

SENATE BILL REPORT

SB 6243

As of January 25, 2024

Title: An act relating to providing a state business and occupation tax exemption to encourage clean technology manufacturing in Washington.

Brief Description: Providing a state business and occupation tax exemption to encourage clean technology manufacturing in Washington.

Sponsors: Senators Mullet, Billig, Lovick, Nguyen and Shewmake.

Brief History:

Committee Activity: Business, Financial Services, Gaming & Trade: 1/25/24.

Brief Summary of Bill

- Establishes a business and occupation tax exemption for manufacturers engaged in clean technology manufacturing beginning January 1, 2025.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES, GAMING & TRADE

Staff: Kellee Gunn (786-7429)

Background: Business and Occupation Tax. Washington State's business and occupation (B&O) tax is a gross receipts tax; measured on the value of products, gross proceeds of sale, or gross income of the business. The rate of the tax varies by the classification of the business.

Designation as a Hydrogen Hub. In October 2023, the Pacific Northwest, consisting of the state of Washington, Oregon, and Montana, was chosen by the Department of Energy as one of seven Regional Clean Energy Hydrogen Hubs. This designation may provide up to \$1 billion in matching federal funding to accelerate commercial-scale deployment of low-cost, clean hydrogen.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Summary of Bill: Business and Occupation Tax Exemption. Beginning January 1, 2025, manufacturers engaged in clean technology manufacturing are exempt from the B&O tax. This exemption expires January 1, 2035. Beneficiaries of the exemption are not required to report the amount of the tax preference claimed to the Department of Revenue, but must submit an annual tax performance report.

Clean Technology Manufacturing. Clean technology manufacturing is defined to mean manufacturing tangible personal property exclusively or primarily used in the following:

- vehicles, vessels, and other modes of transportation that emit no exhaust gas from the onboard source of power, other than water vapor;
- charging and fueling infrastructure for electric, hydrogen, or other types of vehicles that emit no exhaust gas from the onboard source of power, other than water vapor;
- generation of renewable or green electrolytic hydrogen;
- production of energy from alternative energy resources;
- retrofitting of megawatt-class diesel vehicles, vessels, and other modes of transportation to hybrid diesel-electric;
- production of clean fuels; and
- storage facilities.

Tax Performance Statement. A tax preference performance statement is included. The tax preference is intended to induce certain designated behavior by taxpayers, improve industry competitiveness, and create jobs.

It is the Legislature's specific public policy objective to provide state-level support to the clean technology sector and supplement federal incentives, including potential federal funding through the Pacific Northwest's designation as a hydrogen hub.

To measure effectiveness, the Joint Legislative Audit Review Committee must evaluate eight years of available data, reporting its findings by December 31, 2033. The review must include an evaluation of:

- the average construction wages for eligible projects;
- the number of jobs created in the clean technology sector;
- the use of apprenticeship programs, and women, minority, or veteran-owned businesses by eligible projects;
- the degree to which the preference encourages manufacturing and component production for technologies that reduce greenhouse gas emissions;
- whether facilities benefiting from the tax preference would have been developed without the tax preference; and
- any other relevant metric.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: This will help clean tech manufacturing in this state, by getting some funding out the door for this industry and supplement funding from grant programs. This bill fixes two big goals of AWB—to double the manufacturing base of OMWBE businesses and expand the clean energy industry. Though the fiscal impact seems high, this will bring more revenue into our state. Washington has made a commitment to change to a clean economy. We need to buy equipment to get to where Washington wants to be. The federal government has made the U.S. a great place for manufacturing.

This will make Washington look like a place to come. This bill will attract businesses and retain jobs in this sector. This will show how committed Washington is in investing in the clean technology energy industry. A Norwegian battery manufacturer is making a site selection now between Washington State and Montana. This would give Washington the edge and make us a more attractive place to select. If we don't have this incentive, we will not get these developments and manufacturers. The Climate Commitment Act's (CCA) investment is exciting. This proposal is strong for use of CCA funds, but the bill needs to be further tied CCA. The speed in which this could be effective to the market is motivating to the marketplace.

OTHER: The DOR is neutral on this bill but has some technical changes that have been sent to the sponsor and staff. First, our agency does not have clean energy experts on staff and would prefer another entity to make that distinction when determining whether an entity qualifies for an exemption as a clean technology manufacturer. There could be confusion caused with how the return is turned in by the taxpayer. In cases of retail sales, the exempted taxpayers under this bill will still need to report retail sales tax, which will require reporting retailing B&O on the excise tax return, even if the retailing B&O is intended to be negated.

Commerce is OTHER, as it has some ideas regarding the definitions used in the bill. The clean investment economy is massive and significant and is driven by both private and public dollars. This is very nascent industry and getting these projects off the ground is important. There is a lot of competition out there.

Persons Testifying: PRO: Senator Mark Mullet, Prime Sponsor; Emily Shay, Association of Washington Business; Adam Day, First Mode; Michelle Detwiler, Renewable Hydrogen Alliance; KARL DYE, TRIDEC; Isaac Kastama, Clean & Prosperous Washington.

OTHER: Steve Ewing, Dept. of Revenue; Chris Green, Commerce.

Persons Signed In To Testify But Not Testifying: No one.