b) Chapter . . . , Laws of 2003 1st sp. sess. (this act) is
26 contingent upon the siting of a significant commercial airplane final
27 assembly facility in the state of Washington. If a memorandum of
28 agreement under subsection (1) of this section is not signed by June
29 30, 2005, chapter . . . , Laws of 2003 1st sp. sess. (this act) is null
30 and void.

31 (c)(i) The department shall make a determination regarding the date
32 final assembly of a superefficient airplane begins in Washington state.
33 The rates in RCW 82.04.260(13)(a)(ii) and (b)(ii) take effect the first
34 day of the month such assembly begins, or July 1, 2007, whichever is
35 later. The department shall provide notice of the effective date of
36 such rates to affected taxpayers, the legislature, and others as deemed
37 appropriate by the department.

1 (ii) If on December 31, 2007, final assembly of a superefficient
2 airplane has not begun in Washington state, the department shall
3 provide notice of such to affected taxpayers, the legislature, and
4 others as deemed appropriate by the department.

5 (2) The definitions in this subsection apply throughout this
6 section.

7 (a) "Commercial airplane" has its ordinary meaning, which is an
8 airplane certified by the federal aviation administration for
9 transporting persons or property, and any military derivative of such
10 an airplane.

11 (b) "Component" means a part or system certified by the federal
12 aviation administration for installation or assembly into a commercial
13 airplane.

14 (c) "Final assembly of a superefficient airplane" means the
15 activity of assembling an airplane from components parts necessary for
16 its mechanical operation such that the finished commercial airplane is
17 ready to deliver to the ultimate consumer.

18 (d) "Significant commercial airplane final assembly facility" means
19 a location with the capacity to produce at least thirty-six
20 superefficient airplanes a year.

21 (e) "Siting" means a final decision by a manufacturer to locate a
22 significant commercial airplane final assembly facility in Washington
23 state.

24 (f) "Superefficient airplane" means a twin aisle airplane that
25 carries between two hundred and three hundred fifty passengers, with a
26 range of more than seven thousand two hundred nautical miles, a
27 cruising speed of approximately mach .85, and that uses fifteen to
28 twenty percent less fuel than other similar airplanes on the market.

Passed by the House June 11, 2003.

Passed by the Senate June 11, 2003.

Approved by the Governor June 18, 2003.

Filed in Office of Secretary of State June 18, 2003.