

HOUSE BILL REPORT

HB 1910

As Reported by House Committee On: Finance

Title: An act relating to the sales and use tax exemption expiration date for machinery and equipment used in generating electricity.

Brief Description: Concerning the sales and use tax exemption expiration date for machinery and equipment used in generating electricity.

Sponsors: Representatives Fitzgibbon, Tharinger, Farrell, Upthegrove, Liias and Fey.

Brief History:

Committee Activity:

Finance: 2/25/13, 2/28/13 [DPS].

Brief Summary of Substitute Bill

- Extends the expiration date for the sales and use tax exemption for machinery and equipment used in generating electricity from renewable energy to January 1, 2020.
- Requires individuals utilizing the exemption to provide an annual report with the Department of Revenue.
- Provides legislative intent language.
- Requires the Joint Legislative Audit and Review Committee, as part of its tax preference report, to assess the performance of the tax preference with reference to the intent and performance milestones established.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Carlyle, Chair; Tharinger, Vice Chair; Fitzgibbon, Hansen, Lytton, Pollet, Reykdal and Springer.

Minority Report: Do not pass. Signed by 5 members: Representatives Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Vick and Wilcox.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Staff: Dominique Meyers (786-7150).

Background:

Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products or services, then use taxes applies to the value of property, digital products, or services when used in this state. The state, most cities and all counties levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3 percent, depending on the location.

Renewable Energy.

A sales and use tax exemption in the form of a refund is allowed for 75 percent of the sales tax paid on machinery and equipment used directly in generating electricity from wind, sun, fuel cells, biomass, tidal or wave energy, geothermal resources, anaerobic digestion, and technology that converts otherwise lost energy from exhaust or landfill gas into electricity. In addition, the exemption applies to the labor and services rendered in respect to installing exempt machinery and equipment. The facility using the machinery and equipment must generate at least 1,000 watts of electricity to qualify for the exemption.

Joint Legislative Audit and Review Committee Report.

The Citizen Commission for Performance Measurement of Tax Preferences (Commission) was established by the 2006 Legislature. The Commission develops a schedule to review tax preferences, based on a 10-year review schedule. The Commission may revise the schedule each year to include any terminating tax preference for review. Tax preference reviews are conducted by the Joint Legislative Audit and Review Committee (JLARC) staff according to the schedule established by the Commission. For each tax preference, the JLARC staff evaluates whether the public policy objective is being met and provides recommendations to continue, modify, or terminate the preference.

The JLARC report concluded that the Legislature did not specifically state the public policy objective of the preference; however, it did make the preference temporary. The JLARC inferred that the Legislature's public policy objective was to encourage and support generation of electricity using renewable energy sources on a temporary basis. Therefore, the JLARC recommended the preference expire on the expiration date provided in statute, June 30, 2013.

Summary of Substitute Bill:

The expiration date for the sales and use tax exemption for machinery and equipment used in facilities that generate electricity from renewable energy is extended to January 1, 2020. Individuals that utilize the tax incentive must submit an annual report to the Department of Revenue (DOR).

The JLARC is required to include additional information in their tax preference review, with specific reference to the intent and performance milestones established in the legislative intent.

Substitute Bill Compared to Original Bill:

The substitute bill includes intent language and specific milestones and performance goals. The JLARC is required to include an assessment of the legislative intent and milestones in the tax preference review for the sales and use tax exemption. The substitute bill extends the expiration date rather than repeal it completely. Individuals using the exemption are required to file a report with the DOR for the years that the exemption is utilized.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on March 4, 2013.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2013.

Staff Summary of Public Testimony:

(In support) In the last 10 years, \$8 billion in renewable energy development has been invested in the state, in large part due to this exemption and the state's renewable energy portfolio. This is not entirely lost revenue, it also saves ratepayers in lower energy costs. This policy has helped with the development of clean new energy and help create jobs and revenues for local communities. This industry creates skilled jobs. These projects require high capital initial investments. This bill supports the next generation of renewable energy resources and will bring in revenues and grow the economy.

(Opposed) None.

Persons Testifying: Representative Fitzgibbon, prime sponsor; Clifford Traisman, Washington Conservations Voters, Washington Environmental Council, and Renewable Northwest Project; Varner Seaman, Renewable Northwest Project; Nancy Hirsh, Northwest Energy Coalition; and Migue Perez-Gibson, Climate Solutions.

Persons Signed In To Testify But Not Testifying: None.