

# HOUSE BILL REPORT

## HB 2012

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### As Reported by House Committee On:

Finance

**Title:** An act relating to incentives to encourage the use of grass or straw-based materials in construction.

**Brief Description:** Creating tax incentives to encourage the use of grass or straw-based materials in construction.

**Sponsors:** Representatives Schoesler, Grant, Sump, Linville, B. Chandler, Cox, G. Chandler, Cooper, Kagi and Wood.

### Brief History:

#### Committee Activity:

Finance: 3/2/01, 3/8/01 [DP].

#### Brief Summary of Bill

- A business and occupation (B&O) tax deduction is provided for income from sales of grass- or straw-based construction materials.
- An exemption from retail sales and use taxes is provided for the purchase or use of grass- or straw-based construction materials.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 10 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos, Van Luven and Veloria.

**Staff:** Mark Matteson (786-7145).

### Background:

The Business and Occupation Tax:

The business and occupation (B&O) tax is Washington State's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state.

Revenues are deposited to the state general fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. For manufacturers and wholesalers, the applicable B&O tax rate is 0.484 percent.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, certain deductions for specific business activities are permitted under the B&O tax statutes. For example, a deduction is allowed for income received for washing, sorting, and packing fresh produce for a farmer. No deduction is allowed for sales of grass- and straw-based construction materials.

#### Retail Sales and Use Taxes:

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods and certain services purchased at retail. The tax is levied at a 6.5 percent rate by the state. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent; currently, local rates levied range from 0.5 percent to 2.3 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

All goods and services that are defined as retail in the excise tax statutes are subject to retail sales and use taxes unless specifically exempted. One construction-related example is an exemption for the labor and services used in federal or local transportation facility construction. No exemptions exist for construction materials.

#### Grass- and Straw-Based Construction Materials:

Grass and straw are components of a number of construction-related materials. There are a number of North American companies that produce compressed-straw building panels with applications ranging from interior partitions to particle board.

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#### **Summary of Bill:**

A deduction from income taxable under the B&O tax is provided for income from sales of grass- or straw-based construction materials. Grass- or straw-based construction materials are finished materials that are certified by an accredited testing laboratory for use in the construction, repair, or rehabilitation of residential structures.

An exemption is provided from the retail sales and use taxes on the purchase or use of grass or straw-based construction materials.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** This bill is the result of the moratorium that was placed on the field burning of straw and grass. It would help agricultural industries that can't burn grass or straw, or otherwise process it.

There are certain straw-based construction product industries seeking to establish themselves here. Incentives are needed, especially since it is a fledgling industry in this area. This bill is a possible manufacturing opportunity in rural Washington areas. This is a way to overcome the straw house– stigma.

In the Spokane region, there is a storage shortage of about 20,000 tons. Without an outlet for all the straw that is produced, the straw would otherwise slowly decay at the edges of farm fields in compacted straw bales. Cereal grain straw has no market value. At a cost of \$35 per ton of grass baled, there is a cost of \$1.5 million to grass growers.

**Testimony Against:** None.

**Testified:** Representative Schoesler, prime sponsor; Karl Felgenhauer, Seeds Inc.; and Jim Armstrong, Spokane County Conservation District.