

# FINAL BILL REPORT

## HB 2678

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Synopsis as Enacted

**Brief Description:** Restoring the preferential timber industry business and occupation tax rate to the manufacture of environmentally responsible surface material products from recycled paper.

**Sponsors:** By Representatives Kessler, VanDeWege, Blake, Williams and McIntire.

**House Committee on Finance**

**Senate Committee on Ways & Means**

### **Background:**

Washington's principal tax on businesses is the state business and occupation (B&O) tax. The B&O tax applies to the gross receipts derived from engaging in business. Although the tax does not reflect the cost of doing business, there are a variety of exemptions, deductions, and other tax incentives permitted by law. Major tax rates are 0.484 percent for manufacturing and wholesaling, 0.471 percent for retailing, and 1.5 percent for services; a variety of lower rates also apply to specific business activities. The B&O tax generates about 16 percent of all state tax collections; most of the receipts are deposited in the State General Fund.

In 2006 the Legislature authorized a lower B&O tax rate for extracting and wholesaling of timber and for manufacturing of timber and wood products. The applicable tax rate dropped from 0.484 percent to 0.4235 percent for fiscal year 2007, and then to 0.2904 starting on July 1, 2007. This rate is scheduled to remain in effect until June 30, 2024.

### **Summary:**

Eligible products that qualify for the reduced tax rate are broadened. The term "timber products" includes recycled paper that is used in manufacturing of biocomposite surface products, and the term "wood products" includes biocomposite surface products.

Definitions and requirements for these items are provided. At least 50 percent of the fiber content of recycled paper must be post-consumer waste which would otherwise be disposed of as solid waste. Biocomposite surface products must contain at least 50 percent recycled paper and have a bonding agent consisting of nonpetroleum-based phenolic resin.

These provisions apply retroactively to July 1, 2007.

### **Votes on Final Passage:**

House	93	1
Senate	48	1

**Effective:** June 12, 2008