

HOUSE BILL REPORT

SSB 6781

As Reported by House Committee On:
Finance

Title: An act relating to environmental remediation.

Brief Description: Modifying the excise taxation of environmental remediation services.

Brief History:

Committee Activity:

Finance: 2/22/06, 2/27/06 [DP].

Brief Summary of Substitute Bill

- Provides a sales and use tax exemption and a preferential business and occupation tax rate of 0.471 percent for environmental remedial action until July 1, 2010.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Ericks, Hasegawa, Santos and Shabro.

Staff: Mark Matteson (786-7145).

Background:

Sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. Sales and use taxes are imposed by the state, counties and cities. Sales and use tax rates vary between 7 and 8.9 percent, depending on location.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Although there are several different rates, the most common rates are 0.471 percent for retailing, 0.484 percent for wholesaling, and 1.5 percent for service activity.

In 1998, the Legislature enacted special provisions for the taxation of hazardous waste cleanup projects. The procedures established in this act expired July 1, 2003. Under the exemption, retail sales tax did not apply to the sale of labor or services for environmental remedial action. The B&O tax rate for businesses performing environmental remedial actions was set at the retailing rate of 0.471 percent.

For the purposes of the 1998 legislation "Environmental remedial action" included services related to identification, investigation, or cleanup of hazardous substances, but did not include other actions taken at a hazardous waste site for the purposes of site development. Environmental remedial actions were required to be consistent with the state Model Toxics Control Act, or other applicable laws.

Following the expiration of the 1998 law, activities related to these environmental cleanups have been taxed according to traditional B&O tax classifications. Consulting activity, such as site evaluation or monitoring not related to construction activity, is taxed under the service and other classifications at a rate of 1.5 percent. The cleanup activity is taxed like other construction activity - retail sales tax is collected from the consumer and the contractor remits B&O tax at the retailing rate of 0.471 percent.

Summary of Bill:

The retail sales tax does not apply to the sale of labor or services for environmental remedial action. The B&O tax rate for businesses performing environmental remedial action is set at the retailing rate of 0.471 percent.

"Environmental remedial action" includes services related to identification, investigation, or cleanup of hazardous substances. Environmental remedial actions must be consistent with the state Model Toxics Control Act, or other applicable laws.

The provisions of the bill expire July 1, 2010.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: Prior to 1998, the Model Toxics Control Act Advisory Committee recommended the legislation that resulted in the predecessor tax status. Until that point, the taxability of environmental remediation was discriminatory. Those that did not sign up with the Department of Ecology right away but rather waited received a better tax status. The legislation that was adopted was intended to be an incentive for early and effective cleanup by independent businesses. It was used successfully all across the state. About 380 properties were cleaned up during the period that the legislation was in effect, and a majority by independent owners.

The predecessor legislation was a significant factor in promoting accelerated cleanup. It paved the way for \$100 million in private sector investment to redevelop the affected properties.

In every county, there is some opportunity for cleanups. This connects the economic dots: it provides tax relief, it advances environmental benefits, and it creates jobs. It also encourages potential commercial redevelopment.

Snitzer Steel Industries just recently completed a \$50 million cleanup of the Hylebos Waterway in the Tacoma Tidelands. We like to think of ourselves as an example of a progressive company, one that uses such legislation to meet or exceed cleanup requirements.

Testimony Against: None.

Persons Testifying: Jerry Smedes, Northwest Environmental Business Council and Emerald Services; Amber Carter, Association of Washington Businesses; and Earl Tower, Schnitzer Steel.

Persons Signed In To Testify But Not Testifying: None.