

HOUSE BILL REPORT

HB 1924

As Reported by House Committee On:
Finance

Title: An act relating to changing the expiration date for the sales and use tax exemption of hog fuel to comply with the 2045 deadline for fossil fuel-free electrical generation in Washington state and to protect jobs with health care and retirement benefits in economically distressed communities.

Brief Description: Changing the expiration date for the sales and use tax exemption of hog fuel to comply with the 2045 deadline for fossil fuel-free electrical generation in Washington state and to protect jobs with health care and retirement benefits in economically distressed communities.

Sponsors: Representatives Tharinger, Chapman and Fey.

Brief History:

Committee Activity:

Finance: 1/24/22, 2/1/22 [DP].

Brief Summary of Bill

- Extends the sales and use tax exemption for hog fuel from June 30, 2024, to June 30, 2034.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 17 members: Representatives Frame, Chair; Berg, Vice Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Dufault, Assistant Ranking Minority Member; Chase, Chopp, Harris-Talley, Morgan, Orwall, Ramel, Springer, Stokesbary, Thai, Vick, Wylie and Young.

Staff: Kyle Raymond (786-7190).

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

Background:

Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 4.0 percent, depending on the location.

Hog Fuel Tax Exemption.

Hog fuel used to produce electricity, steam, heat, or biofuel is exempt from sales and use tax. Taxpayers claiming the exemption must complete an annual tax performance report for each facility owned or operated in the state providing information regarding employment, wage, and taxpayer savings. If a taxpayer claiming the exemption closes a facility in the state, resulting in a loss of jobs, the amount of the tax exempted for the previous two calendar years is due immediately. The hog fuel sales and use tax exemption expires June 30, 2024.

"Hog fuel" is defined as wood waste and other wood residuals, including forest derived biomass and excluding firewood or wood pellets.

"Biofuel" means a liquid or gaseous fuel derived from organic matter intended for use as a transportation fuel including, biodiesel, renewable diesel, ethanol, renewable natural gas, and renewable propane.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

The sales and use tax exemption for hog fuel, including the requirement to continue completing an annual tax performance report for each facility owned or operated in the state, is extended to June 30, 2034.

A tax preference performance statement is included, stating the Legislature's intent to increase the ability of taxpayers claiming the sales and use tax exemption to provide at least 75 percent of their employees with medical and dental insurance and retirement plans.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This bill is part of an effort to make biomass and renewable energy more economically viable for mills. The bill would protect family-wage jobs that include good healthcare and retirement benefits, particularly in rural communities. Economic conditions and the pandemic have created a lot of uncertainty, and this bill provides predictability in pulp and paper manufacturing through extending this exemption.

Hog fuel is the process of taking the debris along the forest floor for use as biofuel. Biomass is a source of renewable energy and is an important option for utilities to cost-effectively comply with clean energy requirements. Biomass contributes to grid reliability. The wood waste used must be sourced using sustainable harvesting practices. The wood waste used reduces fuels on the forest floor and prevents wood decay that would result in emissions.

The Joint Legislative Audit and Review Committee reviewed this hog fuel tax preference and recommended extending the exemption. A version of this bill passed the Legislature in 2020, but the bill was vetoed due to budget concerns related to the pandemic.

(Opposed) This exemption will cost the State General Fund about \$18 million over 10 years, and the exemption will cost counties, cities, and special districts about \$5 million over 10 years. Some tax exemption recipients are large corporations that are heavy carbon emitters, and this bill does nothing to change that. The hog fuel exemption is relatively small for these large corporations, and the fiscal impact to the state and local governments is relatively large. Despite the claims that the exemption helps support rural jobs, a majority of companies receiving the exemption are in urban areas.

Persons Testifying: (In support) Representative Steve Tharinger, prime sponsor; John Rothlin, Avista; and Bill Stauffacher, Northwest Pulp and Paper Association.

(Opposed) John Roskelley.

Persons Signed In To Testify But Not Testifying: None.