

# Tax Incentives, Credits, and Opportunities for Washington Aerospace Companies

*As a Washington aerospace company, chances are you're performing activities that qualify for various federal and state tax incentives. Many companies are missing opportunities to benefit from one or several of these incentives.*

*At Moss Adams, we work with over 200 aerospace companies to help ensure they are utilizing the benefits provided to them under state and federal tax law. Some of the most beneficial tax savings strategies are as follows:*


## Federal Incentives and Credits

- **R&D Tax Credit.** For companies investing in new or improved products, processes or technologies, there could be as much as a 5 percent to 9 percent reduction of taxes for qualified activities.
- **Perform a cost segregation study.** These studies separate building components into proper asset classifications and can result in shorter tax lives and front-loaded depreciation deductions. These studies are particularly beneficial for companies with a significant amount of property, plant and equipment.
- **Form an IC-DISC.** For companies that sell their US-produced property internationally, forming an interest charge domestic international sales corporation (IC-DISC) could reduce taxes by up to 20 percent. An IC-DISC is a "paper company" without employees that's held by an individual or flow-through entity.
- **Domestic manufacturing deduction.** Qualified production property produced in the US may qualify for this deduction, which can effectively reduce your tax rate by about 3 percent on qualifying income.





## Washington State Incentives and Credits

- **Reduced B&O Tax Rate for Aerospace Businesses.** Companies with operations in specific categories may benefit from a lower B&O tax rate. Manufacturers & Processors for Hire – 0.2904 percent, Aerospace Product Development Businesses – 0.9 percent, or Certificated FAR Part 145 Repair Stations – 0.2904 percent.
- **B&O Tax Credit for Preproduction Development Expenditures.** For companies engaging in product development (similar to R&D), there is a credit equal to the amount of qualified aerospace product development expenditures multiplied by 1.5 percent.
- **B&O Tax Credit for Property/Leasehold Taxes paid on Aerospace Business Facilities.** For companies engaged in manufacturing commercial airplanes or components, a credit equal to the property or leasehold excise taxes paid on new buildings, the land for new buildings, the increased value of renovated buildings, and tangible personal property eligible for the manufacturing machinery and equipment exemption, is applied against B&O tax.
- **Sales & Use Tax Exemption for Computer Hardware/Software/Peripherals.** Sales and use tax exemption applies to purchases of computers, software, and peripherals used primarily in the development, design, and engineering of aerospace products, or in providing aerospace services.
- **Sales & Use Tax Exemption for Manufacturing Machinery and Equipment.** Sales and use tax exemption applies to purchases of qualifying machinery and equipment used in a qualifying manufacturing operation or a research and development operation. 

by Kurt Lippmann, Partner, National Aerospace Leader, Star Fischer, Partner, R&D Tax Services, & Adam Cline, Partner, State and Local Tax



Kurt Lippmann is the leader of Moss Adams' aerospace & defense practice and has extensive experience managing federal and state income tax returns for corporations and partnerships, meeting all tax compliance requirements, reducing audit exposure, and proactively easing his clients' worldwide tax burden.