

E3SHB 1324 - S COMM AMD

By Committee on Financial Institutions, Economic Development & Trade

OUT OF ORDER 04/16/2019

1 Strike everything after the enacting clause and insert the
2 following:

3 "NEW SECTION. **Sec. 1.** The legislature finds that while many
4 parts of the state are thriving economically, some rural and
5 distressed communities have struggled to keep pace. These communities
6 represent significant opportunity for economic growth and innovation.
7 However, businesses and entrepreneurs often find it difficult to
8 obtain the capital they need to expand and grow in these areas.
9 Therefore, it is the intent of the legislature to study the creation
10 of a program to incentivize private investments and job creation in
11 rural and distressed communities while ensuring no loss of revenue to
12 the state.

13 NEW SECTION. **Sec. 2.** (1) The Washington state institute for
14 public policy must conduct a study on certain programs incentivizing
15 private investment and job creation in rural and distressed
16 communities. In conducting the study, the institute must:

17 (a) Conduct a fifty-state review on the structure and
18 characteristics of certified capital company programs, new markets
19 tax credit programs, rural jobs programs, and other similar economic
20 development programs in other states; and

21 (b) Review any available research on these initiatives and, to
22 the extent possible, describe the effects of each type of initiative
23 on employment, earnings, property values, and job creation.

24 (2) The Washington state institute for public policy must submit
25 a report on its findings to the appropriate committees of the
26 legislature, in compliance with RCW 43.01.036, by July 1, 2020.

27 NEW SECTION. **Sec. 3.** (1) The legislature finds that the
28 Washington state forest practices habitat conservation plan was
29 approved in 2006 by the United States fish and wildlife service and
30 the national oceanic and atmospheric administration's marine

1 fisheries service. The legislature further finds that the
2 conservation plan protects habitat of aquatic species, supports
3 economically viable and healthy forests, and creates regulatory
4 stability for landowners. The legislature further finds that funding
5 for the adaptive management program and participation grants are
6 required to implement the forest and fish agreement and meet the
7 goals of the conservation plan. The legislature further finds that
8 the surcharge on the timber products business and occupation tax rate
9 was agreed to by the forest products industry, tribal leaders, and
10 stakeholders as a way to provide funding and safeguard the future of
11 the conservation plan. The legislature further finds that the
12 forestry industry assumed significant financial obligation with the
13 enactment of this conservation plan, in exchange for operational
14 certainty under the endangered species act. Therefore, the
15 legislature concludes that the timber products business and
16 occupation tax rate and the surcharge should continue until the
17 expiration date of the forest and fish agreement, in 2056.

18 (2) The legislature finds that Washington has one of the
19 strongest economies in the country. However, the local economies in
20 some rural counties continue to struggle. The legislature further
21 finds that the economic prosperity of our state must be shared by all
22 of our communities. The legislature further finds that forest product
23 sectors provide family-wage jobs in economically struggling areas of
24 the state. The legislature further finds that in 2017 the Washington
25 forest products industry, directly and indirectly, employed one
26 hundred one thousand workers, earning 5.5 billion dollars in wages.
27 Therefore, the legislature concludes that the forest products
28 industries support our local rural economies and contribute towards
29 the effort to lower unemployment rates across the state, especially
30 in rural areas.

31 **Sec. 4.** RCW 82.04.260 and 2018 c 164 s 3 are each amended to
32 read as follows:

33 (1) Upon every person engaging within this state in the business
34 of manufacturing:

35 (a) Wheat into flour, barley into pearl barley, soybeans into
36 soybean oil, canola into canola oil, canola meal, or canola by-
37 products, or sunflower seeds into sunflower oil; as to such persons
38 the amount of tax with respect to such business is equal to the value

1 of the flour, pearl barley, oil, canola meal, or canola by-product
2 manufactured, multiplied by the rate of 0.138 percent;

3 (b) Beginning July 1, 2025, seafood products that remain in a
4 raw, raw frozen, or raw salted state at the completion of the
5 manufacturing by that person; or selling manufactured seafood
6 products that remain in a raw, raw frozen, or raw salted state at the
7 completion of the manufacturing, to purchasers who transport in the
8 ordinary course of business the goods out of this state; as to such
9 persons the amount of tax with respect to such business is equal to
10 the value of the products manufactured or the gross proceeds derived
11 from such sales, multiplied by the rate of 0.138 percent. Sellers
12 must keep and preserve records for the period required by RCW
13 82.32.070 establishing that the goods were transported by the
14 purchaser in the ordinary course of business out of this state;

15 (c) (i) Except as provided otherwise in (c) (iii) of this
16 subsection, from July 1, 2025, until January 1, 2036, dairy products;
17 or selling dairy products that the person has manufactured to
18 purchasers who either transport in the ordinary course of business
19 the goods out of state or purchasers who use such dairy products as
20 an ingredient or component in the manufacturing of a dairy product;
21 as to such persons the tax imposed is equal to the value of the
22 products manufactured or the gross proceeds derived from such sales
23 multiplied by the rate of 0.138 percent. Sellers must keep and
24 preserve records for the period required by RCW 82.32.070
25 establishing that the goods were transported by the purchaser in the
26 ordinary course of business out of this state or sold to a
27 manufacturer for use as an ingredient or component in the
28 manufacturing of a dairy product.

29 (ii) For the purposes of this subsection (1) (c), "dairy products"
30 means:

31 (A) Products, not including any marijuana-infused product, that
32 as of September 20, 2001, are identified in 21 C.F.R., chapter 1,
33 parts 131, 133, and 135, including by-products from the manufacturing
34 of the dairy products, such as whey and casein; and

35 (B) Products comprised of not less than seventy percent dairy
36 products that qualify under (c) (ii) (A) of this subsection, measured
37 by weight or volume.

38 (iii) The preferential tax rate provided to taxpayers under this
39 subsection (1) (c) does not apply to sales of dairy products on or
40 after July 1, 2023, where a dairy product is used by the purchaser as

1 an ingredient or component in the manufacturing in Washington of a
2 dairy product;

3 (d) (i) Beginning July 1, 2025, fruits or vegetables by canning,
4 preserving, freezing, processing, or dehydrating fresh fruits or
5 vegetables, or selling at wholesale fruits or vegetables manufactured
6 by the seller by canning, preserving, freezing, processing, or
7 dehydrating fresh fruits or vegetables and sold to purchasers who
8 transport in the ordinary course of business the goods out of this
9 state; as to such persons the amount of tax with respect to such
10 business is equal to the value of the products manufactured or the
11 gross proceeds derived from such sales multiplied by the rate of
12 0.138 percent. Sellers must keep and preserve records for the period
13 required by RCW 82.32.070 establishing that the goods were
14 transported by the purchaser in the ordinary course of business out
15 of this state.

16 (ii) For purposes of this subsection (1) (d), "fruits" and
17 "vegetables" do not include marijuana, useable marijuana, or
18 marijuana-infused products; and

19 (e) Wood biomass fuel; as to such persons the amount of tax with
20 respect to the business is equal to the value of wood biomass fuel
21 manufactured, multiplied by the rate of 0.138 percent. For the
22 purposes of this section, "wood biomass fuel" means a liquid or
23 gaseous fuel that is produced from lignocellulosic feedstocks,
24 including wood, forest, ~~((~~+~~))~~ or field residue(~~(~~-~~)~~) and dedicated
25 energy crops, and that does not include wood treated with chemical
26 preservations such as creosote, pentachlorophenol, or copper-chrome-
27 arsenic.

28 (2) Upon every person engaging within this state in the business
29 of splitting or processing dried peas; as to such persons the amount
30 of tax with respect to such business is equal to the value of the
31 peas split or processed, multiplied by the rate of 0.138 percent.

32 (3) Upon every nonprofit corporation and nonprofit association
33 engaging within this state in research and development, as to such
34 corporations and associations, the amount of tax with respect to such
35 activities is equal to the gross income derived from such activities
36 multiplied by the rate of 0.484 percent.

37 (4) Upon every person engaging within this state in the business
38 of slaughtering, breaking and/or processing perishable meat products
39 and/or selling the same at wholesale only and not at retail; as to

1 such persons the tax imposed is equal to the gross proceeds derived
2 from such sales multiplied by the rate of 0.138 percent.

3 (5) Upon every person engaging within this state in the business
4 of acting as a travel agent or tour operator; as to such persons the
5 amount of the tax with respect to such activities is equal to the
6 gross income derived from such activities multiplied by the rate of
7 0.275 percent.

8 (6) Upon every person engaging within this state in business as
9 an international steamship agent, international customs house broker,
10 international freight forwarder, vessel and/or cargo charter broker
11 in foreign commerce, and/or international air cargo agent; as to such
12 persons the amount of the tax with respect to only international
13 activities is equal to the gross income derived from such activities
14 multiplied by the rate of 0.275 percent.

15 (7) Upon every person engaging within this state in the business
16 of stevedoring and associated activities pertinent to the movement of
17 goods and commodities in waterborne interstate or foreign commerce;
18 as to such persons the amount of tax with respect to such business is
19 equal to the gross proceeds derived from such activities multiplied
20 by the rate of 0.275 percent. Persons subject to taxation under this
21 subsection are exempt from payment of taxes imposed by chapter 82.16
22 RCW for that portion of their business subject to taxation under this
23 subsection. Stevedoring and associated activities pertinent to the
24 conduct of goods and commodities in waterborne interstate or foreign
25 commerce are defined as all activities of a labor, service or
26 transportation nature whereby cargo may be loaded or unloaded to or
27 from vessels or barges, passing over, onto or under a wharf, pier, or
28 similar structure; cargo may be moved to a warehouse or similar
29 holding or storage yard or area to await further movement in import
30 or export or may move to a consolidation freight station and be
31 stuffed, unstuffed, containerized, separated or otherwise segregated
32 or aggregated for delivery or loaded on any mode of transportation
33 for delivery to its consignee. Specific activities included in this
34 definition are: Wharfage, handling, loading, unloading, moving of
35 cargo to a convenient place of delivery to the consignee or a
36 convenient place for further movement to export mode; documentation
37 services in connection with the receipt, delivery, checking, care,
38 custody and control of cargo required in the transfer of cargo;
39 imported automobile handling prior to delivery to consignee; terminal
40 stevedoring and incidental vessel services, including but not limited

1 to plugging and unplugging refrigerator service to containers,
2 trailers, and other refrigerated cargo receptacles, and securing ship
3 hatch covers.

4 (8) (a) Upon every person engaging within this state in the
5 business of disposing of low-level waste, as defined in RCW
6 43.145.010; as to such persons the amount of the tax with respect to
7 such business is equal to the gross income of the business, excluding
8 any fees imposed under chapter 43.200 RCW, multiplied by the rate of
9 3.3 percent.

10 (b) If the gross income of the taxpayer is attributable to
11 activities both within and without this state, the gross income
12 attributable to this state must be determined in accordance with the
13 methods of apportionment required under RCW 82.04.460.

14 (9) Upon every person engaging within this state as an insurance
15 producer or title insurance agent licensed under chapter 48.17 RCW or
16 a surplus line broker licensed under chapter 48.15 RCW; as to such
17 persons, the amount of the tax with respect to such licensed
18 activities is equal to the gross income of such business multiplied
19 by the rate of 0.484 percent.

20 (10) Upon every person engaging within this state in business as
21 a hospital, as defined in chapter 70.41 RCW, that is operated as a
22 nonprofit corporation or by the state or any of its political
23 subdivisions, as to such persons, the amount of tax with respect to
24 such activities is equal to the gross income of the business
25 multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5
26 percent thereafter.

27 (11) (a) Beginning October 1, 2005, upon every person engaging
28 within this state in the business of manufacturing commercial
29 airplanes, or components of such airplanes, or making sales, at
30 retail or wholesale, of commercial airplanes or components of such
31 airplanes, manufactured by the seller, as to such persons the amount
32 of tax with respect to such business is, in the case of
33 manufacturers, equal to the value of the product manufactured and the
34 gross proceeds of sales of the product manufactured, or in the case
35 of processors for hire, equal to the gross income of the business,
36 multiplied by the rate of:

- 37 (i) 0.4235 percent from October 1, 2005, through June 30, 2007;
- 38 and
- 39 (ii) 0.2904 percent beginning July 1, 2007.

1 (b) Beginning July 1, 2008, upon every person who is not eligible
2 to report under the provisions of (a) of this subsection (11) and is
3 engaging within this state in the business of manufacturing tooling
4 specifically designed for use in manufacturing commercial airplanes
5 or components of such airplanes, or making sales, at retail or
6 wholesale, of such tooling manufactured by the seller, as to such
7 persons the amount of tax with respect to such business is, in the
8 case of manufacturers, equal to the value of the product manufactured
9 and the gross proceeds of sales of the product manufactured, or in
10 the case of processors for hire, be equal to the gross income of the
11 business, multiplied by the rate of 0.2904 percent.

12 (c) For the purposes of this subsection (11), "commercial
13 airplane" and "component" have the same meanings as provided in RCW
14 82.32.550.

15 (d) In addition to all other requirements under this title, a
16 person reporting under the tax rate provided in this subsection (11)
17 must file a complete annual tax performance report with the
18 department under RCW 82.32.534.

19 (e)(i) Except as provided in (e)(ii) of this subsection (11),
20 this subsection (11) does not apply on and after July 1, 2040.

21 (ii) With respect to the manufacturing of commercial airplanes or
22 making sales, at retail or wholesale, of commercial airplanes, this
23 subsection (11) does not apply on and after July 1st of the year in
24 which the department makes a determination that any final assembly or
25 wing assembly of any version or variant of a commercial airplane that
26 is the basis of a siting of a significant commercial airplane
27 manufacturing program in the state under RCW 82.32.850 has been sited
28 outside the state of Washington. This subsection (11)(e)(ii) only
29 applies to the manufacturing or sale of commercial airplanes that are
30 the basis of a siting of a significant commercial airplane
31 manufacturing program in the state under RCW 82.32.850.

32 (12)(a) Until July 1, (~~2024~~) 2036, upon every person engaging
33 within this state in the business of extracting timber or extracting
34 for hire timber; as to such persons the amount of tax with respect to
35 the business is, in the case of extractors, equal to the value of
36 products, including by-products, extracted, or in the case of
37 extractors for hire, equal to the gross income of the business,
38 multiplied by the rate of 0.4235 percent from July 1, 2006, through
39 June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30,
40 (~~2024~~) 2036.

1 (b) Until July 1, (~~2024~~) 2036, upon every person engaging
2 within this state in the business of manufacturing or processing for
3 hire: (i) Timber into timber products or wood products; or (ii)
4 timber products into other timber products or wood products; as to
5 such persons the amount of the tax with respect to the business is,
6 in the case of manufacturers, equal to the value of products,
7 including by-products, manufactured, or in the case of processors for
8 hire, equal to the gross income of the business, multiplied by the
9 rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and
10 0.2904 percent from July 1, 2007, through June 30, (~~2024~~) 2036.

11 (c) Until July 1, (~~2024~~) 2036, upon every person engaging
12 within this state in the business of selling at wholesale: (i) Timber
13 extracted by that person; (ii) timber products manufactured by that
14 person from timber or other timber products; or (iii) wood products
15 manufactured by that person from timber or timber products; as to
16 such persons the amount of the tax with respect to the business is
17 equal to the gross proceeds of sales of the timber, timber products,
18 or wood products multiplied by the rate of 0.4235 percent from July
19 1, 2006, through June 30, 2007, and 0.2904 percent from July 1, 2007,
20 through June 30, (~~2024~~) 2036.

21 (d) Until July 1, (~~2024~~) 2036, upon every person engaging
22 within this state in the business of selling standing timber; as to
23 such persons the amount of the tax with respect to the business is
24 equal to the gross income of the business multiplied by the rate of
25 0.2904 percent. For purposes of this subsection (12)(d), "selling
26 standing timber" means the sale of timber apart from the land, where
27 the buyer is required to sever the timber within thirty months from
28 the date of the original contract, regardless of the method of
29 payment for the timber and whether title to the timber transfers
30 before, upon, or after severance.

31 (e) For purposes of this subsection, the following definitions
32 apply:

33 (i) "Biocomposite surface products" means surface material
34 products containing, by weight or volume, more than fifty percent
35 recycled paper and that also use nonpetroleum-based phenolic resin as
36 a bonding agent.

37 (ii) "Paper and paper products" means products made of interwoven
38 cellulosic fibers held together largely by hydrogen bonding. "Paper
39 and paper products" includes newsprint; office, printing, fine, and
40 pressure-sensitive papers; paper napkins, towels, and toilet tissue;

1 kraft bag, construction, and other kraft industrial papers;
2 paperboard, liquid packaging containers, containerboard, corrugated,
3 and solid-fiber containers including linerboard and corrugated
4 medium; and related types of cellulosic products containing
5 primarily, by weight or volume, cellulosic materials. "Paper and
6 paper products" does not include books, newspapers, magazines,
7 periodicals, and other printed publications, advertising materials,
8 calendars, and similar types of printed materials.

9 (iii) "Recycled paper" means paper and paper products having
10 fifty percent or more of their fiber content that comes from
11 postconsumer waste. For purposes of this subsection (12)(e)(iii),
12 "postconsumer waste" means a finished material that would normally be
13 disposed of as solid waste, having completed its life cycle as a
14 consumer item.

15 (iv) "Timber" means forest trees, standing or down, on privately
16 or publicly owned land. "Timber" does not include Christmas trees
17 that are cultivated by agricultural methods or short-rotation
18 hardwoods as defined in RCW 84.33.035.

19 (v) "Timber products" means:

20 (A) Logs, wood chips, sawdust, wood waste, and similar products
21 obtained wholly from the processing of timber, short-rotation
22 hardwoods as defined in RCW 84.33.035, or both;

23 (B) Pulp, including market pulp and pulp derived from recovered
24 paper or paper products; and

25 (C) Recycled paper, but only when used in the manufacture of
26 biocomposite surface products.

27 (vi) "Wood products" means paper and paper products; dimensional
28 lumber; engineered wood products such as particleboard, oriented
29 strand board, medium density fiberboard, and plywood; wood doors;
30 wood windows; and biocomposite surface products.

31 (f) Except for small harvesters as defined in RCW 84.33.035, a
32 person reporting under the tax rate provided in this subsection (12)
33 must file a complete annual tax performance report with the
34 department under RCW 82.32.534.

35 (13) Upon every person engaging within this state in inspecting,
36 testing, labeling, and storing canned salmon owned by another person,
37 as to such persons, the amount of tax with respect to such activities
38 is equal to the gross income derived from such activities multiplied
39 by the rate of 0.484 percent.

1 (14)(a) Upon every person engaging within this state in the
2 business of printing a newspaper, publishing a newspaper, or both,
3 the amount of tax on such business is equal to the gross income of
4 the business multiplied by the rate of 0.35 percent until July 1,
5 2024, and 0.484 percent thereafter.

6 (b) A person reporting under the tax rate provided in this
7 subsection (14) must file a complete annual tax performance report
8 with the department under RCW 82.32.534.

9 **Sec. 5.** RCW 82.04.261 and 2017 c 323 s 501 are each amended to
10 read as follows:

11 (1) In addition to the taxes imposed under RCW 82.04.260(12), a
12 surcharge is imposed on those persons who are subject to any of the
13 taxes imposed under RCW 82.04.260(12). Except as otherwise provided
14 in this section, the surcharge is equal to 0.052 percent. The
15 surcharge is added to the rates provided in RCW 82.04.260(12) (a),
16 (b), (c), and (d). ~~((The surcharge and this section expire July 1,~~
17 ~~2024.))~~

18 (2) All receipts from the surcharge imposed under this section
19 must be deposited into the forest and fish support account created in
20 RCW 76.09.405.

21 (3)(a) The surcharge imposed under this section is suspended if:

22 (i) Receipts from the surcharge total at least eight million
23 dollars during any fiscal biennium; or

24 (ii) The office of financial management certifies to the
25 department that the federal government has appropriated at least two
26 million dollars for participation in forest and fish report-related
27 activities by federally recognized Indian tribes located within the
28 geographical boundaries of the state of Washington for any federal
29 fiscal year.

30 (b)(i) The suspension of the surcharge under (a)(i) of this
31 subsection (3) takes effect on the first day of the calendar month
32 that is at least thirty days after the end of the month during which
33 the department determines that receipts from the surcharge total at
34 least eight million dollars during the fiscal biennium. The surcharge
35 is imposed again at the beginning of the following fiscal biennium.

36 (ii) The suspension of the surcharge under (a)(ii) of this
37 subsection (3) takes effect on the later of the first day of October
38 of any federal fiscal year for which the federal government
39 appropriates at least two million dollars for participation in forest

1 and fish report-related activities by federally recognized Indian
2 tribes located within the geographical boundaries of the state of
3 Washington, or the first day of a calendar month that is at least
4 thirty days following the date that the office of financial
5 management makes a certification to the department under subsection
6 (5) of this section. The surcharge is imposed again on the first day
7 of the following July.

8 (4) (a) If, by October 1st of any federal fiscal year, the office
9 of financial management certifies to the department that the federal
10 government has appropriated funds for participation in forest and
11 fish report-related activities by federally recognized Indian tribes
12 located within the geographical boundaries of the state of Washington
13 but the amount of the appropriation is less than two million dollars,
14 the department must adjust the surcharge in accordance with this
15 subsection.

16 (b) The department must adjust the surcharge by an amount that
17 the department estimates will cause the amount of funds deposited
18 into the forest and fish support account for the state fiscal year
19 that begins July 1st and that includes the beginning of the federal
20 fiscal year for which the federal appropriation is made, to be
21 reduced by twice the amount of the federal appropriation for
22 participation in forest and fish report-related activities by
23 federally recognized Indian tribes located within the geographical
24 boundaries of the state of Washington.

25 (c) Any adjustment in the surcharge takes effect at the beginning
26 of a calendar month that is at least thirty days after the date that
27 the office of financial management makes the certification under
28 subsection (5) of this section.

29 (d) The surcharge is imposed again at the rate provided in
30 subsection (1) of this section on the first day of the following
31 state fiscal year unless the surcharge is suspended under subsection
32 (3) of this section or adjusted for that fiscal year under this
33 subsection.

34 (e) Adjustments of the amount of the surcharge by the department
35 are final and may not be used to challenge the validity of the
36 surcharge imposed under this section.

37 (f) The department must provide timely notice to affected
38 taxpayers of the suspension of the surcharge or an adjustment of the
39 surcharge.

1 (5) The office of financial management must make the
2 certification to the department as to the status of federal
3 appropriations for tribal participation in forest and fish report-
4 related activities.

5 (6) This section expires July 1, 2036.

6 NEW SECTION. **Sec. 6.** The provisions of RCW 82.32.808 do not
7 apply to sections 4 and 5 of this act.

8 NEW SECTION. **Sec. 7.** If specific funding for the purposes of
9 this act, referencing this act by bill or chapter number, is not
10 provided by June 30, 2019, in the omnibus appropriations act, this
11 act is null and void."

E3SHB 1324 - S COMM AMD

By Committee on Financial Institutions, Economic Development &
Trade

OUT OF ORDER 04/16/2019

12 On page 1, line 2 of the title, after "act;" strike the remainder
13 of the title and insert "amending RCW 82.04.260 and 82.04.261;
14 creating new sections; and providing an expiration date."

EFFECT: (1) Directs the Washington State Institute for Public
Policy to conduct a study on certain programs incentivizing private
investment and job creation in rural and distressed communities.

(2) Removes language creating the Rural Development and
Distressed Opportunity Zone Program.

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