
**Technology, Energy &
Communications Committee**

HB 2770

Brief Description: Providing tax relief for the use of technology with reduced environmental impact.

Sponsors: Representatives Ericksen, Dunn, Linville and Holmquist.

Brief Summary of Bill

- Provides a business and occupation tax credit for pressurized steam pulp washing technology and anaerobic digester technology.
- Provides a retail sales and use tax exemption for anaerobic digesters using livestock manure.

Hearing Date: 1/31/06

Staff: Scott Richards (786-7156).

Background:

Anaerobic Digester

Anaerobic digesters are used to create anaerobic (i.e. without oxygen) conditions so that anaerobic bacteria can efficiently digest biomass, sewage or other organic matter. The process breaks down the waste into simpler substances like methane, carbon dioxide, water and nitrates. The methane can be captured and used for fuel.

Business and Occupation Tax Credit

Business and Occupation (B&O) means taxes imposed on most business activities for the privilege of engaging in business. The B&O taxes are based on gross receipts of all businesses operating in Washington. Businesses are taxable according to the activities in which they engage and may be subject to more than one tax rate, depending upon the source of their income. Firms that engage in multiple activities with respect to the same product, such as manufacturing and wholesaling, receive credit for taxes paid on the initial activity.

Four principal tax classifications accounted for over 90 percent of total B&O tax liability, prior to credits, in 2003: manufacturing, 6 percent; wholesaling, 21.5 percent (including in-state sales by manufacturers); retailing, 25.6 percent; and services (including financial, insurance, and real estate), 37.8 percent.

Exemptions, Deductions and Credits

The B&O tax is basically a tax on gross business receipts with no deduction for costs of doing business, such as payments for raw materials or wages paid to employees. Nonetheless, many exemptions, deductions, and credits are provided for specific types of business activities. Some examples of credits include:

- small business credit of \$35 per month;
- payments for ride-sharing/commute trip reduction programs;
- \$2,000 credit for new jobs by manufacturing, R&D, or computer firms in rural areas;
- income from providing help-desk services in rural counties;
- pre-production expenses associated with super-efficient aircraft;
- property tax paid on facilities used to produce super-efficient aircraft;
- purchases of electricity/natural gas by aluminum smelters.

Retail Sales and Use Tax Exemption for Anaerobic Digester Using Dairy Manure

To support the dairy industry in Washington, exemption from retail sales/use tax is provided for anaerobic digesters that are used primarily to treat dairy manure. The exemption covers construction, equipment and installation costs.

Livestock

Livestock means horses, mules, donkeys, cattle, bison, sheep, goats, swine, rabbits, llamas, alpacas, ratites (e.g. ostrich and emu), poultry, waterfowl, game birds, and other species so designated by statute.

Summary of Bill:

Pressurized Steam Pulp Washing Technology

A pressurized steam pulp washing technology means machinery and equipment that uses a pressure vessel that discharges steam to wash unbleached pulp for paper product-making purposes and that is designed to reduce water consumption in pulp washing processes relative to conventional pulp washing processes that use drum washers, rewashers, and deckers.

Anaerobic Digester Technology

An anaerobic digester means any machinery and equipment that processes manure from livestock into biogas and dried manure using microorganisms in a decomposition process within a closed, oxygen-free container; and tangible personal property that becomes an ingredient or component of the machinery or equipment.

Business and Occupation Tax Credit

Pressurized Steam Pulp Washing Technology

A B&O tax credit is allowed for investment related to pressurized steam pulp washing technology acquired by a paper manufacturer to be used in the manufacturing of pulp, paper, newsprint, or paperboard by the paper manufacturer. This tax credit is extended to labor and services rendered in respect to installing the technology.

The credit is equal to 50 percent of the purchase price or lease price of the pulp washing technology, and 50 percent of charges made for labor and services rendered in respect to installing such technology. If the facility is in a rural county, the credit is equal to the purchase or lease price of the pulp washing technology, and charges made for labor and services rendered in respect to installing such technology.

Anaerobic Digester Technology

A B&O tax credit is allowed for the purchase of anaerobic digestion technology acquired by a person. This tax credit is extended to labor and services rendered in respect to installing the technology.

The credit is equal to 50 percent of the purchase price or lease price of the anaerobic digestion technology, and 50 percent of charges made for labor and services rendered in respect to installing such technology. If the technology is located in a rural county, the credit is equal to the purchase price or lease price of the anaerobic digestion technology, and charges made for labor and services rendered in respect to installing such technology.

For both technologies, if the technology is leased, the tax credit may be taken for the first ten years of the lease or the duration of the lease, whatever is shorter.

Tax Credit Application, Reporting and Refund Requirements

An application must be made to the Department of Revenue (DOR) that details (a) the uses of the pressurized steam pulp washing technology or anaerobic digestion technology, (b) total cost of acquiring the technology, (c) date of acquisition, and (d) other information required by the department. The DOR must rule on the application within sixty days. A person taking a credit must keep records necessary for the DOR to verify eligibility for the credit. Credits may be carried over until used, but no refunds may be granted for credits.

Retail Sales and Use Tax Exemption for Anaerobic Digesters using Livestock Manure

The retail sales and use tax exemption for anaerobic digesters is expanded to include livestock as defined in 16.36.005 RCW. Livestock means horses, mules, donkeys, cattle, bison, sheep, goats, swine, rabbits, llamas, alpacas, ratites (e.g. ostrich and emu), poultry, waterfowl, game birds, and other species.

Appropriation: None.

Fiscal Note: Requested on January 27, 2006.

Effective Date: The bill takes effect on July 1, 2006.