

SENATE BILL REPORT

SB 6326

As of January 31, 2008

Title: An act relating to restoring the preferential timber industry business and occupation tax rate to the manufacture of environmentally responsible surface material products from recycled paper.

Brief Description: Restoring the preferential timber industry business and occupation tax rate to the manufacture of environmentally responsible surface material products from recycled paper.

Sponsors: Senator Hargrove.

Brief History:

Committee Activity: Ways & Means: 1/29/08.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dianne Criswell (786-7433)

Background: The business & occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. In general, there are no deductions for the costs of doing business.

Several B&O categories apply to timber harvesting activities, including extracting, extracting-for-hire, manufacturing, and wholesaling. All of these activities are generally taxed at 0.484 percent. If taxpayers perform more than one taxable activity for the same product, they may take a multiple activities tax credit to avoid paying the B&O tax twice on the same amount. Small timber harvesters with gross receipts less than \$100,000 per year are exempt from B&O tax.

Real estate excise tax (REET) is a tax on the sale of real property that is paid by the seller. The state and local governments may impose REET on sales of real property. The highest combined state and local rate is 1.78 percent.

In 2006 the Legislature reduced the B&O tax rate for extracting or extracting-for-hire timber, manufacturing or processing for hire logs, wood chips, sawdust, wood waste, pulp, recycled paper products, paper and paper products, dimensional lumber, engineered wood products, plywood, wood doors, and wood windows. The reduced B&O rate also applies to wholesales of these products by the extractors and manufacturers. The reduced B&O tax rate is phased in: 0.4235 percent applies from July 1, 2006, to July 1, 2007, and 0.2904 percent applies from July 1, 2007, to July 1, 2024. The preferential tax rate expires July 1, 2024.

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

Starting July 1, 2007, a 0.052 percent surcharge is imposed on taxpayers using the reduced tax rate. The proceeds of the surcharge are placed in a dedicated account and are used for implementation of 1999 Forest and Fish Report to the Forest Practices board and the Governor's Salmon Recovery Office. The surcharge is suspended when the surcharge collections reach \$8 million in the biennium, or the federal budget contains at least \$2 million in appropriations to support tribal participation in forest and fish related activities. If the federal appropriation is less than \$2 million then the surcharge rate is reduced.

Taxpayers paying the reduced tax rate are required to file an annual accountability survey and the survey and tax returns must be filed electronically. A taxpayer who fails to complete the required survey forfeits the benefits of the preferential rates and must pay interest, but not penalties, on the additional taxes due.

In 2007, the Legislature amended the reduced B&O tax rate by adding the following:

- the sale of standing timber is exempt from REET if the timber is sold separately from the land and the timber is cut within 30 months of sale. Sales of standing timber formerly taxed under REET are taxed under the B&O tax at 0.2904 percent;
- small harvesters may claim a \$100,000 B&O deduction, replacing the B&O exemption for small harvesters. Small harvesters are no longer required to file an annual survey;
- eliminated manufacturing of products using recycled paper products from the preferential B&O rate;
- added manufacturing of products using short rotation hardwoods and pulp derived from recovered paper or paper products as activities qualified for the reduced rate; and
- changed definitions related to paper and paper products to require products made from at least 90 percent cellulosic material. Excluded books, newspapers, magazines, periodicals, and other printed publications from the definition of paper products.

Summary of Bill: Amends the definition of activities that qualify for the reduced B&O rate to include:

- "Biocomposite surface products" means surface material products containing, by weight or volume, more than fifty percent recycled paper and that also use nonpetroleum-based phenolic resin as a bonding agent.
- "Recycled paper" means paper and paper products having fifty percent or more of their fiber content that comes from postconsumer waste. "Postconsumer waste" means a finished material that would normally be disposed of as solid waste, having completed its life cycle as a consumer item.
- The definition of "timber products," is amended to include "recycled paper," but only when used in the manufacture of biocomposite surface products.

Appropriation: None.

Fiscal Note: Requested on January 17, 2008.

Committee/Commission/Task Force Created: No.

Effective Date: The bill applies retroactively to July 1, 2007, as well as prospectively.

Staff Summary of Public Testimony: OTHER: This bill corrects unforeseen drafting results of the 2007 bill by restoring the preferential rate for certain timber products containing recycled paper and resin.

Persons Testifying: OTHER: Gil Brewer, Department of Revenue.