

SENATE BILL REPORT

2SHB 1241

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

Title: An act relating to tax incentives for the distribution and retail sale of biodiesel and alcohol fuels.

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

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: 3/26/03, 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, Fraser, Hale, Honeyford, Johnson, Parlette, Regala, Roach, Sheahan, B. Sheldon and Winsley.

Staff: Catherine Suter (786-7442)

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 are 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.

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.

Summary of Bill: Tax deductions and exemptions are established for the sale and distribution of biodiesel fuels and for alcohol fuels made from a product other than petroleum or natural gas.

1. Until June 30, 2009, a business may deduct from its B&O taxable income the amounts it receives from the retail sale or distribution of biodiesel or alcohol fuels. Alcohol fuel blends must be at least 85 percent alcohol fuel to qualify. The amounts deducted must be those attributable to the pure biodiesel or alcohol portion of the fuel blend.
2. Until June 30, 2009, qualifying investments used in selling or distributing qualifying biodiesel or alcohol fuel blends are exempt from state sales and use taxes.

Qualifying fuels are fuels with at least 20 percent biodiesel or 85 percent alcohol. Qualifying investments include: the purchase of machinery, equipment, or structures used directly for the retail sale of biodiesel or alcohol fuel blends; services installing, constructing, repairing, cleaning, or otherwise improving those investments; and delivery vehicles and services on those vehicles if at least 75 percent of the fuel distributed by the vehicles is a biodiesel or alcohol fuel blend. If the 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 exempt 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.

Appropriation: None.

Fiscal Note: Available.

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

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 bipartisan 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 CO₂ 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.