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## Finance Committee

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### HB 2104

**Brief Description:** Providing a public utilities tax credit for forest derived biomass used to produce energy.

**Sponsors:** Representatives Tharinger, Vick, Van De Wege and Orcutt.

#### Brief Summary of Bill

- Extends the expiration of a business and occupational (B&O) tax credit for the sale of forest derived biomass used for energy production from June 30, 2015, to July 1, 2025.
- Allows unused B&O credits for the sale of forest derived biomass used for energy production to be used for public utility tax credits.
- Requires harvesters who claim either of these credits to file an annual survey with the Department of Revenue.

**Hearing Date:** 3/27/15

**Staff:** Sarah Emmans (786-7288).

#### **Background:**

##### Business and Occupation Tax.

The business and occupation (B&O) tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited into the State General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. There are multiple exemptions, deductions and credits to reduce the B&O tax liability for specific taxpayers and business industries.

##### Public Utility Tax.

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*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.*

The public utility tax (PUT) is applied to gross income derived from operation of public and privately owned utilities, including the general categories of transportation, communications, and the supply of energy and water. The PUT is in lieu of B&O tax. The applicable public utility tax rate depends upon the specific utility activity.

#### B&O Credit for Forest-Derived Biomass.

In 2009, a package of environmental tax incentives was enacted which included a B&O tax credit for harvesters of forest-derived biomass sold or used for the production of electricity, steam, heat or biofuel. Forest-derived biomass consists of tree limbs, tops, needles, leaves, and other woody debris that are residues from such activities as timber harvesting, forest thinning, fire suppression, or forest health, but does not include scalable timber products or firewood. Biofuel includes biodiesel, ethanol, and ethanol blend fuels and renewable liquid natural gas or liquid compressed natural gas made from biogas.

The B&O credit for forest-derived biomass is as follows:

- \$0 per harvested green ton from October 1, 2009, through June 30, 2010;
- \$3 per harvested green ton from July 1, 2010, through June 30, 2013; and
- \$5 per harvested green ton from July 1, 2013, through June 30, 2015.

Credits may not exceed the tax otherwise due for the reporting period, and unused credits may be carried forward for a maximum of two years. The credit expires on June 30, 2015.

#### Annual Survey.

Taxpayers are required to complete either an annual survey or annual report in order to qualify for a variety of new economic development-related tax preferences, or in some cases, when extending existing economic development-related preferences. There are currently 32 economic development-related tax preferences that require one of these supplemental filings. The annual survey includes a report of the tax preference amounts claimed each calendar year and information related to employment positions and wages in Washington.

#### Tax Preference Performance Statement.

In 2013, legislation was enacted which requires all new tax preference legislation to include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference.

### **Summary of Bill:**

#### B&O Credit for Forest-Derived Biomass.

The expiration date of the B&O credit for the sale of forest derived biomass used for energy production is extended from June 30, 2015, to July 1, 2025. The credit amount remains \$5 per harvested green ton of forest derived biomass.

Beginning October 1, 2015, unused forest-derived biomass B&O tax credits may be applied as credits against public utility taxes. The public utility tax credit expires on July 1, 2025.

Annual Survey.

Harvesters claiming the B&O credit for the sale of forest-derived biomass against either B&O taxes or public utility taxes are required to file an annual survey.

Tax Preference Performance Statement.

The legislative intent of this act is to provide a forest-derived biomass credit in order to encourage the collection and use of forest-derived biomass for the purpose of producing renewable energy and to help the state achieve greenhouse gas emissions targets, improve forest health, and reduce the threat of wildfires. If a review finds that the amount of forest-derived biomass harvested and used to produce energy increases by at least an average of 10 percent annually between July 1, 2015, and June 30, 2024, then the legislature intends to extend the expiration of the preference.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect on June 30, 2015.