

FINAL BILL REPORT

2SHB 1240

C 261 L 03

Synopsis as Enacted

Brief Description: Providing tax incentives for biodiesel and alcohol fuel production.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Sullivan, Crouse, Wood, Morris, Grant, Schoesler, Quall, Ruderman and Schindler).

House Committee on Technology, Telecommunications & Energy

House Committee on Finance

Senate Committee on Ways & Means

Background:

Biodiesel is a non-petroleum diesel fuel produced from renewable sources such as vegetable oils, animal fats, and recycled cooking oils. It can be blended at any percentage with petroleum diesel or used as a pure product (neat diesel). Other states have adopted policies and incentives to encourage the use of biodiesel.

Blended biodiesel is in use in Washington to fuel some passenger cars and municipal vehicles. The Department of Transportation is conducting a pilot program using a biodiesel blend to fuel one of the state's care ferries.

Alcohol fuels are made from crops such as corn and sugar cane, and waste products such as waste paper, grasses, or tree trimmings. Methanol and ethanol are two types of alcohol fuels used in vehicles. Methanol is also produced from fossil fuels such as natural gas.

Business and Occupation Tax. The business and occupation (B&O) tax is Washington's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited in the State General Fund.

Different tax rates apply to six separate categories of business activity. The processing of certain agricultural products is taxed at the rate of 0.138 percent. Manufacturing, wholesaling, and other activities are taxed at the rate of 0.484 percent.

Property Taxes. All real and personal property is subject to property tax each year based on its value, unless a specific exemption is provided by law. There are two classes of property. Real property consists of land and the buildings, structures, and improvements that are affixed to the land. Personal property consists of all other property.

Leasehold Excise Tax. Property owned by federal, state, or local governments is exempt from the property tax. However, private lessees of government property are subject to the leasehold excise tax. The purpose of the leasehold excise tax is to impose a tax burden on persons using publicly-owned, tax-exempt property similar to the property tax that they would pay if they owned the property. The tax is collected by public entities that lease property to private parties.

Cities and counties may impose a local tax which is credited against the state tax. The state tax is deposited into the State General Fund, and county taxes are distributed to taxing districts within the county in the same manner as property taxes.

Holders of a leasehold interest in property prior to January 1, 1993, used primarily for the manufacture of alcohol fuels are exempt from the leasehold excise tax for a period of six years.

Retail Sales and Use Taxes. The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most tangible personal property and some services. In addition, local sales taxes apply. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent; currently, local rates levied range from 0.5 percent to 2.4 percent. The combined tax rate is between a minimum of 7 percent and a maximum of 8.9 percent depending on the location of the purchase. Sales tax is paid by the purchaser and collected by the seller. Sales tax revenue is deposited in the State General Fund.

The use tax is imposed on the use of an item in this state when the acquisition of the item has not been subject to sales tax. The use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the Department of Revenue. Use tax revenue is deposited in the State General Fund.

Distressed Area Sales and Use Tax Deferral Program. The Distressed Area Sales and Use Tax Deferral Program allows deferral of sales and use taxes for buildings, machinery, and equipment of manufacturing businesses as well as research and development businesses locating in specific geographic areas.

The geographic areas include rural counties with a population density of fewer than 100 people per square mile and areas designated as community empowerment zones or counties that contain a community empowerment zone. (Counties that do not qualify include Clark, Island, Thurston, and Snohomish.) Businesses that seek the deferral and are located in a community empowerment zone must also satisfy an employment requirement.

If the business requesting the deferral meets certain requirements for a period of eight years, the sales and use taxes are waived. This tax deferral program expires July 1,

2004.

Summary:

Tax deferrals and exemptions are established for the manufacture of alcohol fuel from a source other than petroleum or natural gas, biodiesel fuels, and biodiesel feedstock.

Sales and use tax exemptions. Investment projects for the manufacture of biodiesel fuel, alcohol fuels, and biodiesel feedstock are eligible for the deferral of sales and use taxes under the same requirements and conditions as the existing Distressed Area Sales and Use Tax Deferral Program. Those requirements and conditions include a determination of eligible geographic areas, eligible investment projects, business reporting, and application requirements. An additional qualifying option includes counties under 225,000 in population and over 225 square miles in area. Participants in this deferral program will not be accepted after June 30, 2009.

Property and leasehold excise tax exemptions. Buildings, machinery, equipment, and other personal property used in the manufacture of biodiesel fuels, alcohol fuels, or biodiesel feedstock, and the land on which this property is located, are exempt from property taxes for six years from the date the facility becomes operational. The amount of the exemption is based on the annual percentage of the total value of all products manufactured that is the value of the alcohol fuels, biodiesel fuels and biodiesel feedstock manufactured.

Biodiesel fuel and biodiesel feedstock are added to the current alcohol fuel exemption of the leasehold excise tax. Participation in the exemption is reinstated for alcohol. No new participants based on either fuel will be accepted after January 1, 2010.

Business and Occupation Tax. For purposes of payment of the B&O tax, those engaged in the manufacture of alcohol fuel, biodiesel fuel, and biodiesel feedstock pay at the rate of 0.138 percent on their gross receipts. This special B&O tax rate of 0.138 percent is effective until July 1, 2009, at which time it will change to the standard B&O tax rate of 0.484.

Votes on Final Passage:

House 93 1
Senate 41 4 (Senate amended)
House 97 1 (House concurred)

Effective: July 1, 2003
July 1, 2004 (Sections 1-8)