

SENATE BILL REPORT

SB 6029

As of April 16, 2009

Title: An act relating to modifying tax incentives.

Brief Description: Eliminating certain tax incentives related to nonrenewable energy and expanding tax incentives related to renewable resources and energy efficient equipment.

Sponsors: Senators Pridemore, Kline, Oemig, Regala, Fraser and Shin.

Brief History:

Committee Activity: Ways & Means: 2/24/09.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dean Carlson (786-7305)

Background: Sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. Sales and use taxes are imposed by the state, counties, and cities. Sales and use tax rates vary between 7 and 8.9 percent, depending on location. There are a number of sales and use tax exemptions.

Manufacturing businesses are eligible for a sales and use tax exemption that exempts all machinery and equipment used in manufacturing, and installation labor, from the sales and use tax.

There is also a separate provision that provides a sales and use tax exemption for machinery and equipment used in the generation of electricity from fuel cells, wind, sun, or landfill gas. This exemption expires June 30, 2009.

The Rural County Sales/Use Tax Deferral Program grants a deferral of sales/use tax for manufacturing, and computer-related businesses, research and development laboratories, and commercial testing facilities (excluding light and power businesses) locating in rural counties, Community Empowerment Zones (CEZ), or a county containing a CEZ. The sales and/or use taxes on qualified construction and equipment costs for such businesses located in these specific geographic areas are waived when all program requirements have been met and verified. This program is set to expire July 1, 2010.

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.

A credit is available from the business and occupation (B&O) tax for certain small businesses for purchases of certain types of commercial appliances which carry Energy Star or Consortium for Energy Efficiency (CEE) ratings for energy efficiency, including the following:

- freezers and refrigerators;
- washing machines;
- ice makers;
- gas convection ovens;
- deep fat fryers;
- hot food holding cabinets; and
- steam cookers.

The credit is equal to 8.8 percent of the purchase price. Eligible purchases of energy-efficient appliances must be made on or after July 1, 2008, and before July 1, 2010. To qualify for the credit, the firm's gross income for the prior calendar year must not exceed \$750,000. Further, there is a cap on the amount of credit granted to all taxpayers of \$750,000.

Exemptions are also provided for thermal electric generating facilities placed into operation after 1969 and prior to July 1, 1975. Among them are a sales and use tax exemption for coal used at a coal-fired thermal electric generating facility, and a property tax exemption for air pollution control equipment.

Summary of Bill: Eliminated Tax Incentives. The sales and use tax exemption for manufacturing machinery and equipment does not apply to the production of petroleum-based fuels that are not biodiesel fuels. Additionally, businesses that are engaged in the manufacturing of petroleum-based products other than biodiesel fuels no longer qualify for the rural county sales/use tax deferral program.

The sales and use tax exemption for coal used at coal-fired thermal electric generating facilities is repealed, as is the property tax exemption for air pollution control equipment at such facilities.

Extended Tax Incentives. The sales and use tax exemption for machinery and equipment used in electricity production from renewable resources includes tidal and wave energy and geothermal resources. The expiration date of the exemption is extended to June 30, 2019. Additionally, a B&O deduction is allowed for tidal and wave energy and geothermal services for the costs of production at the plant. To qualify a facility must be built between January 1, 2009, and January 1, 2019.

The \$750,000 cap on the annual maximum of allowed credits for energy efficient appliances is increased to a cap of \$5 million.

Appropriation: None.

Fiscal Note: Available.

[OFM requested ten-year cost projection pursuant to I-960.]

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2009.