
**Technology, Energy &
Communications Committee**

HB 2081

Brief Description: Promoting the growth of cogeneration facilities in Washington.

Sponsors: Representatives VanDeWege, Blake, Moeller, McCoy, Takko and Hudgins.

Brief Summary of Bill

- Provides a Business and Occupation (B&O) tax credit to promote the growth of cogeneration facilities in Washington.

Hearing Date: 2/20/07

Staff: Scott Richards (786-7156).

Background:

Cogeneration

Cogeneration involves the production of electrical energy and another form of useful energy (such as heat or steam) through the sequential use of energy, resulting in increased fuel efficiency.

Business and Occupation Tax

The Business & Occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. There are no deductions for the costs of doing business.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

Business and Occupation Tax Credit of Cogeneration

In 1979, HB 1013 was enacted into law, allowing for an annual B&O tax credit of 2 percent of a cogeneration facility cost. The B&O tax credit was limited up to an accumulative amount of 50 percent of the cost of the cogeneration facility. HB 1013 provided a termination date of

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December 31, 1984 for the issuance of certificates. In 2006, the Legislature repealed from state statute the tax credit along with other tax incentives that were outdated.

Summary of Bill:

Business and Occupation Tax Credit

In order to promote the growth of cogeneration in Washington and save energy, a Business and Occupation (B&O) tax credit may be claimed by a person or corporation other than an electric utility amounting to 3 percent of the cost of a cogeneration facility per year. The total accumulated amount of credit is limited to 50 percent of the capital cost of the facility and shall not be applied to operating costs. The maximum facility cost to which a cogeneration credit may be applied is \$10 million.

The credit is available when the facility is operational and final costs are verified by the Department of Revenue (DOR), provided that the date on which the facility is operational is not more than four years after the date the certificate is issued. The credit is reduced by the amount of any federal tax credit received which applies to the facility.

"Cogeneration" means the sequential generation of electrical or mechanical power and useful heat from the same primary energy source or fuel.

"Cost" means only the cost of a cogeneration facility which is in addition to the cost that the applicant otherwise would incur to meet the applicant's demands for useful heat.

"Certificate" means a cogeneration tax credit certificate granted by the DOR.

Department of Revenue

The Department of Revenue (DOR) shall keep a running tabulation of the total cogeneration facility costs incurred or planned to be incurred. The DOR may not issue any new certificate if the certificate would result in the tabulation exceeding \$100 million dollars.

The DOR shall revoke any certificate issued if it finds that: (1) the certificate was obtained by fraud or deliberate misrepresentation; (2) the certificate was obtained through the use of inaccurate data but without any intention to commit fraud or misrepresentation; (3) the facility was constructed or operated in violation of any provision imposed by the DOR as a condition of certification; or (d) the cogeneration facility is no longer capable of being operated for the primary purpose of cogeneration.

The DOR may adopt any rules necessary for the administration of this B&O tax credit.

The Department of Community, Trade, and Economic Development shall provide technical assistance to the DOR in carrying out its responsibilities related to this tax credit.

Appropriation: None.

Fiscal Note: Requested on February 19, 2007.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.