

SENATE BILL REPORT

SB 5111

As Reported By Senate Committee On:
Water, Energy & Environment, February 10, 2005
Ways & Means, March 7, 2005

Title: An act relating to providing incentives to support the renewable energy industry in Washington state.

Brief Description: Providing tax incentives for solar energy systems.

Sponsors: Senators Morton, Poulsen, Parlette, Roach, Schmidt, Oke, Hewitt, Zarelli, Finkbeiner, Stevens, Swecker, Deccio, Honeyford, Mulliken, Kline and Sheldon.

Brief History:

Committee Activity: Water, Energy & Environment: 1/18/05, 2/10/05 [DPS-WM].
Ways & Means: 2/24/05, 3/7/05 [DP2S].

SENATE COMMITTEE ON WATER, ENERGY & ENVIRONMENT

Majority Report: That Substitute Senate Bill No. 5111 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Poulsen, Chair; Rockefeller, Vice Chair; Morton, Ranking Minority Member; Fraser, Hewitt, Honeyford, Mulliken, Pridemore and Regala.

Staff: Richard Rodger (786-7461)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5111 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair; Fraser, Vice Chair; Zarelli, Ranking Minority Member; Brandland, Fairley, Hewitt, Kohl-Welles, Parlette, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Thibaudeau.

Staff: Dean Carlson (786-7305)

Background: A recent report by the Washington State University Energy Program concluded that while the solar electric industry is rapidly developing in both the domestic and global markets, solar electric corporations are leaving the state. It further concluded that the dramatic growth experienced by Washington's solar electric market cannot be maintained without further incentives that recognize the unique forces and issues involved in the solar industry.

Most manufacturing businesses in the state pay the general manufacturing business and occupation (B&O) tax of 0.484 percent times the value of their product. Special B&O tax classifications and rates have been enacted by the legislature to address specialized situations,

such as the semiconductor manufacturer classification, enacted in 2003, to create incentives for the semiconductor industry.

Many manufacturing businesses are eligible for a sales and use tax exemption that exempts all machinery and equipment used in manufacturing, and installation labor, from the sales and use tax.

Current law also provides additional tax incentives for certain businesses that locate in rural counties with fewer than 100 people per square mile, including the following that apply to manufacturing businesses:

- a sales and use tax exemption on buildings and equipment used in manufacturing;
- a 20 percent B&O tax credit for job training up to \$5,000 per year; and
- a B&O tax credit for new manufacturing, research and development, or computer service jobs; \$2,000 for jobs paying less than \$40,000 per year and \$4,000 for jobs paying at least \$40,000.

Summary of Second Substitute Bill: The business and occupation (B&O) tax for businesses manufacturing solar energy systems is set at a rate equal to the value of the product multiplied by 0.138 percent. Taxes paid in manufacturing these systems is granted as a B&O tax credit. These two provisions expire on June 30, 2014.

The following additional tax incentives are provided for solar energy system manufacturers that locate in a rural county, defined as a county with less than four people per square mile:

- a sales tax exemption for the construction of new buildings;
- a use tax exemption on tangible personal property incorporated into the project;
- a B&O tax job credit of \$3,000 for each full-time manufacturing production position; and
- a property tax exemption on the machinery and equipment used in manufacturing.

No application for any of the tax incentives is necessary, except for the property tax exemption which must be filed with the appropriate county assessor. Businesses claiming exemptions or credits under this program must file annual reports with the Department of Revenue detailing employment, wages, and health and retirement benefits.

Reports must be made by the Joint Legislative Audit and Review Committee to the Legislature in November of 2010 and 2013, on the effectiveness of this measure in accomplishing its goals of keeping the state competitive.

Second Substitute Bill Compared to Substitute Bill: Unnecessary administrative provisions were removed. Clarified that the sales tax exemption on new building included tangible personal property.

Substitute Bill Compared to Original Bill: The original bill contained two B&O tax rates, one statewide rate, and the other for counties with high unemployment. The substitute provides a single rate at 0.138 percent. The substitute also includes a new provision allowing a B&O tax credit for manufacturing taxes paid. The qualifier of a high unemployment rate is replaced with a provision allowing other exemptions and credits for rural counties. A new definition of rural counties is created.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For (Water, Energy & Environment): This bill will create renewable energy manufacturing jobs in Washington. The bill will also allow the state to maintain its edge in the solar market and stop additional solar industries from leaving the state. The solar industry is currently a \$150 million dollar industry in the state with companies involved in silicon purification, crystal growth and inverter production. The bill will help capture the remaining elements of the solar energy "value chain" by creating a solar module manufacturing industry. The state's proximity to the markets for inputs and end-use products can provide a competitive edge for manufacturers locating here.

Testimony Against (Water, Energy & Environment): None.

Who Testified (Water, Energy & Environment): Jake Fey, Mike Nelson, Washington State University Energy Program. PRO: Chris Cheney, Washington Dairy Federation; Jim White, Chelan PUD; Jeremy Smithson, Solar Washington; Danielle Dixon, Northwest Energy Coalition; Toni Potter, League of Women's Voters of Washington.

Testimony For (Ways & Means): None

Testimony Against (Ways & Means): None.

Who Testified (Ways & Means): No one.