
HOUSE BILL 2723

State of Washington 69th Legislature 2026 Regular Session

By Representatives Ramel, Doglio, Pollet, Lekanoff, Macri, and Kloba

Read first time 02/04/26. Referred to Committee on Finance.

1 AN ACT Relating to modifying existing tax preferences; amending
2 RCW 82.08.02565, 82.12.02565, 82.12.022, 82.12.022, 82.14.230, and
3 82.16.310; amending 2017 3rd sp.s. c 37 s 1407 (uncodified); creating
4 a new section; and providing a contingent expiration date.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 NEW SECTION. **Sec. 1.** The legislature finds that, according to
7 the most recent tax exemption study published by the department of
8 revenue, there are currently 786 tax exemptions for the major state
9 and local tax sources in Washington. A number of these tax exemptions
10 have been unchanged in law for a long time and exist as the result of
11 private interests securing preferential tax treatment. Furthermore,
12 the legislature finds that the state's tax code must be periodically
13 reviewed and updated to ensure that tax policy reflects our modern
14 economy and provides adequate revenue to fund necessary and essential
15 services to support the well-being of Washingtonians. Thus, it is the
16 intent of the legislature to remove these tax preferences in order to
17 increase revenue to the state's general fund to maintain essential
18 state services.

19 **Sec. 2.** RCW 82.08.02565 and 2022 c 16 s 146 are each amended to
20 read as follows:

1 (1) (a) The tax levied by RCW 82.08.020 does not apply to sales to
2 a manufacturer or processor for hire of machinery and equipment used
3 directly in a manufacturing operation or research and development
4 operation, to sales to a person engaged in testing for a manufacturer
5 or processor for hire of machinery and equipment used directly in a
6 testing operation, or to sales of or charges made for labor and
7 services rendered in respect to installing, repairing, cleaning,
8 altering, or improving the machinery and equipment.

9 (b) Except as provided in (c) of this subsection, sellers making
10 tax-exempt sales under this section must obtain from the purchaser an
11 exemption certificate in a form and manner prescribed by the
12 department by rule. The seller must retain a copy of the certificate
13 for the seller's files.

14 (c) (i) ~~((The))~~ Until July 1, 2027, the exemption under this
15 section is in the form of a remittance for a gas distribution
16 business, as defined in RCW 82.16.010, claiming the exemption for
17 machinery and equipment used for the production of compressed natural
18 gas or liquefied natural gas for use as a transportation fuel.

19 (ii) A gas distribution business claiming an exemption from state
20 and local tax in the form of a remittance under this section must pay
21 the tax under RCW 82.08.020 and all applicable local sales taxes.
22 Beginning July 1, 2017, the gas distribution business may then apply
23 to the department for remittance of state and local sales and use
24 taxes. A gas distribution business may not apply for a remittance
25 more frequently than once a quarter. The gas distribution business
26 must specify the amount of exempted tax claimed and the qualifying
27 purchases for which the exemption is claimed. The gas distribution
28 business must retain, in adequate detail, records to enable the
29 department to determine whether the business is entitled to an
30 exemption under this section, including: Invoices; proof of tax paid;
31 and documents describing the machinery and equipment.

32 (iii) The department must determine eligibility under this
33 section based on the information provided by the gas distribution
34 business, which is subject to audit verification by the department.
35 The department must on a quarterly basis remit exempted amounts to
36 qualifying businesses who submitted applications during the previous
37 quarter.

38 (iv) Beginning July 1, ~~((2028))~~ 2027, a gas distribution business
39 may not apply for a refund under this section or RCW 82.12.02565.

40 (2) For purposes of this section and RCW 82.12.02565:

1 (a) "Machinery and equipment" means industrial fixtures, devices,
2 and support facilities, and tangible personal property that becomes
3 an ingredient or component thereof, including repair parts and
4 replacement parts. "Machinery and equipment" includes pollution
5 control equipment installed and used in a manufacturing operation,
6 testing operation, or research and development operation to prevent
7 air pollution, water pollution, or contamination that might otherwise
8 result from the manufacturing operation, testing operation, or
9 research and development operation. "Machinery and equipment" also
10 includes digital goods.

11 (b) "Machinery and equipment" does not include:

12 (i) Hand-powered tools;

13 (ii) Property with a useful life of less than one year;

14 (iii) Buildings, other than machinery and equipment that is
15 permanently affixed to or becomes a physical part of a building; and

16 (iv) Building fixtures that are not integral to the manufacturing
17 operation, testing operation, or research and development operation
18 that are permanently affixed to and become a physical part of a
19 building, such as utility systems for heating, ventilation, air
20 conditioning, communications, plumbing, or electrical.

21 (c) Machinery and equipment is "used directly" in a manufacturing
22 operation, testing operation, or research and development operation
23 if the machinery and equipment:

24 (i) Acts upon or interacts with an item of tangible personal
25 property;

26 (ii) Conveys, transports, handles, or temporarily stores an item
27 of tangible personal property at the manufacturing site or testing
28 site;

29 (iii) Controls, guides, measures, verifies, aligns, regulates, or
30 tests tangible personal property at the site or away from the site;

31 (iv) Provides physical support for or access to tangible personal
32 property;

33 (v) Produces power for, or lubricates machinery and equipment;

34 (vi) Produces another item of tangible personal property for use
35 in the manufacturing operation, testing operation, or research and
36 development operation;

37 (vii) Places tangible personal property in the container,
38 package, or wrapping in which the tangible personal property is
39 normally sold or transported; or

1 (viii) Is integral to research and development as defined in RCW
2 82.63.010.

3 (d) "Manufacturer" means a person that qualifies as a
4 manufacturer under RCW 82.04.110. "Manufacturer" also includes a
5 person that:

6 (i) Prints newspapers or other materials; or

7 (ii) Is engaged in the development of prewritten computer
8 software that is not transferred to purchasers by means of tangible
9 storage media.

10 (e) "Manufacturing" means only those activities that come within
11 the definition of "to manufacture" in RCW 82.04.120 and are taxed as
12 manufacturing or processing for hire under chapter 82.04 RCW, or
13 would be taxed as such if such activity were conducted in this state
14 or if not for an exemption or deduction. "Manufacturing" also
15 includes printing newspapers or other materials. An activity is not
16 taxed as manufacturing or processing for hire under chapter 82.04 RCW
17 if the activity is within the purview of chapter 82.16 RCW.

18 (f) "Manufacturing operation" means the manufacturing of
19 articles, substances, or commodities for sale as tangible personal
20 property. A manufacturing operation begins at the point where the raw
21 materials enter the manufacturing site and ends at the point where
22 the processed material leaves the manufacturing site. With respect to
23 the production of class A or exceptional quality biosolids by a
24 wastewater treatment facility, the manufacturing operation begins at
25 the point where class B biosolids undergo additional processing to
26 achieve class A or exceptional quality standards. Notwithstanding
27 anything to the contrary in this section, the term also includes that
28 portion of a cogeneration project that is used to generate power for
29 consumption within the manufacturing site of which the cogeneration
30 project is an integral part. The term does not include the
31 preparation of food products on the premises of a person selling food
32 products at retail.

33 (g) "Cogeneration" means the simultaneous generation of
34 electrical energy and low-grade heat from the same fuel.

35 (h) "Research and development operation" means engaging in
36 research and development as defined in RCW 82.63.010 by a
37 manufacturer or processor for hire.

38 (i) "Testing" means activities performed to establish or
39 determine the properties, qualities, and limitations of tangible
40 personal property.

1 (j) "Testing operation" means the testing of tangible personal
2 property for a manufacturer or processor for hire. A testing
3 operation begins at the point where the tangible personal property
4 enters the testing site and ends at the point where the tangible
5 personal property leaves the testing site. The term also includes the
6 testing of tangible personal property for use in that portion of a
7 cogeneration project that is used to generate power for consumption
8 within the manufacturing site of which the cogeneration project is an
9 integral part. The term does not include the testing of tangible
10 personal property for use in the production of electricity by a light
11 and power business as defined in RCW 82.16.010 or the preparation of
12 food products on the premises of a person selling food products at
13 retail.

14 (3) This section does not apply (a) to sales of machinery and
15 equipment used directly in the manufacturing, research and
16 development, or testing of cannabis, useable cannabis, or cannabis-
17 infused products, or (b) to sales of or charges made for labor and
18 services rendered in respect to installing, repairing, cleaning,
19 altering, or improving such machinery and equipment.

20 (4) The exemptions in this section do not apply to an ineligible
21 person. For purposes of this subsection, the following definitions
22 apply:

23 (a) "Affiliated group" means a group of two or more entities that
24 are either:

25 (i) Affiliated as defined in RCW 82.32.655; or

26 (ii) Permitted to file a consolidated return for federal income
27 tax purposes.

28 (b) "Ineligible person" means all members of an affiliated group
29 if all of the following apply:

30 (i) At least one member of the affiliated group was registered
31 with the department to do business in Washington state on or before
32 July 1, 1981;

33 (ii) As of August 1, 2015, the combined employment in this state
34 of the affiliated group exceeds forty thousand full-time and part-
35 time employees, based on data reported to the employment security
36 department by the affiliated group; and

37 (iii) The business activities of the affiliated group primarily
38 include development, sales, and licensing of computer software and
39 services.

1 **Sec. 3.** RCW 82.12.02565 and 2022 c 16 s 156 are each amended to
2 read as follows:

3 (1) The provisions of this chapter do not apply in respect to the
4 use by a manufacturer or processor for hire of machinery and
5 equipment used directly in a manufacturing operation or research and
6 development operation, to the use by a person engaged in testing for
7 a manufacturer or processor for hire of machinery and equipment used
8 directly in a testing operation, or to the use of labor and services
9 rendered in respect to installing, repairing, cleaning, altering, or
10 improving the machinery and equipment.

11 (2) The definitions, conditions, and requirements in RCW
12 82.08.02565 apply to this section.

13 (3) (~~This~~) Until July 1, 2027, this section does not apply to
14 the use of (a) machinery and equipment used directly in the
15 manufacturing, research and development, or testing of cannabis,
16 useable cannabis, or cannabis-infused products, or (b) labor and
17 services rendered in respect to installing, repairing, cleaning,
18 altering, or improving such machinery and equipment.

19 (4) The exemptions in this section do not apply to an ineligible
20 person as defined in RCW 82.08.02565.

21 **Sec. 4.** RCW 82.12.022 and 2017 3rd sp.s. c 37 s 707 are each
22 amended to read as follows:

23 (1) A use tax is levied on every person in this state for the
24 privilege of using natural gas or manufactured gas, including
25 compressed natural gas and liquefied natural gas, within this state
26 as a consumer.

27 (2) The tax must be levied and collected in an amount equal to
28 the value of the article used by the taxpayer multiplied by the rate
29 in effect for the public utility tax on gas distribution businesses
30 under RCW 82.16.020. The "value of the article used" does not include
31 any amounts that are paid for the hire or use of a gas distribution
32 business as defined in RCW 82.16.010(2) in transporting the gas
33 subject to tax under this subsection if those amounts are subject to
34 tax under that chapter.

35 (3) The tax levied in this section does not apply to the use of
36 natural or manufactured gas delivered to the consumer by other means
37 than through a pipeline.

38 (4) The tax levied in this section does not apply to the use of
39 natural or manufactured gas if the person who sold the gas to the

1 consumer has paid a tax under RCW 82.16.020 with respect to the gas
2 for which exemption is sought under this subsection.

3 (5) (a) The tax levied in this section does not apply to the use
4 of natural or manufactured gas by an aluminum smelter as that term is
5 defined in RCW 82.04.217 before January 1, 2027.

6 (b) A person claiming the exemption provided in this subsection
7 (5) must file a complete annual tax performance report with the
8 department under RCW 82.32.534.

9 (6) (~~The~~) Until July 1, 2027, the tax imposed by this section
10 does not apply to the use of natural gas, compressed natural gas, or
11 liquefied natural gas, if the consumer uses the gas for
12 transportation fuel as defined in RCW 82.16.310.

13 (7) The tax levied in this section does not apply to the use of
14 natural or manufactured gas by a silicon smelter as that term is
15 defined in RCW 82.16.315.

16 (8) There is a credit against the tax levied under this section
17 in an amount equal to any tax paid by:

18 (a) The person who sold the gas to the consumer when that tax is
19 a gross receipts tax similar to that imposed pursuant to RCW
20 82.16.020 by another state with respect to the gas for which a credit
21 is sought under this subsection; or

22 (b) The person consuming the gas upon which a use tax similar to
23 the tax imposed by this section was paid to another state with
24 respect to the gas for which a credit is sought under this
25 subsection.

26 (9) The use tax imposed in this section must be paid by the
27 consumer to the department.

28 (10) There is imposed a reporting requirement on the person who
29 delivered the gas to the consumer to make a quarterly report to the
30 department. Such report must contain the volume of gas delivered,
31 name of the consumer to whom delivered, and such other information as
32 the department may require by rule.

33 (11) The department may adopt rules under chapter 34.05 RCW for
34 the administration and enforcement of sections 1 through 6, chapter
35 384, Laws of 1989.

36 **Sec. 5.** RCW 82.12.022 and 2017 c 135 s 27 are each amended to
37 read as follows:

38 (1) A use tax is levied on every person in this state for the
39 privilege of using natural gas or manufactured gas, including

1 compressed natural gas and liquefied natural gas, within this state
2 as a consumer.

3 (2) The tax must be levied and collected in an amount equal to
4 the value of the article used by the taxpayer multiplied by the rate
5 in effect for the public utility tax on gas distribution businesses
6 under RCW 82.16.020. The "value of the article used" does not include
7 any amounts that are paid for the hire or use of a gas distribution
8 business as defined in RCW 82.16.010(2) in transporting the gas
9 subject to tax under this subsection if those amounts are subject to
10 tax under that chapter.

11 (3) The tax levied in this section does not apply to the use of
12 natural or manufactured gas delivered to the consumer by other means
13 than through a pipeline.

14 (4) The tax levied in this section does not apply to the use of
15 natural or manufactured gas if the person who sold the gas to the
16 consumer has paid a tax under RCW 82.16.020 with respect to the gas
17 for which exemption is sought under this subsection.

18 (5) (a) The tax levied in this section does not apply to the use
19 of natural or manufactured gas by an aluminum smelter as that term is
20 defined in RCW 82.04.217 before January 1, 2027.

21 (b) A person claiming the exemption provided in this subsection
22 (5) must file a complete annual tax performance report with the
23 department under RCW 82.32.534.

24 (6) (~~The~~) Until July 1, 2027, the tax imposed by this section
25 does not apply to the use of natural gas, compressed natural gas, or
26 liquefied natural gas, if the consumer uses the gas for
27 transportation fuel as defined in RCW 82.16.310.

28 (7) There is a credit against the tax levied under this section
29 in an amount equal to any tax paid by:

30 (a) The person who sold the gas to the consumer when that tax is
31 a gross receipts tax similar to that imposed pursuant to RCW
32 82.16.020 by another state with respect to the gas for which a credit
33 is sought under this subsection; or

34 (b) The person consuming the gas upon which a use tax similar to
35 the tax imposed by this section was paid to another state with
36 respect to the gas for which a credit is sought under this
37 subsection.

38 (8) The use tax imposed in this section must be paid by the
39 consumer to the department.

1 (9) There is imposed a reporting requirement on the person who
2 delivered the gas to the consumer to make a quarterly report to the
3 department. Such report must contain the volume of gas delivered,
4 name of the consumer to whom delivered, and such other information as
5 the department may require by rule.

6 (10) The department may adopt rules under chapter 34.05 RCW for
7 the administration and enforcement of sections 1 through 6, chapter
8 384, Laws of 1989.

9 **Sec. 6.** RCW 82.14.230 and 2014 c 216 s 305 are each amended to
10 read as follows:

11 (1) The governing body of any city, while not required by
12 legislative mandate to do so, may, by resolution or ordinance for the
13 purposes authorized by this chapter, fix and impose on every person a
14 use tax for the privilege of using natural gas or manufactured gas in
15 the city as a consumer.

16 (2) The tax is imposed in an amount equal to the value of the
17 article used by the taxpayer multiplied by the rate in effect for the
18 tax on natural gas businesses under RCW 35.21.870 in the city in
19 which the article is used. The "value of the article used," does not
20 include any amounts that are paid for the hire or use of a natural
21 gas business in transporting the gas subject to tax under this
22 subsection if those amounts are subject to tax under RCW 35.21.870.

23 (3) The tax imposed under this section does not apply to the use
24 of natural or manufactured gas if the person who sold the gas to the
25 consumer has paid a tax under RCW 35.21.870 with respect to the gas
26 for which exemption is sought under this subsection.

27 (4) There is a credit against the tax levied under this section
28 in an amount equal to any tax paid by:

29 (a) The person who sold the gas to the consumer when that tax is
30 a gross receipts tax similar to that imposed pursuant to RCW
31 35.21.870 by another municipality or other unit of local government
32 with respect to the gas for which a credit is sought under this
33 subsection; or

34 (b) The person consuming the gas upon which a use tax similar to
35 the tax imposed by this section was paid to another municipality or
36 other unit of local government with respect to the gas for which a
37 credit is sought under this subsection.

1 (5) The use tax imposed must be paid by the consumer. The
2 administration and collection of the tax imposed is pursuant to RCW
3 82.14.050.

4 (6) (~~The~~) Until July 1, 2027, the tax authorized by this
5 section does not apply to the use of natural gas, compressed natural
6 gas, or liquefied natural gas, if the consumer uses the gas for
7 transportation fuel as defined in RCW 82.16.310.

8 **Sec. 7.** RCW 82.16.310 and 2019 c 202 s 1 are each amended to
9 read as follows:

10 (1) The provisions of this chapter do not apply to sales by a gas
11 distribution business of:

12 (a) (~~Compressed~~) Until July 1, 2027, compressed natural gas or
13 liquefied natural gas, where the compressed natural gas or liquefied
14 natural gas is to be sold or used as transportation fuel;

15 (b) (~~Natural~~) Until July 1, 2027, natural gas from which the
16 buyer manufactures compressed natural gas or liquefied natural gas,
17 where the compressed natural gas or liquefied natural gas is to be
18 sold or used as transportation fuel; or

19 (c) Renewable natural gas.

20 (2) The exemption is available only when the buyer provides the
21 seller with an exemption certificate in a form and manner prescribed
22 by the department. The seller must retain a copy of the certificate
23 for the seller's files.

24 (3) For the purposes of this section, "transportation fuel" means
25 fuel for the generation of power to propel a motor vehicle as defined
26 in RCW 46.04.320, a vessel as defined in RCW 88.02.310, or a
27 locomotive or railroad car.

28 (4) For the purpose of this section, "renewable natural gas" has
29 the same meaning as provided in RCW 54.04.190.

30 **Sec. 8.** 2017 3rd sp.s. c 37 s 1407 (uncodified) is amended to
31 read as follows:

32 (1)(a) Except as provided in (b) of this subsection, part VII of
33 (~~this act~~) chapter 37, Laws of 2017 3rd sp. sess. and section 4,
34 Laws of 2026 (section 4 of this act) expire(~~s~~) July 1, 2027.

35 (b)(i) If a person must make repayment under section 708 of this
36 act, part VII of (~~this act~~) chapter 37, Laws of 2017 3rd sp. sess.
37 and section 4, Laws of 2026 (section 4 of this act) expire(~~s~~)
38 January 1, 2024.

1 (ii) Section 706 of this act expires January 1, 2018.

2 (2) If the contingent expiration date in subsection (1)(b) of
3 this section occurs, the department of revenue must provide written
4 notice of the expiration date of part VII of this act to affected
5 parties, the chief clerk of the house of representatives, the
6 secretary of the senate, the office of the code reviser, and others
7 as deemed appropriate by the department.

8 (3) If the contingent expiration date in subsection (1)(b) of
9 this section occurs, the joint legislative audit and review committee
10 is not required to perform the evaluation required in section 701 of
11 this act.

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