

# SENATE BILL REPORT

## E2SSB 5111

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As Passed Senate, March 11, 2005

**Title:** An act relating to providing incentives to support the renewable energy industry in Washington state.

**Brief Description:** Providing tax incentives for solar energy systems.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Morton, Poulsen, Parlette, Roach, Schmidt, Oke, Hewitt, Zarelli, Finkbeiner, Stevens, Swecker, Deccio, Honeyford, Mulliken, Kline and Sheldon).

**Brief History:**

**Committee Activity:** Water, Energy & Environment: 1/18/05, 2/10/05 [DPS-WM].

Ways & Means: 2/24/05, 3/7/05 [DP2S].

Passed Senate: 3/11/05, 48-0.

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### SENATE COMMITTEE ON WATER, ENERGY & ENVIRONMENT

**Majority Report:** That Substitute Senate Bill No. 5111 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Poulsen, Chair; Rockefeller, Vice Chair; Morton, Ranking Minority Member; Fraser, Hewitt, Honeyford, Mulliken, Pridemore and Regala.

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

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Second Substitute Senate Bill No. 5111 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair; Fraser, Vice Chair; Zarelli, Ranking Minority Member; Brandland, Fairley, Hewitt, Kohl-Welles, Parlette, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Thibaudeau.

**Staff:** Dean Carlson (786-7305)

**Background:** A recent report by the Washington State University Energy Program concluded that while the solar electric industry is rapidly developing in both the domestic and global markets, solar electric corporations are leaving the state. It further concluded that the dramatic growth experienced by Washington's solar electric market cannot be maintained without further incentives that recognize the unique forces and issues involved in the solar industry.

Most manufacturing businesses in the state pay the general manufacturing business and occupation (B&O) tax of 0.484 percent times the value of their product. Special B&O tax classifications and rates have been enacted by the legislature to address specialized situations,

such as the semiconductor manufacturer classification, enacted in 2003, to create incentives for the semiconductor industry.

Many manufacturing businesses are eligible for a sales and use tax exemption that exempts all machinery and equipment used in manufacturing, and installation labor, from the sales and use tax.

Current law also provides additional tax incentives for certain businesses that locate in rural counties with fewer than 100 people per square mile, including the following that apply to manufacturing businesses:

- a sales and use tax exemption on buildings and equipment used in manufacturing;
- a 20 percent B&O tax credit for job training up to \$5,000 per year; and
- a B&O tax credit for new manufacturing, research and development, or computer service jobs; \$2,000 for jobs paying less than \$40,000 per year and \$4,000 for jobs paying at least \$40,000.

**Summary of Bill:** The business and occupation (B&O) tax for businesses manufacturing solar energy systems is set at a rate equal to the value of the product multiplied by 0.138 percent. Taxes paid in manufacturing these systems is granted as a B&O tax credit. These two provisions expire on June 30, 2014.

The following additional tax incentives are provided for solar energy system manufacturers that locate in a rural county, defined as a county with less than four people per square mile:

- a sales tax exemption for the construction of new buildings;
- a use tax exemption on tangible personal property incorporated into the project;
- a B&O tax job credit of \$3,000 for each full-time manufacturing production position; and
- a property tax exemption on the machinery and equipment used in manufacturing.

No application for any of the tax incentives is necessary, except for the property tax exemption which must be filed with the appropriate county assessor. Businesses claiming exemptions or credits under this program must file annual reports with the Department of Revenue detailing employment, wages, and health and retirement benefits.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

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

**Testimony For (Water, Energy & Environment):** This bill will create renewable energy manufacturing jobs in Washington. The bill will also allow the state to maintain its edge in the solar market and stop additional solar industries from leaving the state. The solar industry is currently a \$150 million dollar industry in the state with companies involved in silicon purification, crystal growth and inverter production. The bill will help capture the remaining elements of the solar energy "value chain" by creating a solar module manufacturing industry.

The state's proximity to the markets for inputs and end-use products can provide a competitive edge for manufacturers locating here.

**Testimony Against (Water, Energy & Environment):** None.

**Who Testified (Water, Energy & Environment):** Jake Fey, Mike Nelson, Washington State University Energy Program. PRO: Chris Cheney, Washington Dairy Federation; Jim White, Chelan PUD; Jeremy Smithson, Solar Washington; Danielle Dixon, Northwest Energy Coalition; Toni Potter, League of Women's Voters of Washington.

**Testimony For (Ways & Means):** None

**Testimony Against (Ways & Means):** None.

**Who Testified (Ways & Means):** No one.

**House Amendment(s):** The preferential B&O tax rates are raised for manufacturing or wholesaling solar energy systems from 0.138 percent to 0.2904 percent and sets an effective date of October 1, 2005. Makes manufacturers of silicon components for solar energy system eligible to receive the preferential B&O tax rate.

The sections concerning sales, use, and property tax exemptions targeted to rural counties (those with fewer than four people per square mile) are removed. The section providing a credit against business and occupation tax for full-time employment positions created is removed.

The Department of Revenue is required to use existing information to provide a report to the Legislature, due December 1, 2013, regarding the impact of the act, including the number of new businesses, the number of new jobs created, and other factors as the Department may select.

Passed House: 96-0.