

HOUSE BILL REPORT

SSB 6874

As Passed House - Amended:

March 7, 2006

Title: An act relating to tax incentives for persons who extract, manufacture, or process timber and timber products.

Brief Description: Providing tax incentives for the timber and timber products industries.

Sponsors: By Senate Committee on Ways & Means (originally sponsored by Senators Doumit, Zarelli, Hargrove, Morton, Sheldon and Rasmussen).

Brief History:

Committee Activity:

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

Floor Activity:

Passed House - Amended: 3/7/06, 93-5.

Brief Summary of Substitute Bill (As Amended by House)

- Reduces the business and occupation tax rate from 0.484 percent to 0.2904 percent for extracting, manufacturing and wholesaling some wood products.
- Adds a surcharge of 0.052 percent on lower business and occupation tax rate to pay for forest and fish related activities by Indian tribes and others. Suspends the surcharge if federal appropriations are made for tribal participation.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. 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: Rick Peterson (786-7150).

Background:

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. There are no deductions for the costs of doing business. Although there are nine

different rates, the most common rates are 0.471 percent for retailing, 0.484 percent for manufacturing and wholesaling, and 1.5 percent for service activity.

Preferential B&O tax rates have been provided by the Legislature in recent years for aerospace and semiconductor microchips as tax incentives.

The Forest and Fish report was presented to the Forest Practices Board and the Governor's Salmon Recovery Office on February 22, 1999. The report represented the recommendations of the authors for the development and implementation of rules, statutes, and programs designed to improve and protect riparian habitat on non-federal forest lands in Washington. The report was authored by various stakeholders, including the federal government, state government, tribal governments, and various interest and constituency groups. The rules proposed in the Forest and Fish report were designed to provide compliance with the Endangered Species Act, restore and maintain minimum riparian habitat to support a harvestable supply of fish, meet Clean Water Act standards, and keep the timber industry economically viable. Federal funding support for Tribal participation in the process is expected to end in federal fiscal year 2006.

Summary of Amended Bill:

A B&O tax rate is lowered for extracting or extracting for hire timber, or manufacturing or processing for hire logs, wood chips, sawdust, wood waste, pulp, recycled paper products, paper and paper products, dimensional lumber, and engineered wood products, plywood, wood doors, and wood windows. The lower B&O rate also applies to the wholesales of these products by the extractors and manufacturers. The lower B&O tax rate is phased in; 0.4235 percent applies from July 1, 2006, to July 1, 2007, and 0.2904 percent applies from July 1, 2007, to July 1, 2024. The preferential tax rate expires July 1, 2024.

Taxpayers using the lower tax rate are required to file an annual accountability survey and the survey and tax returns must be filed electronically. A taxpayer who fails to complete the required survey forfeits the benefits of the preferential rates and must pay interest, but not penalties, on the additional taxes due. The survey information must be compiled and provided to the Legislature annually. The fiscal committees of the Legislature are required to study the effectiveness of the preferential tax rate and to report to the Legislature by November of 2011 and 2023.

Starting July 1, 2007, a 0.052 percent surcharge is imposed on taxpayers using the reduced tax rate. The proceeds of the surcharge placed in a dedicated account and are used for implementation of the state's forests and fish report. The surcharge is suspended when the surcharge collections reach \$8 million in the biennium, or the federal budget contains at least \$2 million in appropriations to support tribal participation in forest and fish related activities. If the federal appropriation is less than \$2 million then the surcharge rate is reduced.

Appropriation: None.

Fiscal Note: Requested February 8, 2006.

Effective Date of Amended Bill: The bill takes effect July 1, 2006, except section 2 related to the surcharge for forest and fish implementation which takes effect July 1, 2007, and section 7 which is contingent on the siting of a significant microchip fabrication facility.

Testimony For: Thousands of jobs have been lost in the wood products industry due to the reduction in state and federal timber harvests. International competition is also an issue. There is pressure from Wall Street for our vertically integrated firms to separate off the manufacturing side of the businesses. The bill uses the same tax rate that kept Boeing here. The industry has gone through major changes, and this bill brings the costs of doing business in Washington down and make us more competitive in the world market. The pulp and paper companies will get the largest benefit. They provide good high paying jobs. Washington landowners operate at the highest environmental standards. The 40 percent reduction in rate is significant. Firms are facing pressure from increasing insurance, labor, and fuel costs. This is about recognizing Washington's forest products industry. Washington needs a strong vibrant forest industry to continue planting trees. The woods products industry provides high wage jobs with benefits. The number of sawmills has been reduced to one-third of the 1980 level. Canada is a competitor on lumber, and China is a competitor on paper. Oregon has lower taxes on manufacturers. The pulp and paper industry provides family wage jobs with excellent benefits. It is a very capital intensive industry, more than aerospace or aluminum. The cost of making pulp and paper is higher in Washington. Asian mills are making and selling products for half of what it costs in Washington.

Testimony Against: None.

Persons Testifying: Senator Doumit, prime sponsor; George Kirkmeyer, Contract Loggers Association; Rick Dunning, Washington Farm Forestry Association; Steve Tveit, Vaugen Brothers and Washington Forest Products Association; Raymond Tennison, Simpson Investment Company; Llewellyn Matthews, Northwest Pulp and Paper Mills; Robert Hemslee, Association of Washington Pulp and Paper Workers; and Collins Sprague, AVISTA Corporation.

Persons Signed In To Testify But Not Testifying: None.