

SENATE BILL REPORT

SB 6303

As Reported by Senate Committee On:
Environment, Energy & Technology, January 26, 2024
Ways & Means, February 23, 2024

Title: An act relating to providing tax incentives to encourage energy storage system and component parts manufacturing in Washington.

Brief Description: Providing tax incentives to encourage energy storage system and component parts manufacturing in Washington.

Sponsors: Senators Nguyen, Boehnke and Kuderer.

Brief History:

Committee Activity: Environment, Energy & Technology: 1/26/24 [w/oRec-WM, DNP].
Ways & Means: 2/20/24, 2/23/24 [DPS, w/oRec].

Brief Summary of First Substitute Bill

- Provides a preferential business and occupation tax rate of 0.275 percent for businesses engaged in manufacturing, processing for hire, or selling energy storage systems or component parts used to manufacture such systems.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6303 be substituted therefor, and the substitute bill do pass.

Signed by Senators Robinson, Chair; Mullet, Vice Chair, Capital; Nguyen, Vice Chair, Operating; Wilson, L., Ranking Member, Operating; Gildon, Assistant Ranking Member, Operating; Schoesler, Ranking Member, Capital; Rivers, Assistant Ranking Member, Capital; Warnick, Assistant Ranking Member, Capital; Billig, Boehnke, Braun, Conway, Dhingra, Hunt, Keiser, Muzzall, Pedersen, Randall, Saldaña, Torres, Van De Wege, Wagoner and Wellman.

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.

Minority Report: That it be referred without recommendation.

Signed by Senator Hasegawa.

Staff: Jeffrey Mitchell (786-7438)

Background: The state business and occupation (B&O) tax is Washington's primary business tax. It is a gross receipts tax measured on the value of products, gross proceeds of sale, or gross income of the business. There are no deductions from the B&O tax for labor, materials, taxes, or other costs of doing business. The B&O tax rate varies by classification—activity. The major rates are: 0.471 percent retailing activities, 0.484 percent manufacturing and wholesaling activities, and for service and other activities, either 1.5 percent or 1.75 percent, depending upon the amount of annual gross income of the business. The state B&O tax includes a number of preferential tax rates, credits, exemptions, and deductions. For example, under current law, a B&O tax rate of 0.275 percent applies to manufacturing semiconductor materials, travel agents and tour operators with income below \$250,000, stevedoring, manufacturing alternative jet fuel, international investment management services, assisted living services, and manufacturing solar energy systems.

Manufacturers and processors for hire in Washington pay B&O tax at a rate of 0.484 percent on manufacturing or processing for hire activities.

Manufacturers also pay B&O tax on sales of manufactured products in Washington at the retailing rate of 0.471 percent or the wholesaling rate of 0.484 percent. They can take a Multiple Activities Tax Credit for the lesser of either the B&O tax on manufacturing or the B&O tax on the selling activity.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): A preferential B&O tax rate of 0.275 percent is created for businesses engaged in manufacturing, processing for hire, or selling energy storage systems or component parts used to manufacture such systems.

An energy storage system is defined as a device capable of storing energy to supply electrical power at a later time.

This bill defines component parts as major components of energy storage systems including, but not limited to:

- cathodes and anodes;
- separators, membranes, and electrolytes;
- battery modules, packs, and management systems;
- silane and other industrial gases; and
- mechanical devices integral to the operation of energy storage systems.

Taxpayers reporting this preferential B&O tax rate must electronically file returns, correspondence, and an annual tax performance report.

This preferential B&O tax rate expires June 30, 2040.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Adds green electrolytic hydrogen to the definition of energy storage system.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Proposed Substitute: *The committee recommended a different version of the bill than what was heard.* PRO: As we move forward with our clean energy strategy, it is important we have battery storage. Sometimes renewable energy can be intermittent. Battery storage allows us to capture it for later use. We have the technology, resources, and workforce to build battery storage in this state. Commerce is currently spearheading the effort to secure several high profile clean tech business expansion projects in our state and competing with several other states and nations as part of the global market. With the federal incentives available now through federal tax incentives, IRA investment, CHIPS and Science act, and federal grant programs, there is new opportunity to align federal, state and local support with private investment. This bill offers Washington a competitive edge to leverage these federal opportunities so that we can attract and grow this industry and meet our state energy strategy goals. Promoting and enhancing this industry as part of our clean energy and clean manufacturing sector is a priority of Governor Inslee, the Department of Commerce, and important to our entire state. The economy is changing, clean energy is changing, but our tax system is not changing. We need these tax preferences. We are working with a Norwegian battery manufacturer and we are in direct competition with a site we have here in Richland, Washington and a site in Butte, Montana. This bill will give us a competitive advantage.

Persons Testifying: PRO: Senator Joe Nguyen, Prime Sponsor; Emily Shay, Association of Washington Business; KARL DYE, TRIDEC; Dave Pringle, Dept. of Commerce.

Persons Signed In To Testify But Not Testifying: No one.