

SENATE BILL REPORT

EHB 2146

As Reported By Senate Committee On:
Natural Resources, Energy & Water, April 3, 2003
Ways & Means, April 7, 2003

Title: An act relating to tax incentives for wood biomass fuel production, distribution, and retail sale.

Brief Description: Providing tax incentives for wood biomass fuel production, distribution, and sale.

Sponsors: Representatives Tom, Sullivan and Eickmeyer.

Brief History:

Committee Activity: Natural Resources, Energy & Water: 3/26/03, 4/3/03 [DPA-WM].
Ways & Means: 4/7/03 [DPA (NR)].

SENATE COMMITTEE ON NATURAL RESOURCES, ENERGY & WATER

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.
Signed by Senators Morton, Chair; Hewitt, Vice Chair; Doumit, Fraser, Hale, Hargrove, Honeyford, Oke and Regala.

Staff: Vic Moon (786-7469)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended by Committee on Natural Resources, Energy & Water.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Doumit, Hale, Honeyford, Johnson, Parlette and Sheahan.

Staff: Catherine Suter (786-7442)

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 250C. 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.

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.

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.

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 leasehold excise 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.

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.

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 currently 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 of Amended Bill: Tax deferrals and exemptions are established for the manufacture, retail sale, and distribution of wood biomass fuel. Wood biomass fuel is created from wood which has not been treated with chemical preservatives.

Investment projects for the manufacture of wood biomass 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 population and over 225 square miles in area. Participants in this deferral program will not be accepted after June 30, 2009.

Beginning July 1, 2003, and until June 30, 2009, a person who sells wood biomass fuels at retail may claim an exemption from state sales and use taxes paid on the purchase of machinery, equipment, and buildings used for retailing wood biomass fuels. Vehicles used for wood biomass distribution are also exempt from sales and use tax as long as the amount of wood biomass fuel they haul equals at least 75 percent of all fuel distributed by the vehicle. Qualifying fuels are fuels with at least 20 percent fuel derived from wood biomass.

Buildings, machinery, equipment, and other personal property used in the manufacture of wood biomass fuels, 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 wood biomass fuels manufactured. Wood biomass is 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.

For purposes of payment of the business and occupation (B&O) tax, those engaged in the manufacture of wood biomass fuels pay at the rate of .138 percent on their gross receipts. Beginning July 1, 2003, and until June 30, 2009, a business may deduct from its B&O tax obligation the amounts it receives from the retail sale or distribution of wood biomass fuels. The amounts deducted must be those attributable to the pure biodiesel or alcohol portion of the fuel blend.

Amended Bill Compared to Original Bill: The striking amendment defines wood biomass fuel so that it would not include chemically treated wood.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause for sections 9 through 15 and these sections take effect July 1, 2003. Sections 1 through 8 of the bill take effect July 1, 2004.

Testimony For (Natural Resources, Energy & Water): Wood can be another source for biofuel and all parts, including dry debris, can be used. The process to create the fuel and the use of the fuel is environmentally positive. This program for wood use would be the first in the United States and could be a very important economic factor for our state in the future.

Testimony Against (Natural Resources, Energy & Water): None.

Testified (Natural Resources, Energy & Water): Representative Rodney Tom, prime sponsor (pro); Steve Lindstrom, NW Energy Coalition (pro); Bill Pickell, Contract Loggers (pro); Bill Conrad, Conrad Industries (pro).

Testimony For (Ways & Means): This bill will help develop an emerging technology so that Washington can become a national leader. Washington would be the first state in the nation to produce this fuel. This is for a cheap, renewable, greenhouse-compatible fuel and creates a needed market.

Testimony Against (Ways & Means): None.

Testified (Ways & Means): PRO: Steve Lindstrom, NW Energy Coalition; Bill Pickell, WA Contract Loggers.