SENATE BILL REPORT
2SHB 1240

As Reported By Senate Committee On:
Ways & Means, April 7, 2003

Title: An act relating to tax incentives for biodiesel and alcohol fuel production.

Brief Description: Providing tax incentives for biodiesel and alcohol fuel production.

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

Brief History:
Committee Activity: Ways & Means: 4/7/03 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.
Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Doumit, Hale, Honeyford, Johnson, Parlette, Roach, Sheahan, B. Sheldon and Winsley.

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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) and is less of an air pollutant than petroleum diesel. Approximately 500,000 gallons per year of blended biodiesel is used in Washington to fuel some passenger cars and municipal vehicles. Current consumption of petroleum diesel fuel in Washington State is 700 million gallons per year.

Alcohol fuels are made from crops such as corn and sugar cane, and waste products such as waste paper, grasses, or tree trimmings. Ethanol is one type of alcohol fuel used in vehicles, and it is currently blended, 10 percent ethanol and 90 percent gasoline, and sold because it is seasonally required in some districts to decrease air pollutants.

The business and occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state and revenues are deposited in the general fund. Currently, there are six different B&O tax rates, including the processing of certain agricultural products at 0.138 percent, and manufacturing, wholesaling, and other activities at 0.484 percent.

All real property and personal property in Washington is subject to property tax each year based on its value, unless a specific exemption is provided by law. The property tax liability is determined by multiplying the assessed value of real property, including the land itself, and all buildings, structures, or improvements or other fixtures upon the land, by the tax rate for each taxing district in which the property is located. All other property is considered personal property. Several exemptions from the property tax exist in statute.

Property owned by federal, state, or local governments is exempt from the property tax, yet private entities that lease such property are subject to the leasehold excise tax. Revenues are deposited in the general fund.

The sales tax is imposed on the retail sale of most items of tangible personal property and some services. A use tax is imposed on the use of an item in Washington when the acquisition of the item or service has not been subject to sales tax. The state sales and use tax rate is 6.5 percent and revenues are deposited in the general fund. The combined state and local sales and use tax rate is between 7 and 8.9 percent, depending on location.

Washington has developed various tax incentives designed to assist in job creation or retention in rural or distressed counties, including the distressed area sales and use tax deferral program. This program applies to rural counties with a population density of fewer than 100 people per square mile and to areas designated as community empowerment zones or certain counties that contain them. Persons engaged in manufacturing, research and development, or computer service businesses in these eligible areas may receive a sales and use tax deferral on buildings, machinery and equipment, and installation labor. The taxes deferred need not be repaid unless the business fails to maintain operations for eight years or fails to submit required reports. Businesses that seek the deferral and are located in a community empowerment zone must also satisfy an employment requirement. This tax deferral program expires July 1, 2004.

Summary of Bill: Tax deferrals and exemptions are established for the manufacture of alcohol fuel from a source other than petroleum or natural gas, biodiesel fuels, and biodiesel feedstock.

1. 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 population and over 225 square miles in area. Participants in this deferral program are not accepted after June 30, 2009.

2. Buildings, machinery, equipment, and other personal property used in the manufacture of biodiesel fuels, alcohol fuels, or biodiesel feedstock, and the land on which this property is located, are exempt from property taxes for six years from the date the facility becomes operational. The amount of the exemption is based on the annual percentage of the total value of all products manufactured that is the value of the alcohol fuels, biodiesel fuels and biodiesel feedstock manufactured. No exemption may begin before 2004 or start after December 31, 2009.

3. Biodiesel fuel and biodiesel feedstock are added to the alcohol fuel exemption of the leasehold excise tax currently on statute yet expired. Participation in the exemption is reinstated for alcohol. No new participants based on either fuel are accepted after December 31, 2009.

4. For purposes of payment of the Business and Occupation Tax, those engaged in the manufacture of alcohol fuel, biodiesel fuel, and biodiesel feedstock pay at the rate of .138 percent on their gross receipts.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Testimony For: This bill will help farmers, improve air quality, and increase jobs in the state. It contributes to energy security, economic development, clean air, and public health. This is a bi-partisan effort, both between political parties and between Eastern and Western Washington.

This is a crop (rape seed, mustard seed) that is often used when a field goes fallow, so putting the crop to use encourages productivity. Eastern Washington could have up to 1/2 million acres in oil seed crop. $85 million per year would come in on unfarmed land. A company currently wants to locate in Spokane to manufacture biodiesel from recycled cooking oils, and is waiting for this legislation. There is rapid growth in plants nationwide, especially in the Midwest.

Motor vehicles are the greatest users of oil, making us dependent on foreign nations, and the greatest producers of greenhouse gases. This would cut emissions by at least 20 percent and up to 90 percent, depending on blend, and particulate matter in the air. That leads to fewer respiratory problems, especially in children. Increased foliage also pulls more CO_2 out of the air.

Currently this fuel costs a lot, in part because it is not manufactured here. Costs to import it to Washington are high. Yet use is doubling annually, nationwide. Trucking companies are interested in switching, but prices need to be lowered for more than just a few to be able to switch.

Testimony Against: None.

Testified: PRO: Representative Sullivan, prime sponsor; Linda Graham, Puget Sound Clean Cities Coalition; Jim Armstrong, Spokane County Conservation District; Graeme Sackrison; Graham Noyes, World Energy; Mike Pelly; Ezra Eikmeyer.