

HOUSE BILL REPORT

HB 1513

As Reported by House Committee On:
Finance

Title: An act relating to the excise taxation of forest products businesses.

Brief Description: Modifying provisions relating to the excise taxation of forest products businesses.

Sponsors: Representatives Kessler, Orcutt, Grant, Alexander, Blake, VanDeWege, Kretz, Takko, Linville and Ericks.

Brief History:

Committee Activity:

Finance: 2/7/07, 3/1/07 [DPS].

Brief Summary of Substitute Bill

- Exempts sales of standing timber from real estate excise tax if timber is cut within 30 months and applies 0.2904 percent business and occupation (B&O) tax rate.
- Eliminates manufacturing of products using recycled paper products from timber B&O tax preference and adds manufacturing of products from pulp derived from reclaimed paper or paper products.
- Changes small harvester B&O tax exemption threshold to a \$100,000 deduction.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

Staff: Rick Peterson (786-7150).

Background:

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.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the type of activities conducted. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

Small timber harvesters (less than two million board feet of harvest in a calendar year) with taxable business activity of less than \$100,000 per tax year are exempt from the B&O tax.

Preferential manufacturing B&O tax rates have been provided by the Legislature in recent years for aerospace, semiconductor microchips and materials, biodiesel fuel, aluminum smelting, solar energy systems, and timber/wood products.

In 2006, the B&O tax rate reductions were provided for the timber industry. The B&O tax rate was lowered for extracting 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 wholesales of these products by the extractors and manufacturers. The lower B&O tax rate is phased in; 0.4235 percent applies from July 1, 2006, to July 1, 2007, and 0.2904 percent applies from July 1, 2007, to July 1, 2024. The preferential tax rate expires July 1, 2024. Taxpayers using the lower tax rate are required to file an annual accountability survey.

Starting July 1, 2007, a 0.052 percent surcharge is imposed on taxpayers using the reduced tax rate. 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 report made recommendations to ensure compliance with the Endangered Species Act, restore and maintain minimum riparian habitat to support a harvestable supply of fish, meet Clean Water Act standards, and keep the timber industry economically viable. The surcharge is suspended when the surcharge collections reach \$8 million in the biennium, or 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 then the surcharge rate is reduced.

The real estate excise tax (REET) is imposed on each sale of real property. The state tax rate is 1.28 percent of the selling price. Additional local rates are allowed. The most common total tax rates are 1.53 percent and 1.78 percent. The sale of standing timber is subject to REET.

Summary of Substitute Bill:

The manufacturing of products using recycled paper products is eliminated from the tax preference. The manufacturing of products using short rotation hardwoods, pulp derived from

reclaimed paper or paper products is added. A definition of paper and paper products is added. Books, newspapers, and other printed material are excluded from the definition and therefore from the special tax treatment. The calculation of the 0.052 percent surcharge is clarified so that it does not include the underlying tax rate. The sale of standing timber is exempt from REET if the timber is sold separately from the land and the timber is cut within 30 months of sale. Sales of standing timber formerly taxed under REET is taxed under the B&O tax at 0.2904 percent. The small harvester B&O tax exemption threshold is changed to a \$100,000 deduction. Small harvesters are not required to file the annual accountability report.

Substitute Bill Compared to Original Bill:

The 0.2904 B&O tax on the sales of standing timber and the definition of paper and paper products is added by the substitute bill.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2007.

Staff Summary of Public Testimony:

(In support) This is a technical clean up of last year's timber bill. Last year's bill was adopted to help keep timber a viable industry and keep land in forests. Changing the \$100,000 small harvester exemption threshold to a deduction is important for small forestland owners. Currently if a taxpayer goes over \$100,000 in sales by \$1 they are taxable on the entire amount. The deduction will tax them only on the amount over \$100,000. The tax treatment under the REET for the sale of standing timber needs to be clarified. The inclusion of recycled paper products in last year's bill had some unintended consequences. The goal is to help the industry but keep the exemption narrow. The surtax provides continuity of funding for the Forest and Fish report. The calculation of the surtax needs to be fixed.

(Neutral) The practice of taxing standing timber under the REET has been a long standing policy. The restructuring of the timber industry has resulted in changes in the way companies report the sale. The Department of Revenue started the rulemaking process on when sales of standing timber is subject to the REET.

(Opposed) None.

Persons Testifying: (In support) Representative Kessler, prime sponsor; Deborah Mingua, Washington Forest Protection Association; Martin Flynn, Washington Farm Forestry Association; Robert Meyer, Rayonier; Tom Swanson, Green Crow; Bill Stauffacher, American Forest and Paper Association; Gary Graves, Department of Natural Resources; and Megan Lynch, Cascade Land Conservancy.

(Neutral) Cindi Holmstrom and Lawrence Reeves, Department of Revenue.

Persons Signed In To Testify But Not Testifying: None.