Multiple Agency Fiscal Note Summary

Bill Number: 5350 SB	**Title:** Tax Preferences/Unmanned Aircraft Systems

Estimated Cash Receipts

Agency Name	2021-23			2023-25			2025-27		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(1,530,000)	(1,530,000)	(1,530,000)	(2,050,000)	(2,050,000)	(2,050,000)	(2,310,000)	(2,310,000)	(2,310,000)
Total $	**(1,530,000)**	**(1,530,000)**	**(1,530,000)**	**(2,050,000)**	**(2,050,000)**	**(2,050,000)**	**(2,310,000)**	**(2,310,000)**	**(2,310,000)**

Estimated Operating Expenditures

Agency Name	2021-23				2023-25				2025-27			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Joint Legislative Audit and Review Committee	.1	18,300	18,300	18,300	.0	8,200	8,200	8,200	.0	8,200	8,200	8,200
Department of Revenue	.2	46,000	46,000	46,000	.1	16,600	16,600	16,600	.1	16,600	16,600	16,600
Total $	**0.3**	**64,300**	**64,300**	**64,300**	**0.1**	**24,800**	**24,800**	**24,800**	**0.1**	**24,800**	**24,800**	**24,800**

Estimated Capital Budget Expenditures

Agency Name	2021-23			2023-25			2025-27		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

NONE

Prepared by: Ramona Nabors, OFM	**Phone:** (360) 902-0547	**Date Published:** Final 2/ 1/2021

FNPID: 61568

FNS029 Multi Agency rollup

Individual State Agency Fiscal Note

Bill Number: 5350 SB	Title: Tax Preferences/Unmanned Aircraft Systems	Agency: 014-Joint Legislative Audit and Review Committee

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.1	0.0	0.1	0.0	0.0
Account					
General Fund-State 001-1	14,200	4,100	18,300	8,200	8,200
Total $	14,200	4,100	18,300	8,200	8,200

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Clinton McCarthy	Phone: 360-786-7319	Date: 01/25/2021
Agency Preparation:	Dana Lynn	Phone: 360-786-5177	Date: 01/26/2021
Agency Approval:	Keenan Konopaski	Phone: 360-786-5187	Date: 01/26/2021
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 01/28/2021

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill expands the definition of "commercial airplane" in RCW 82.32.550 to include "commercial unmanned aircraft system" from October 1, 2021, until July 1, 2032. This expansion allows persons manufacturing commercial unmanned aircraft systems to be eligible for tax preferences provided to manufacturers of commercial airplanes for that period.

TAX PERFORMANCE STATEMENT

Section 1 is the performance statement for the expansion of the aerospace industry tax preferences via section 2 of the bill. The statement notes the Legislature's intent to extend certain aerospace industry tax preferences to the commercial unmanned aircraft systems manufacturing industry to encourage migration of these businesses to Washington, thereby creating and retaining good-wage jobs and new tax revenue.

The specific public policy objective is to provide tax preferences to manufacturers of commercial unmanned aircraft systems, including components used in the manufacturing process. These preferences are intended to promote economic growth and jobs in the state. The new preferences are categorized as ones intended to create and retain jobs, as indicated in RCW 82.32.808(2)(c).

The Legislature's specific public policy objective is to promote economic growth and jobs in Washington. Persons using the preferences created in the act must file a tax preference annual report under RCW 82.32.534.

JLARC is directed to review the preferences as part of its normal tax preference review process. JLARC is directed to assess employment and tax revenue changes in the commercial unmanned aircraft systems industry in Washington, comparing it to employment and tax revenues prior to expansion of the preference in this act. JLARC must assess the number of jobs created in the commercial unmanned aircraft systems industry in Washington during the term of the tax preferences provided in this act. If the review finds that the number of jobs in the industry has increased by an average of 50 jobs during the term of the expanded preferences, then the Legislature intends that the Legislative Auditor recommend extending the expiration date of the tax preferences.

JLARC is to use data provided by state agencies responsible for administering unemployment insurance and collecting tax revenue and data statistics provided by the Bureau of Labor Statistics.

The new preferences take effect October 1, 2021, and are scheduled to expire July 1, 2032.

Section 2 of the bill amends RCW 82.32.550 by adding 82.32.550(1)(b), which notes that until July 1, 2032, the term "commercial airplane," as defined in 82.32.550(1)(a), includes "commercial unmanned aircraft system." "Commercial unmanned aircraft system" is defined as any FAA-certified aircraft designed to operate autonomously or be piloted remotely without a pilot on board, and the equipment necessary to remotely control or operate such aircraft.

Section 3 notes the act takes effect October 1, 2021.

JLARC staff estimate this bill creates new tax preferences for commercial unmanned aircraft system manufacturers under six tax preferences currently available to commercial airplane manufacturers in the state:

1. 0.357% B&O tax preferential rate for commercial aircraft manufacturers that takes effect after March 31, 2021. (RCW 82.04.260(11)(e)
2. 0.9% B&O tax preferential rate for aerospace production development. (RCW 82.04.290(3))
3. B&O tax credit for aerospace product development expenditures. (RCW 82.04.4461)
4. B&O tax credit for property tax and leasehold excise tax paid on property. (RCW 82.04.4453)
5. Sales and use tax exemption for aerospace product development computer expenditures. (82.08.975, 82.12.975)
6. Sales and use tax exemption for construction of commercial airplane production facilities. (RCW 82.08.980, 82.12.980)

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

JLARC staff would contact and work with the Department of Revenue, Employment Security Department, Office of Financial Management, and other agencies immediately after passage of the bill to ensure project contacts are established and any other necessary data for JLARC staff's future evaluation needs are identified and collected.

The expenditure detail noted reflects work conducted to establish data collection and to prepare the future review, which will likely occur in 2030, prior to expiration of the expansion effective July 1, 2032. The review for preferences established by this act is separate from JLARC's review of aerospace industry tax preferences, which are required every five years (Notes: Findings – Intent - 2013 3rd sp.s. c 2).

The estimate does not include actual expenditures to produce the evaluation. The bulk of this work will occur outside the fiscal biennia detailed in this fiscal note.

This tax preference review may require additional resources. The audit will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2021 legislative session.

This audit will require an estimated 2 audit months.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2021-23 costs are calculated at approximately $20,300 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2022	FY 2023	2021-23	2023-25	2025-27
001-1	General Fund	State	14,200	4,100	18,300	8,200	8,200
		Total $	14,200	4,100	18,300	8,200	8,200

III. B - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.1		0.1		
A-Salaries and Wages	8,900	2,500	11,400	5,000	5,000
B-Employee Benefits	2,800	800	3,600	1,600	1,600
C-Professional Service Contracts					
E-Goods and Other Services	2,300	700	3,000	1,400	1,400
G-Travel	200	100	300	200	200
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	14,200	4,100	18,300	8,200	8,200

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
Research Analyst	113,827	0.1		0.1		
Support staff	77,705					
Total FTEs		0.1		0.1		0.0

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Department of Revenue Fiscal Note

Bill Number: 5350 SB	Title: Tax Preferences/Unmanned Aircraft Systems	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2022	FY 2023	2021-23	2023-25	2025-27
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	(40,000)	(70,000)	(110,000)	(160,000)	(180,000)
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	(550,000)	(870,000)	(1,420,000)	(1,890,000)	(2,130,000)
Total $	(590,000)	(940,000)	(1,530,000)	(2.050.000)	(2,310,000)

Estimated Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.3	0.1	0.2	0.1	0.1
Account					
GF-STATE-State 001-1	37,700	8,300	46,000	16,600	16,600
Total $	37,700	8,300	46,000	16,600	16,600

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☒ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:	Clinton McCarthy	Phone: 360-786-7319	Date: 01/25/2021
Agency Preparation:	Anna Yamada	Phone: 360-534-1519	Date: 02/01/2021
Agency Approval:	Don Gutmann	Phone: 360-534-1510	Date: 02/01/2021
OFM Review:	Ramona Nabors	Phone: (360) 902-0547	Date: 02/01/2021

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

CURRENT LAW
Unmanned aircraft systems manufactured and sold for commercial purposes are not defined as “commercial aircraft” under RCW 82.32.550. Therefore, the businesses in the unmanned aircraft systems manufacturing industry do not qualify for commercial aerospace incentives.

PROPOSED:

This bill amends RCW 82.32.550 by adding "commercial unmanned aircraft system" to the definition of "commercial aircraft". This will allow manufacturers involved in the commercial unmanned aircraft systems industry to qualify for tax preferences available to commercial aerospace industry.

The bill requires the Joint Legislative Audit and Review Committee (JLARC) to assess if the commercial unmanned aircraft industry grows by at least 50 jobs during the term of the tax preferences. If it satisfies the criteria, then, JLARC must recommend extending the preferences.

Taxpayers must complete an annual tax performance report.

The bill takes effect October 1, 2021. Expiration of this preference is July 1, 2032.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS
- Unmanned aircraft systems industry will be qualified to take the following aerospace incentives.
(1) 82.04.290(3): Business and Occupation (B&O) tax rate reduction (0.2904%) for aerospace product development for non-manufacturers.
(2) RCW 82.04.4461: B&O Tax Credit equal to 1.5% of qualified preproduction development expenditures for aerospace manufacturers
(3) RCW 82.04.4463(2)(a)(i), (A, B, &C): B&O tax credit for property or leasehold excise taxes
(4) RCW 82.08.975 and 82.12.975: Sales & use tax exemption for computers, software, and peripherals used in development and designs.
(5) 82.08.980, 82.12.980: Sales and use tax exemption for aerospace manufacturing site constructions

- Under the current law, 82.04.260(11)(a)(b), B&O reduction for commercial airplanes or components, tooling of commercial airplanes is suspended till July 1, 2040. However, a reduced rate of 0.357% may be imposed after March 31, 2021, if certain conditions are met pursuant to RCW 82.04.2602. This estimate assumes the conditions will not be met and the B&O rates will not be reduced.
- In FY 2020, the taxable amount of manufacturing, retailing, wholesaling portion of Business and Occupation (B&O) taxes reported by Unmanned Aircraft Systems Industry (UAS) is approximately 1%, and service B&O is 0.1% of the taxable by the aerospace industry.
- Unmanned Aircraft Systems industry will grow at an average annual rate of 6%, based on the US FAA registration of commercial Unmanned Aircraft System.
- Effective date of October 1, 2021 will result in 8 months of cash collection for Fiscal Year 2022.

DATA SOURCES
- 2021 US Drone Manufacturers: Comprehensive list
https://www.modalai.com/pages/us-drone-manufacturers
- Growth Rate of Unmanned Aircraft Systems Industry
- FAA Report, 2019, Unmanned Aircraft Systems
https://www.faa.gov/data_research/aviation/aerospace_forecasts/media/Unmanned_Aircraft_Systems.pdf
- Department of Revenue Excise Tax Return Data and Annual Tax Incentive Report

REVENUE ESTIMATES

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):
FY 2022 - $ (590)
FY 2023 - $ (940)
FY 2024 - $ (1,000)
FY 2025 - $ (1,050)
FY 2026 - $ (1,120)
FY 2027 - $ (1,190)

Local Government, if applicable (cash basis, $000):
FY 2022 - $ (20)
FY 2023 - $ (30)
FY 2024 - $ (30)
FY 2025 - $ (40)
FY 2026 - $ (40)
FY 2027 - $ (40)

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:
This bill affects 50 taxpayers.

FIRST YEAR COSTS:
The Department of Revenue (Department) will incur total costs of $37,700 in Fiscal Year 2022. These costs include:

Labor Costs – Time and effort equates to 0.27 FTEs.
- Amend one administrative rule.
- Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email and web message and paper correspondence.
- Examine accounts and make corrections as necessary.
- Set up, program and test computer system changes.

Object Costs - $13,200.
- Contract computer system programming.

SECOND YEAR COSTS:
The Department will incur total costs of $8,300 in Fiscal Year 2023. These costs include:

Labor Costs – Time and effort equates to 0.1 FTEs.

- Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email and web message and paper correspondence.
- Examine accounts and make corrections as necessary.

ONGOING COSTS:
Ongoing costs for the 2023-2025 Biennium equal $16,600 and include similar activities described in the second year costs. Time and effort equates to 0.1 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.3	0.1	0.2	0.1	0.1
A-Salaries and Wages	14,800	5,400	20,200	10,800	10,800
B-Employee Benefits	5,300	1,900	7,200	3,800	3,800
C-Professional Service Contracts	13,200		13,200		
E-Goods and Other Services	2,800	900	3,700	1,800	1,800
J-Capital Outlays	1,600	100	1,700	200	200
Total $	$37,700	$8,300	$46,000	$16,600	$16,600

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
EMS BAND 4	119,061	0.0		0.0		
EXCISE TAX EX 2	54,108	0.1	0.1	0.1	0.1	0.1
MGMT ANALYST4	70,956	0.1		0.1		
TAX POLICY SP 2	72,756	0.0		0.0		
TAX POLICY SP 3	82,344	0.0		0.0		
TAX POLICY SP 4	88,644	0.0		0.0		
WMS BAND 3	101,257	0.0		0.0		
Total FTEs		0.3	0.1	0.2	0.1	0.1

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and dexcribe potential financing methods

NONE

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the expedited process to amend WAC 458-20-265, titled: "Sales and use tax exemptions - Airplane maintenance repair stations".

Persons affected by this rule-making would include manufacturers of commercial unmanned aircraft systems.