

# HOUSE BILL REPORT

## HB 2927

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### As Reported By House Committee On:

Energy & Utilities

**Title:** An act relating to exempting electric generating facilities powered by wind or sun energy from sales and use taxes.

**Brief Description:** Exempting wind or solar energy electric generating facilities from sales and use taxes.

**Sponsors:** Representatives Poulsen, Crouse, Constantine, Morris, Cooper, O'Brien, Hatfield, Gombosky and Butler.

### Brief History:

#### Committee Activity:

Energy & Utilities: 2/3/98, 2/4/98 [DP].

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## HOUSE COMMITTEE ON ENERGY & UTILITIES

**Majority Report:** Do pass. Signed by 11 members: Representatives Crouse, Chairman; DeBolt, Vice Chairman; Mastin, Vice Chairman; Poulsen, Ranking Minority Member; Morris, Assistant Ranking Minority Member; Bush; Cooper; Delvin; Kastama; Kessler and Mielke.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Honeyford and B. Thomas.

**Staff:** Margaret Allen (786-7110).

**Background:** In 1996, the Legislature exempted machinery and equipment used directly in generating electricity using wind or sun energy (and the costs of installing the equipment and machinery) from sales and use taxes. Only facilities capable of generating 200 kilowatts (200,000 watts) of electricity, such as utility-scale wind turbines, are eligible for the exemption. The exemption is scheduled to expire June 30, 2005.

Used directly— means that the machinery and equipment must provide some part of the process of capturing energy from the wind or sun, converting that energy to electricity, and transforming or transmitting the electricity for entry into electric transmission and distribution systems.

To receive the sales tax exemption, the purchaser of the equipment must provide the seller with an exemption certificate, the form of which is to be prescribed by the Department of Revenue (DOR) by rule. The purchaser also is to provide the DOR either with a duplicate of the certificate, or a summary of exempt sales, as determined by the DOR.

To receive the use tax exemption, the user must provide the DOR with: (1) an exemption certificate (in a form prescribed by the DOR) within 60 days of first using the machinery and equipment in Washington; or (2) an annual summary listing the machinery and equipment.

The state retail sales tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. The total rate falls between 7 percent and 8.6 percent, depending on the location.

The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition of the property has not been subject to sales tax. The use tax is equal to the sales tax rate multiplied by the value of the property used. The use tax commonly applies to property acquired from out of state.

**Summary of Bill:** The threshold for generating facilities to qualify for the exemption is reduced from 200 kilowatts to 200 watts, and the exemption is extended for an additional three years to June 30, 2008.

The definition of used directly— is amended. To qualify for the exemption, the machinery and equipment need only capture, convert, transform, store, or transmit wind or sun energy, or the electricity created from wind or sun energy. The effect of the change is to extend the tax exemption to machinery and equipment installed by consumers who generate electricity for their own use.

The requirement that the DOR adopt a rule to prescribe the form of the sales exemption certificate is eliminated, as is the requirement that the purchaser provide the DOR with a duplicate of the certificate or a summary of exempt sales.

Also eliminated is the requirement that, to receive the use tax exemption, the user must provide the DOR with an exemption certificate within 60 days of first using the machinery and equipment in Washington, or an annual summary listing the machinery and equipment.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 1998.

**Testimony For:** Manufacturers of equipment that can be used to generate electricity using either wind or solar energy for fuel must compete with the tax incentives offered in other states when issuing bids. This bill will provide an incentive to the several equipment manufacturers currently in Washington to stay here. Those manufacturers provide high quality, high paying jobs. Only about once every five years will a project qualify for the exemption under the current 200kW threshold. Lowering the threshold will allow the market to move forward; a healthy local market is necessary to do well in distant markets. The low cost of this bill will be offset by increased economic activity and benefits from generating electricity using renewable resources. As the amount of equipment installed increases, the price will decrease. Every watt generated will mean a watt that does not have to be generated using non-renewable resources. Self-generation allows self-reliance during an emergency.

**Testimony Against:** None.

**Testified:** Tom Jensen, Applied Power Corporation (pro); Tom Rentz, Trace Engineering (pro); Mike Nelson, Washington Solar Energy Industries Association (pro); John Schlick, citizen (pro); Chandra Shah, Northwest Energy Coalition (pro); George Tyler, citizen (pro); and Tom Starrs, Washington Solar Energy Industries Association (pro).