

HOUSE BILL REPORT

HB 2447

As Reported by House Committee On:
Technology, Telecommunications & Energy
Finance

Title: An act relating to tax incentives for alternative fuels.

Brief Description: Providing tax incentives for alternative fuels.

Sponsors: Representatives Sullivan, Lovick, Pearson, McCoy, Hudgins, Simpson, D., Wallace, Armstrong, Wood, Chase, Linville, Upthegrove and Clibborn.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 1/16/04 [DP];

Finance: 2/6/04 [DPS].

Brief Summary of Substitute Bill

- Removes the geographic limitation for application of sales and use tax exemptions for the manufacture of biodiesel fuel and alcohol fuels.
- Modifies the termination date of the biodiesel fuel and alcohol fuels tax incentives to require termination prior to 2009 if the volume of biodiesel manufactured is equal to 20 percent of the total of the volume of diesel fuel and biodiesel fuel manufactured.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: Do pass. Signed by 15 members: Representatives Morris, Chair; Ruderman, Vice Chair; Sullivan, Vice Chair; Crouse, Ranking Minority Member; Nixon, Assistant Ranking Minority Member; Anderson, Blake, Bush, Hudgins, Kirby, McMorris, Romero, Tom, Wallace and Wood.

Minority Report: Do not pass. Signed by 2 members: Representatives Delvin and McMahan.

Staff: Pam Madson (786-7166).

Background:

Biodiesel is a non-petroleum diesel fuel produced from renewable sources such as vegetable oils, animal fats, and recycled cooking oils. It can be blended at any percentage with petroleum diesel or used as a pure product (neat diesel). Other states have adopted policies and incentives to encourage the use of biodiesel.

Blended biodiesel is in use in Washington to fuel some passenger cars and municipal vehicles.

Alcohol fuels are made from crops such as corn and sugar cane, and waste products such as waste paper, grasses, or tree trimmings. Methanol and ethanol are two types of alcohol fuels used in vehicles. Methanol is also produced from fossil fuels such as natural gas.

In 2003, the legislature enacted tax deferrals and exemptions for the manufacture of alcohol fuel from a source other than petroleum or natural gas, biodiesel fuels, and biodiesel feedstock.

With respect to sales and use taxes, investment projects for the manufacture of biodiesel fuel, alcohol fuels, and biodiesel feedstock are eligible for the deferral of sales and use taxes under the same requirements and conditions as the existing Distressed Area Sales and Use Tax Deferral Program. Those requirements and conditions include a determination of eligible geographic areas, eligible investment projects, business reporting, and application requirements. An additional qualifying option includes counties under 225,000 in population and over 225 square miles in area. Participants in this deferral program will not be accepted after June 30, 2009.

The 2003 act also provided a preferential B&O tax rate for alcohol fuel, biodiesel fuel, and biodiesel fuel feedstock manufacturers; a deduction from B&O taxable income for income derived from amounts of alcohol or biodiesel fuel sold by retailers; and a sales and use tax exemption on equipment used for the refueling with alcohol and biodiesel fuel blends.

Summary of Bill:

The sales and use tax exemption for investment projects for the manufacture of biodiesel fuel, alcohol fuels, and biodiesel feedstock is expanded to apply to individuals seeking the exemption regardless of geographic location.

The excise tax incentives for alcohol and biodiesel fuels and biodiesel feedstock terminate prior to 2009 if the volume of biodiesel manufactured is equal to 20 percent of the total of the volume of diesel fuel and biodiesel fuel manufactured. The alcohol and

biodiesel-related incentives that would terminate are the sales and use tax exemption on investment projects for manufacturers; the preferential B&O tax rate for manufacturers; the deduction from B&O taxable income for sales of blends of the fuels by retailers; and the sales and use tax exemption on equipment used for refueling.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Available.

Testimony For: Originally the thought was to direct biodiesel investment toward economically distressed areas. Under last year's legislation, only a few counties were not eligible. Site studies are being pursued for plants in Spokane and Seattle. The decision was made to increase the application of the tax incentive statewide. In building the biodiesel industry, several small facilities in a number of locations is envisioned. This bill is an excellent followup to last year's bills. As this totally instate industry grows, it will benefit the entire state's economy and the environment. The industry wants to be as efficient as possible. When biodiesel becomes 20 percent of the market, terminating the incentives makes sense because the biodiesel industry will be a robust industry at that point.

Testimony Against: None.

Persons Testifying: Representative Sullivan, prime sponsor; Donna Ewing, League of Women Voters; and Linda Graham, Puget Sound Clean Cities Coalition.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives McIntire, Chair; Hunter, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Conway, Morris, Roach and Santos.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Technology, Telecommunications & Energy:

The substitute bill clarifies the implementation of the contingent expiration date. The Department of Revenue must consult with the Department of Community, Trade, and

Economic Development using data reported by the federal Energy Information Administration to determine when the manufacture of biodiesel fuel exceeds 20 percent of the total volume of biodiesel and diesel fuel that is manufactured in Washington.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2004.

Testimony For: Last year's bill has spurred interest in the biodiesel production in Washington. This bill lifts the geographic restrictions from last year's bill and adds performance standards. The biodiesel market is looking to develop a number of small facilities and this bill allows maximum flexibility for the distribution and marketing of biodiesel. We need the exemption now to jump start the industry but will not need incentives if production increases significantly.

Testimony Against: None.

Persons Testifying: (In support) Linda Graham, Puget Sound Clean Cities Coalition.

Persons Signed In To Testify But Not Testifying: None.