

FINAL BILL REPORT

E3SHB 1324

PARTIAL VETO C 336 L 19 Synopsis as Enacted

Brief Description: Creating the Washington rural development and opportunity zone act.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Chapman, Maycumber, Springer, Chandler, Blake, Stokesbary, Steele, Reeves, Pettigrew, Dolan, Volz, Barkis, Eslick, Lekanoff, Tharinger, Hoff, Jinkins, Kilduff and Leavitt).

House Committee on Rural Development, Agriculture, & Natural Resources
House Committee on Finance
House Committee on Appropriations
Senate Committee on Financial Institutions, Economic Development & Trade
Senate Committee on Ways & Means

Background:

Business and Occupation Taxes.

Washington's major business tax is the B&O tax. The B&O tax is imposed on the gross receipts of all taxable business activities conducted within the state, unless otherwise exempt. There is no deduction for the costs of doing business. Revenues are deposited into the State General Fund. There are several rate categories and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities. Business and occupation taxes are collected by the Department of Revenue.

Business and Occupation Taxes—Timber Products.

In 2006 B&O tax rate reductions were provided for the timber industry. The B&O tax rate was reduced for the activities of extracting timber or extracting for hire timber, or manufacturing or processing for hire logs, wood chips, sawdust, wood waste, pulp, recycled paper products, paper and paper products, dimensional lumber, and engineered wood products, plywood, wood doors, and wood windows. The lower B&O tax rate also applies to the sale of standing timber. The B&O tax rate for these activities is 0.2904 percent. The reduced tax rate expires July 1, 2024.

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.

Timber Products Surcharge.

Since 2007, a 0.052 percent surcharge has been imposed on taxpayers who are subject to the timber products B&O tax. The proceeds of the surcharge are placed in a dedicated account and are used for implementation of the 1999 Forest and Fish Report to the Forest Practices Board and the Governor's Salmon Recovery Office. The surcharge is suspended when the surcharge collections reach \$8 million in the biennium, or when the federal budget contains at least \$2 million in appropriations to support tribal participation in forest and fish related activities. If the federal appropriation is less than \$2 million, the surcharge rate is reduced.

State Building Code.

The State Building Code (Code) establishes minimum performance standards and requirements for construction and construction materials in the state, consistent with accepted standards of engineering, fire, and life safety. The Code comprises a number of model codes and standards, developed and published by international and national organizations, which are adopted by reference in the State Building Code Act.

Mass timber products are defined in the Code as a type of building component or system that uses large, panelized wood construction, such as cross-laminated timber, glue-laminated timber, and laminated strand timber.

Tax Preference Performance Statement and Expiration Date.

All new tax preference legislation must include a tax preference performance statement, unless exempted. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference.

New tax preferences expire 10 years after the effective date of the tax preference, unless otherwise provided.

Summary:

Study on Certain Statewide Economic Development Programs for Rural and Distressed Communities.

The Washington State Institute for Public Policy (WSIPP) is directed to conduct a study on certain programs incentivizing private investment and job creation in rural and distressed communities. In conducting the study, WSIPP must:

- conduct a 50-state review on the structure and characteristics of Certified Capital Company Programs, New Markets Tax Credit Programs, Rural Jobs Programs, and other similar economic development programs in other states; and
- review any available research on these initiatives and, to the extent possible, describe the effects of each type of initiative on employment, earnings, property values, and job creation.

The report is due to the appropriate committees of the Legislature by July 1, 2020.

Timber Product Business and Occupation Tax Extension.

The expiration date of the reduced business and occupation (B&O) tax rate associated with timber products is extended from July 1, 2024, to July 1, 2045. The extension of the reduced tax rate is exempted from the requirement to include a tax preference performance statement.

Timber Products Surcharge.

The expiration date of the timber products surcharge is extended from June 30, 2024, to July 1, 2045. The requirement that the timber products surcharge be suspended if the federal government appropriates at least \$2 million for participation in forest and fish related activities by federally recognized Indian tribes is removed. Any receipts above \$8 million in a biennium from the surcharge must be used specifically for tribal participation grants. Collection of the surcharge is suspended if the amount in the account reaches the following thresholds in the following years:

- in 2019, the threshold is increased from \$8 million to \$8.5 million;
- in 2024, the threshold is increased from \$8.5 million to \$9.0 million; and
- in 2029, the threshold is increased from \$9.0 million to \$9.5 million.

Mass Timber Products.

Mass timber products, as defined in the State Building Code, are included in the list of timber products that receive the preferential timber products B&O tax rate.

The preferential timber products B&O tax rate may not be construed to affect the taxation of certain other specified activities.

The inclusion of mass timber products in the list of timber products that receive the preferential timber products B&O tax is exempted from requirements regarding a tax preference statement and an expiration date.

Votes on Final Passage:

House	97	0	
Senate	47	1	(Senate amended)
House			(House refused to concur)
Senate	40	9	(Senate receded/amended)
House	94	0	(House concurred)

Effective: July 28, 2019

Partial Veto Summary: The section requiring the Washington State Institute for Public Policy to conduct a 50-state review of programs that incentivize job creation and private investment in rural and distressed communities was vetoed. The section providing that the act is null and void if specific funding is not provided in the operating budget was vetoed.