

# SENATE BILL REPORT

## SB 6646

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As Reported By Senate Committee On:  
Natural Resources, Energy & Water, February 6, 2004

**Title:** An act relating to tax incentives for alternative fuels.

**Brief Description:** Providing tax incentives for alternative fuels.

**Sponsors:** Senators Murray, Kline, Sheahan, Poulsen, Swecker, Kohl-Welles and Benton.

**Brief History:**

**Committee Activity:** Natural Resources, Energy & Water: 2/5/04, 2/6/04 [DPS].

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### SENATE COMMITTEE ON NATURAL RESOURCES, ENERGY & WATER

**Majority Report:** That Substitute Senate Bill No. 6646 be substituted therefor, and the substitute bill do pass.

Signed by Senators Morton, Chair; Hewitt, Vice Chair; Hale, Hargrove, Honeyford and Oke.

**Staff:** Richard Rodger (786-7461)

**Background:** Biodiesel is a nonpetroleum 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. Blended biodiesel is in use in Washington to fuel some passenger cars and municipal vehicles.

Alcohol fuels are made from crops such as corn and sugar cane, and waste products such as waste paper, grasses, or tree trimmings. Methanol and ethanol are two types of alcohol fuels used in vehicles. Methanol is also produced from fossil fuels such as natural gas.

In 2003, the Legislature enacted tax deferrals and exemptions for the manufacture of alcohol fuel from a source other than petroleum or natural gas, biodiesel fuels, and biodiesel feedstock.

With respect to sales and use taxes, 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 in population and over 225 square miles in area. Participants in this deferral program will not be accepted after June 30, 2009.

The 2003 act also provided a preferential business and occupation (B&O) tax rate for alcohol fuel, biodiesel fuel, and biodiesel fuel feedstock manufacturers; a deduction from B&O taxable income for income derived from amounts of alcohol or biodiesel fuel sold by retailers;

and a sales and use tax exemption on equipment used for the refueling with alcohol and biodiesel fuel blends.

**Summary of Substitute Bill:** The sales and use tax exemption for investment projects for the manufacture of biodiesel fuel, alcohol fuels, and biodiesel feedstock is expanded to apply to individuals seeking the exemption regardless of geographic location.

The excise tax incentives for alcohol and biodiesel fuels and biodiesel feedstock terminate on July 1, 2009, or earlier if the volume of biodiesel manufactured is equal to 20 percent of the total of the volume of diesel fuel and biodiesel fuel manufactured. The alcohol and biodiesel-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 fuels by retailers; and the sales and use tax exemption on equipment used for refueling.

**Substitute Bill Compared to Original Bill:** Technical revisions are made to the provisions used in calculating the amount of biodiesel manufactured in Washington.

**Appropriation:** None.

**Fiscal Note:** Requested on January 30, 2004.

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

**Testimony For:** This bill builds upon legislation passed last year by encouraging the development of infrastructure to manufacture biodiesel and alcohol fuels. Removal of the limitations on tax incentives for investments in distressed areas and counties outside the large urban areas will help spur investments statewide. The bill also provides a better mechanism for elimination of the tax benefits by tying the termination to an increased production level of biodiesel (20 percent of all diesel manufactured) or July 1, 2009, whichever occurs first.

**Testimony Against:** None.

**Testified:** Linda Graham, Puget Sound Clean Cities Coalition (pro); Jim Armstrong, Spokane Conservation District (pro).