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**SUBSTITUTE HOUSE BILL 2857**

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**State of Washington 64th Legislature 2016 Regular Session**

**By** House Agriculture & Natural Resources (originally sponsored by Representatives Blake, Harris, Rossetti, Walsh, Wilcox, Fey, and Kilduff)

AN ACT Relating to tax incentives that will promote the manufacturing and use of sustainable wood materials; adding a new section to chapter 82.04 RCW; adding a new section to chapter 82.08 RCW; adding a new section to chapter 82.12 RCW; creating new sections; and providing an expiration date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  (1) The legislature finds that cross-laminated timber is a sustainable alternative to traditional building materials. The legislature further finds that construction using cross-laminated timber is currently cost-prohibitive due to a lack of supply of this material, despite the vast natural resources available in Washington to create this material and the strength of Washington's wood manufacturing and timber industries. It is the legislature's specific public policy objective to promote the manufacturing of sustainable materials for use in construction. The legislature intends to provide a business and occupation tax deduction for the manufacturing and sale of cross-laminated timber and a sales tax exemption for construction projects that use this material, thereby promoting the manufacture of sustainably harvested timber products, thereby stimulating economic growth and job creation in Washington's rural communities, and thereby encouraging the use of sustainable materials in construction projects.

(2)(a) This section is the tax preference performance statement for the tax preferences contained in this act. This performance statement is only intended to be used for subsequent evaluation of the tax preferences. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(b) The legislature categorizes the tax preference in section 2 of this act as one intended to create jobs, as indicated in RCW 82.32.808(2)(c), and the tax preference in section 3 of this act as one intended to induce certain designated behavior by taxpayers, as indicated in RCW 82.32.808(2)(a).

(c) To measure the effectiveness of this act in achieving the specific public policy objective described in (b) of this subsection, the joint legislative audit and review committee must, at minimum, evaluate the following:

(i) The number of businesses who are claiming the business and occupation tax deduction in section 2 of this act, and the total relief provided to them, as reported to the department of revenue on an annual basis;

(ii) The number of taxpayers who benefit from the exemptions in sections 3 and 4 of this act, and the total relief provided to them, as reported to the department of revenue on an annual basis; and

(iii) The number of construction projects, the charges for which qualify for the exemptions in sections 3 and 4 of this act, as verified by local government building departments and reported to the department of revenue.

(d) In order to obtain the necessary data to perform a review of the tax preference in section 2 of this act, persons using this preference must file an annual application with the department of revenue to be eligible to claim the preference.

(e) In addition to the data sources described under this section, the joint legislative audit and review committee may use any other data it deems necessary in performing the evaluation under (c) of this subsection.

(f) The joint legislative audit and review committee must review the tax preferences provided in this act as part of its normal review process of tax preferences. The committee must specifically assess the number of employment positions for taxpayers claiming the preference in section 2 of this act, using data provided by the department of revenue, and estimate the cost per job based on the amount of credit taken by eligible persons.

NEW SECTION. **Sec.**  A new section is added to chapter 82.04 RCW to read as follows:

(1) In computing the tax there may be deducted from the measure of tax imposed under RCW 82.04.250, 82.04.260, and 82.04.270 for amounts derived from the sale of cross-laminated timber, but only when the cross-laminated timber is manufactured by the seller.

(2) The deduction in subsection (1) of this section also applies with respect to the tax imposed under RCW 82.04.260 and 82.04.261 for amounts derived from the manufacture of cross-laminated timber.

(3) For the purposes of this section, "cross-laminated timber" means a prefabricated engineered wood product consisting of not less than three layers of solid-sawn lumber or structural composite lumber where the adjacent layers are cross oriented and bonded with structural adhesive to form a solid wood element.

(4) A person claiming the deduction provided in this section must file a complete annual survey with the department under RCW 82.32.585.

NEW SECTION. **Sec.**  A new section is added to chapter 82.08 RCW to read as follows:

(1) A person who has paid the tax levied by RCW 82.08.020 and any local tax levied under chapter 82.14 RCW for the charges made for construction of a new building that meets the conditions in subsection (2) of this section is eligible for an exemption in the form of a remittance. The amount of remittance is computed under subsection (3) of this section and is based on both the state and the local shares of sales tax.

(2) The exemptions provided in this section and in section 4 of this act are only available to charges related to the construction of a building that meets the following conditions:

(a) For buildings that exceed three stories:

(i) At least seventy-five percent of the design lateral story force in any direction on all floors above the second floor of the structure is resisted by cross-laminated timber horizontal diaphragms, as verified by the city or county authority having jurisdiction at permitting; or

(ii) At least seventy-five percent of the design lateral story force in any direction on all floors above the second floor of the structure is resisted by cross-laminated timber vertical shear walls, as verified by the city or county authority having jurisdiction at permitting.

(b) For buildings that are three stories or less:

(i) At least seventy-five percent of the design lateral story force in any direction on all floors above the first floor of the structure is resisted by cross-laminated timber horizontal diaphragms, as verified by the city or county authority having jurisdiction at permitting; or

(ii) At least seventy-five percent of the design lateral story force in any direction on all floors above the first floor of the structure is resisted by cross-laminated timber vertical shear walls, as verified by the city or county authority having jurisdiction at permitting.

(3) A person claiming an exemption in the form of a remittance under this section must pay the tax imposed by RCW 82.08.020 and any local tax imposed under chapter 82.14 RCW. The buyer may then apply to the department for remittance of all or part of the tax paid under RCW 82.08.020 and chapter 82.14 RCW. The remittance is equal to one hundred percent of the amount of tax paid for qualifying construction.

(4) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Building" means any structure or facility.

(b) "Construction" means the labor and services rendered by any person with respect to the constructing of a new building or other new structure and the tangible personal property that becomes an ingredient or component of a new building or other structure during the course of constructing the building or other structure.

(c) "Cross-laminated timber" means a prefabricated engineered wood product consisting of not less than three layers of solid-sawn lumber or structural composite lumber where the adjacent layers are cross oriented and bonded with structural adhesive to form a solid wood element.

(d) "Design lateral story force" has the same meaning as provided in the international building code.

(e) "Horizontal diaphragm" means structural roof and floor components designed to transfer lateral forces in the plane of the component to the vertical shear walls of the lateral force-resisting system.

(f) "Person" has the same meaning as provided in RCW 82.04.030.

(g) "Vertical shear wall" means structural wall components that have a slope of sixty degrees or greater with the horizontal plane designed to resist lateral forces acting in the plane of the component.

NEW SECTION. **Sec.**  A new section is added to chapter 82.12 RCW to read as follows:

(1) A person who has paid the tax levied by RCW 82.12.020 or any local tax levied according to chapter 82.14 RCW upon labor and services rendered with respect to the constructing of a new building that meets the conditions in section 3(2) of this act, or on tangible personal property that becomes an ingredient or component of a building during the course of the constructing of a new building that meets the conditions in section 3(2) of this act, is eligible for an exemption in the form of a remittance. The amount of remittance is computed under subsection (2) of this section and is based on both the state and the local shares of sales tax.

(2) A person claiming an exemption in the form of a remittance under this section must pay the tax imposed by RCW 82.12.020 and any local tax imposed under chapter 82.14 RCW. The person may then apply to the department for remittance of all or part of the tax paid under RCW 82.12.020 and chapter 82.14 RCW. The remittance is equal to one hundred percent of the amount of tax paid for qualifying construction.

(3) The definitions in section 3 apply to this section.

NEW SECTION. **Sec.**  Section 2 of this act applies to any amounts derived on or after July 1, 2016.

NEW SECTION. **Sec.**  Sections 3 and 4 of this act apply to charges on or after July 1, 2016.

NEW SECTION. **Sec.**  Sections 2, 3, and 4 of this act expire July 1, 2023.

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