Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2454

Brief Description: Extending an existing hazardous substance tax exemption for certain agricultural crop protection products that are temporarily warehoused but not otherwise used, manufactured, packaged, or sold in the state of Washington.

Sponsors: Representatives Ybarra and Chapman.

Brief Summary of Bill

- Extends the hazardous substance tax exemption for agricultural crop protection products until January 1, 2036.

Hearing Date: 2/1/24

Staff: Tracey Taylor (786-7152).

Background:

The hazardous substance tax (HST) is a tax on the first possession of hazardous substances in Washington. The HST applies to petroleum products, certain pesticides, and certain chemicals. For fiscal year 2023 the tax rate on petroleum products was $1.20 per barrel.

Non-petroleum products are subject to a rate of 0.7 percent multiplied by the wholesale value of the products. Any subsequent possession of a product is exempt from the HST after a Washington possessor has paid the tax.

In 2015, the Legislature authorized an exemption from the HST for agricultural crop protection products (pesticides). These products are chemicals used to prevent or control diseases, weeds, or other pests. Under the preference, pesticides warehoused in Washington or transported to or from Washington are exempt from the state's hazardous substance tax, so long as they are not

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manufactured, packaged, sold, or used in the state.

The 2015 legislation contained a Tax Preference Performance Statement (TPPS). According to the TPPS, it was the Legislature's intent to incentivize agricultural pesticide storage in Washington. The TPPS states that if the Joint Legislative Audit and Review Committee (JLARC) found an average increase in revenue of the hazardous substance tax, then the Legislature intended to extend the expiration date of the tax preference.

In its 2023 review, the JLARC found that the preference provides tax relief to Washington businesses distributing pesticides to other states by reducing storage costs and making Washington a more competitive location for storing and distributing pesticides in the Pacific Northwest. However, the JLARC noted that the metric of increasing HST revenue was established before the Legislature changed the tax rate for liquid petroleum products in 2019, which led to a significant increase in HST revenue. The JLARC found that the preference likely had no effect on the revenue increase and recommended that the Legislature consider new metrics.

This tax preference is due to expire January 1, 2026.

Tax Preferences.
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 TPPS that identifies the public policy objective of the preference, as well as specific metrics that the JLARC 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 HST exemption for pesticides sold out of state is extended until January 1, 2036. The TPPS, including the metrics for the JLARC review, from the 2015 legislation is also extended by this act.

Appropriation: None.

Fiscal Note: Available.

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