

# HOUSE BILL REPORT

## HB 2732

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

**Title:** An act relating to tax deferrals for wood biomass fuel investment projects.

**Brief Description:** Establishing tax deferrals for wood biomass fuel investment projects.

**Sponsors:** Representatives Tom, Morris, Ruderman, Sullivan, Nixon, Crouse, Clements, Hudgins, Pearson, Jarrett and Wood.

**Brief History:**

**Committee Activity:**

Technology, Telecommunications & Energy: 1/30/04, 2/3/04 [DPS];

Finance: 2/9/04, 2/10/04 [DPS(TTE)].

**Brief Summary of Substitute Bill**

- Removes the geographic limitation for application of sales and use tax exemptions for the manufacture of wood biomass fuel.
- Modifies the termination date of the wood biomass fuel tax incentives to require termination prior to 2009 if the volume of wood biomass fuel manufactured in Washington exceeds 20 percent of the total of the volume of diesel fuel and wood biomass fuel manufactured in Washington.

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### HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 14 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, Tom, Wallace and Wood.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Delvin, McMahan and Romero.

**Staff:** Pam Madson (786-7166).

## **Background:**

Liquid fuels can be produced from wood and wood residues. Two of the methods used for producing the oils that are used in fuel products are pyrolysis and gasification. Pyrolysis is the breakdown of biomass in the absence of oxygen at temperatures above 250 C. The process produces a solid (char or charcoal), a liquid (bio-oil), and a mixture of gases. Much of the present interest in pyrolysis focuses on its liquid output (bio-oil) due to its high energy density (energy per unit of volume) and potential for liquid fuel substitution. Wood-derived bio-oil can be used through a process of gasification to produce synthetic liquid fuel for use as a transportation fuel. It can be blended at any percentage with petroleum diesel or gasoline or used as a pure product.

Retail sales and use tax. The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most tangible personal property and some services. In addition, local sales taxes apply. 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 2.4 percent. The combined tax rate is between a minimum of 7 percent and a maximum of 8.9 percent depending on the location of the purchase. Sales tax is paid by the purchaser and collected by the seller. Sales tax revenue is deposited in the State General Fund.

The use tax is imposed on the use of an item in this state when the acquisition of the item has not been subject to sales tax. The use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the Department of Revenue. Use tax revenue is deposited in the State General Fund.

In 2003, the Legislature enacted tax deferrals and exemptions for the manufacture, retail sale and distribution of wood biomass fuel.

With respect to sales and use taxes, investment projects for the manufacture of wood biomass fuel 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.

Business and occupation tax. The business and occupation (B&O) tax is Washington's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited in the State General Fund.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are many exemptions for specific types of business activities as well as certain deductions and credits permitted under the B&O tax statutes.

Different tax rates apply to six separate categories of business activity. The processing of certain agricultural products is taxed at the rate of 0.138 percent. Manufacturing, wholesaling, and other activities are taxed at the rate of 0.484 percent.

The 2003 act also provided a preferential B&O tax rate for wood biomass fuel manufacturers of 0.138 percent; a deduction from B&O taxable income for income derived from amounts of wood biomass fuel sold by retailers; and a sales and use tax exemption on equipment used for the retailing of wood biomass fuel. These tax incentives expire June 30, 2009.

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**Summary of Substitute Bill:**

The sales and use tax exemption for investment projects for the manufacture of wood biomass fuel is expanded to apply to individuals seeking the exemption regardless of geographic location.

The excise tax incentives for wood biomass fuel terminate prior to 2009 if the volume of wood biomass fuel manufactured in Washington exceeds 20 percent of the total of the volume of diesel fuel and wood biomass fuel manufactured in Washington. The wood biomass-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 fuel by retailers; and the sales and use tax exemption on equipment used for the retailing of wood biomass fuel.

**Substitute Bill Compared to Original Bill:**

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 wood biomass fuel exceeds 20 percent of the total volume of wood biomass and diesel fuel that is manufactured in Washington.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** This is important technology as we go forward into the future. What is needed is a major engine manufacturer who will soon do a pilot testing of this fuel to prove that it is not destructive to engines and that may happen soon. The bill provides a contingent termination date. The Department of Revenue requests that an appropriate information source is designated to provide fuel data.

**Testimony Against:** None.

**Persons Testifying:** (In support) Representative Tom, prime sponsor.

(With concerns) Anne Solwick, Department of Revenue.

**Persons Signed In To Testify But Not Testifying:** None.

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill by Committee on Technology, Telecommunications & Energy be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, 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:**

No new changes were recommended.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** None.

**Testimony Against:** None.

**Persons Testifying:** None

**Persons Signed In To Testify But Not Testifying:** None.

