

HOUSE BILL REPORT

HB 1646

As Reported by House Committee On:
Technology, Energy & Communications

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

Brief Description: Providing tax incentives for alternative fuel.

Sponsors: Representatives B. Sullivan, Holmquist, Upthegrove, Linville, Blake, Morris, Orcutt, Lovick, Campbell, Chase, Williams, Schindler, Wood, Rodne, Sells, Hinkle and Simpson.

Brief History:

Committee Activity:

Technology, Energy & Communications: 2/15/05, 2/22/05 [DPS].

Brief Summary of Substitute Bill

- Provides tax incentives to encourage the manufacture of alternative fuels.
- Designates the business and occupation (B&O) tax rate for those engaged in the manufacture of alternative fuels and natural gas liquefaction equipment.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hudgins, Nixon, P. Sullivan, Sump, Takko and Wallace.

Staff: Sarah Dylag (786-7109).

Background:

Alternative Fuels

Biodiesel is a non-petroleum diesel fuel produced from renewable resources 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). Like petroleum diesel, biodiesel operates in compression-ignition engines.

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.

Additional alternative fuels include natural gas and methane. Natural gas is made up primarily of methane with trace amounts of other gases. It can be stored as compressed natural gas or liquefied natural gas.

Business and Occupation Tax

The business and occupation (B&O) tax is Washington's major business tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited in the State General Fund.

Under current law, deduction from the B&O tax is provided for income from the sale or distribution of biodiesel fuels, alcohol fuels, and wood biomass fuel. A preferential B&O tax rate of 0.138 percent is provided for manufacturers of alcohol fuel, biodiesel fuel, biodiesel feedstock, and wood biomass fuel. The rate will expire on July 1, 2009.

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. 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.

Exemption from retail sales and use tax is also allowed for machinery and equipment used directly to facilitate the retail sale of biodiesel, alcohol, or wood biomass fuel blend or for vehicles used to deliver such fuels. The exemption includes services associated with the construction of structures to facilitate the sale of those fuels. Exemption from the retail sales and use tax is also allowed for sales of fuel delivery vehicles or to sales of or charges made for labor and services rendered in respect installing, repairing, cleaning, altering, or improving the vehicles if at least 75 percent of the fuel distributed by the vehicles is a biodiesel or alcohol fuel blend. These exemptions are scheduled to expire on July 1, 2009.

Property Tax and Leasehold Excise Tax

All property in this state is subject to the property tax each year based on the property's value, unless a specific exemption is provided by law.

Property owned by federal, state, or local governments is exempt from the property tax. However, private lessees of government property are subject to the leasehold excise tax. The purpose of the leasehold excise tax is to impose a tax burden on persons using publicly-owned, tax-exempt property similar to the property tax that they would pay if they owned the property. The tax is collected by public entities that lease property to private parties.

Under current law, leasehold interests in real and personal property used primarily for manufacturing alcohol fuel, biodiesel fuel, and wood biomass fuel are exempt from leasehold tax for the first six years after the facility is operational.

Summary of Substitute Bill:

Tax incentives are established to encourage the manufacture of alternative fuels and the B&O tax rate is established for those engaged in the manufacture of alternative fuels.

Alternative fuel is defined as:

- alcohol fuel, biodiesel fuel, biodiesel feedstock, or wood biomass fuel; or
- liquified natural gas, if the gas is manufactured from renewable waste, or stranded sources of methane gas; or
- compressed natural gas, if the gas is derived from liquified natural gas that is manufactured from renewable, waste, or stranded sources of methane gas; or
- methane, if the methane is obtained from the anaerobic digestion of material and subsequently used to manufacture liquified natural gas.

Business and Occupation Tax

For purposes of payment of the business and occupation tax, those engaged in the manufacture of alternative fuel, as defined above, pay at the rate of 0.138 percent on their gross receipts. Those engaged in manufacture of natural gas liquefaction equipment, including equipment to produce compressed natural gas pay at the rate of 0.138 percent on their gross receipts.

These B&O tax rates expire on July 1, 2015 or July 1 of the year following the year in which the Department of Licensing estimates that the aggregate volume of alternative fuels sold at retail for vehicular purposes represents 20 percent of the aggregate volume of all fuels sold at retail for vehicular purposes, if that date is earlier than the set expiration date.

Sales and Use Tax Exemptions

Beginning on July 1, 2005, a sales and use tax exemption applies to sales and use of tangible personal property used in the construction of a manufacturing facility that primarily manufactures alternative fuel, as defined above. An exemption is also provided for charges made for labor and services with respect to the construction of a manufacturing facility that is used primarily to manufacture alternative fuel.

Beginning on July 1, 2005, a sales and use tax exemption applies to fuel storage tanks, delivery vehicles, or associated facilities if the fuel distributed by the vehicles is liquified natural gas manufactured from renewable waste, or stranded sources of methane gas. Labor and services rendered with respect to installing, repairing, cleaning, altering, or improving fuel storage tanks, delivery vehicles, or associated facilities are also exempt from the sales and use tax if the fuel distributed by the vehicles is liquified natural gas manufactured from renewable waste, or stranded sources of methane gas.

The exemptions expire on July 1, 2015 or July 1 of the year following the year in which the Department of Licensing estimates that the aggregate volume of alternative fuels sold at retail for vehicular purposes represents 20 percent of the aggregate volume of all fuels sold at retail for vehicular purposes, if that date is earlier than the set expiration date.

Property and Leasehold Excise Tax Exemption

Beginning on July 1, 2005, real and personal property used to manufacture an alternative fuel is exempt from property and leasehold tax for the first six years following completion of the manufacturing facility. For manufacturing facilities that manufacture products in addition to alternative fuels, the amount of the exemption is based on an annually determined percentage of fuel produced that is alternative fuel.

No new claims for exemption will be approved after December 31, 2009. The exemption for property tax expires on January 1, 2016 and the exemption for leasehold excise tax expires on July 1, 2015 or in the year following the year in which the Department of Licensing estimates that the aggregate volume of alternative fuels sold at retail for vehicular purposes represents 20 percent of the aggregate volume of all fuels sold at retail for vehicular purposes, if that date is earlier than the set expiration date.

Substitute Bill Compared to Original Bill:

Adds a benchmark expiration date so that the incentives will expire if aggregate volume of alternative fuels sold at retail for vehicular purposes represents 20 percent of the aggregate volume of all fuels sold at retail for vehicular purposes, if that date is earlier than the set expiration date.

Appropriation: None.

Fiscal Note: Requested on February 18, 2005.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: This promotes alternative fuels in the State of Washington. This is a "good jobs" bill and helps the economy. It helps manufacturing for alternative fuels and will promote the industry.

This bill is part of a collection of bills whose goal is to provide a short term push to new industries in the state. There is no one alternative that is perfect and no one alternative that will replace all of the petroleum used. These are targeted incentives, with caps. There are performance measures and sunset dates. The incentives build on what already exists and is consistent with the Governor's executive order.

These incentives will not only clean up the environment, but will also create jobs across the state. Washington can be a leader with using alternative fuels. Additional incentive should be provided for electric vehicles.

Testimony Against: None.

Persons Testifying: Representative B. Sullivan, prime sponsor; Linda Graham, Puget Sound Clean Cities Coalition; Jim Armstrong, Spokane County Conservation District; Lyle Rudensey, University of Washington; John Plaza, Seattle Biodiesel; Steve Lough, Seattle Electric Vehicle Association; and Dan Clarkson, Promethius Energy Company.

Persons Signed In To Testify But Not Testifying: (In support) Don Hobbs, Institute for Washington's Future.

(Neutral) Greg Nothstein, Department of Community, Trade and Economic Development, Energy Policy.