HOUSE BILL REPORT
HB 2290

As Passed House:
February 6, 1996

Title: An act relating to exempting construction of wind energy and solar electric generating facilities from sales and use tax.

Brief Description: Exempting construction of wind energy and solar electric generating facilities from sales and use tax.

Sponsors: Representatives Honeyford, Patterson, Lisk, Clements, Hankins, B. Thomas, Mulliken, McMahan, Thompson, Hargrove and Boldt.

Brief History:
Committee Activity:
Finance: 1/29/96, 2/1/96 [DP].
Floor Activity:
Passed House: 2/6/96, 95-0

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 12 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Boldt, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Staff: Rick Peterson (786-7150).

Background: The state retail sales tax is imposed on retail sales of most items of tangible personal property and some services. Taxable services include construction, repair, telephone, some personal services, and recreation and amusement services. The tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. The total rate falls between 7 percent and 8.2 percent depending on the location.

The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition of the property has not been subject to sales tax. Use tax is equal to the sales tax rate multiplied by the value of the property used. The use tax commonly applies to property acquired from out-of-state.

Generally, businesses pay sales and use tax on machinery, equipment, and construction of industrial facilities. However, sales and use tax exemptions are available for certain business investments.

The distressed area sales and use tax exemption is targeted at areas with unemployment rates 20 percent higher than the state average. Manufacturing, research and development, and computer-related businesses are given a sales and use tax exemption on buildings, machinery and equipment, and installation labor. Light and power businesses are specifically excluded from this program. Cogeneration projects that are an integral part of a manufacturing facility are exempt on the portion of the cogeneration project that generates power for consumption within the manufacturing site.

The high technology sales and use tax exemption is available state-wide to research and development and pilot-scale manufacturing businesses. The business must be involved in biotechnology, advanced computing, electronic device technology, advanced materials, or environmental technology. The sales and use tax on new or expanded facilities and machinery and equipment is exempted. The generation of electricity is not included.

The manufacturing sales and use tax exemption is available state-wide for new and replacement machinery and equipment used directly in a manufacturing operation, including installation labor and services. "Manufacturing operation" does not include research and development activities, the production of electricity, or the preparation of food products on the premises of a person selling food at retail. However, an exemption is available for that portion of a cogeneration project that is used to generate power for on-site consumption at the manufacturing operation.

Summary of Bill: Machinery and equipment used directly in generating electricity using wind or sun energy is exempt from sales and use tax. The costs of installing the machinery and equipment are also exempt. Only facilities capable of generating 200 kilowatts of electricity are eligible for the exemption.

The exemption ends June 30, 2005.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 1996.

Testimony For: Wind-generated electricity is a clean industry. Other methods of generating electricity raise environmental concerns. This bill is consistent with the state's policy to foster renewable energy. It is good energy policy and makes good economic sense. Wind projects must compete against natural gas as a method of generating electricity. Natural gas prices are down one-third from 10 years ago. Wind projects have a high initial capital cost, and the sales tax is significant on this investment. The bill is intended to help get the industry started. The exemption ends in 2005.

Testimony Against: None.

Testified: Representative Jim Honeyford, prime sponsor; Ben Wolff, CARES; Ron Newbry, Pacificorp; Steve Gano, Kenetech Wine Power; and Scott Merriman, Washington Environmental Council.