
**Technology, Telecommunications
& Energy Committee**

HB 2732

Brief Description: Establishing tax deferrals for wood biomass fuel investment projects.

Sponsors: Representatives Tom, Morris, Ruderman, Sullivan, Nixon, Crouse, Clements, Hudgins, Pearson, Jarrett and Wood.

Brief Summary of Bill

- Removes the geographic limitation for application of sales and use tax exemptions for the manufacture of wood biomass fuel.
- Modifies the termination date of the wood biomass fuel tax incentives to require termination prior to 2009 if the volume of wood biomass fuel manufactured is equal to 20 percent of the total of the volume of diesel fuel and wood biomass fuel manufactured.

Hearing Date: 1/30/04

Staff: Pam Madson (786-7166).

Background:

Liquid fuels can be produced from wood and wood residues. Two of the methods used for producing the oils that are used in fuel products are pyrolysis and gasification. Pyrolysis is the breakdown of biomass in the absence of oxygen at temperatures above 250 C. The process produces a solid (char or charcoal), a liquid (bio-oil), and a mixture of gases. Much of the present interest in pyrolysis focuses on its liquid output (bio-oil) due to its high energy density (energy per unit of volume) and potential for liquid fuel substitution. Wood-derived bio-oil can be used through a process of gasification to produce synthetic liquid fuel for use as a transportation fuel. It can be blended at any percentage with petroleum diesel or gasoline or used as a pure product.

Retail sales and use tax. 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.

In 2003, the Legislature enacted tax deferrals and exemptions for the manufacture, retail sale and distribution of wood biomass fuel.

With respect to sales and use taxes, investment projects for the manufacture of wood biomass fuel 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.

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.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are many exemptions for specific types of business activities as well as certain deductions and credits permitted under the B&O tax statutes.

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.

The 2003 act also provided a preferential B&O tax rate for wood biomass fuel manufacturers of 0.138 percent; a deduction from B&O taxable income for income derived from amounts of wood biomass fuel sold by retailers; and a sales and use tax exemption on equipment used for the retailing of wood biomass fuel. These tax incentives expire June 30, 2009.

Summary of Bill:

The sales and use tax exemption for investment projects for the manufacture of wood biomass fuel is expanded to apply to individuals seeking the exemption regardless of geographic location.

The excise tax incentives for wood biomass fuel terminate prior to 2009 if the volume of wood biomass fuel manufactured is equal to 20 percent of the total of the volume of diesel fuel and wood biomass fuel manufactured. The wood biomass-related incentives that would terminate are the sales and use tax exemption on investment projects for manufacturers; the preferential B&O tax rate for manufacturers; the deduction from B&O taxable income for sales of blends of the fuel by retailers; and the sales and use tax exemption on equipment used for the retailing of wood biomass fuel.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.