

FINAL BILL REPORT

2SHB 1241

C 63 L 03

Synopsis as Enacted

Brief Description: Providing tax incentives for the distribution and retail sale of biodiesel and alcohol fuels.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Sullivan, Crouse, Wood, Morris, Grant, Schoesler, Quall, Ruderman and Schindler).

House Committee on Technology, Telecommunications & Energy

House Committee on Finance

Senate Committee on Ways & Means

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. The business and occupation tax deduction for alcohol fuel is limited to alcohol fuel with at least 85 percent alcohol.

Blended biodiesel is in use in Washington to fuel some passenger cars and municipal vehicles. The Department of Transportation is conducting a pilot program using a biodiesel blend to fuel one of the state's car ferries.

Business and Occupation Tax. The business and occupation (B&O) tax is Washington's major business tax. The B&O 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. For example, a deduction from taxable income is allowed for income derived from the sale of fuel consumed outside of United States territorial waters in vessels engaging in foreign commerce.

Retail Sales and Use Taxes. The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most items of 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.

Summary:

Tax incentives in the form of tax deductions and exemptions are established for the retail sale and distribution of biodiesel fuels and alcohol fuels made from a product other than petroleum or natural gas.

Business and Occupation Tax. Beginning July 1, 2003, and until June 30, 2009, a business may deduct from its business and occupation tax obligation the amounts it receives from the retail sale or distribution of biodiesel or alcohol fuels.

Sales and use taxes. Beginning July 1, 2003, and until June 30, 2009, a person who sells biodiesel or alcohol fuel blends at retail, or who distributes these fuel blends, may claim an exemption from state and local sales and use taxes paid on qualifying investments.

Qualifying investments include the purchase of machinery and equipment as well as labor and services used for biodiesel or alcohol refueling and vehicles and other personal property used for biodiesel or alcohol blended fuel distribution. Qualifying fuels are fuels with at least 20 percent biodiesel or 85 percent alcohol. If the personal property on which the exemption is claimed is used for purposes other than the retail sale or distribution of biodiesel or alcohol fuels within three years of initial operation, the exempted taxes become due. Local governments may also provide a local sales and use tax exemption for the retail sale and distribution of biodiesel and alcohol fuel blends.

Votes on Final Passage:

House 93 1
Senate 43 2

Effective: July 1, 2003