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**Technology, Telecommunications  
& Energy Committee**

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**HB 1241**

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

**Sponsors:** Representatives Sullivan, Crouse, Wood, Morris, Grant, Schoesler, Quall, Ruderman and Schindler.

**Brief Summary of Bill**

- Establishes tax deductions and exemptions for the retail sale and distribution of biodiesel and alcohol fuels.

**Hearing Date:** 1/29/03

**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 state to fuel some passenger cars and municipal vehicles.

***Business and occupations tax (B&O)***

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. 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.

### ***Property Taxes***

All real and personal property is subject to property tax each year based on its value, unless a specific exemption is provided by law. There are two classes of property. Real property consists of land and the buildings, structures, and improvements that are affixed to the land. Personal property consists of all other property.

### **Summary of Bill:**

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*** (B&O 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. The amounts deducted must be those attributable to the pure biodiesel or alcohol portion of the fuel blend.

### ***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 sales and use taxes paid on qualifying investments. The exemption is in the form of a remittance which requires the taxpayer to pay the tax and then seek a return of the qualifying portion of the tax paid.

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 10 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.

***Property tax***

Personal property used directly in the motorized transportation of biodiesel or alcohol fuel blends is exempt from property taxes beginning with the collection in 2004 and through 2009. This exemption applies if at least 75 percent of the fuel distribution activity is biodiesel or alcohol fuel blends.

**Appropriation:** None.

**Fiscal Note:** Not Requested.

**Effective Date:** The bill has an emergency clause and takes effect on July 1, 2003.