

SENATE BILL REPORT

SB 6516

As Reported By Senate Committee On:
Water, Energy & Environment, January 31, 2006

Title: An act relating to sales and use tax exemptions to encourage the use of alternative fuels.

Brief Description: Providing sales and use tax exemptions to encourage the use of alternative fuels.

Sponsors: Senators Fraser, Mulliken, Pridemore, Morton, Poulsen, Rockefeller, Regala, Benton, Rasmussen, Kline and Keiser.

Brief History:

Committee Activity: Water, Energy & Environment: 1/25/06, 1/31/06 [DPS].

SENATE COMMITTEE ON WATER, ENERGY & ENVIRONMENT

Majority Report: That Substitute Senate Bill No. 6516 be substituted therefor, and the substitute bill do pass.

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

Staff: Margaret King (786-7416)

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) and is less of an air pollutant than petroleum diesel. Like petroleum diesel, biodiesel operates in compression-ignition engines. According to the United State Department of Energy, biodiesel blends of up to 20 percent biodiesel can be used in nearly all diesel equipment with little or no engine modifications. Higher blends can also be used in many engines built since 1994 with little or no engine modification.

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. Ethanol is one type of alcohol fuel used in vehicles, and it is currently blended, 10 percent ethanol and 90 percent gasoline, and sold because it is seasonally required in some districts to decrease air pollutants. Ethanol is also being blended and sold for light-duty flex fuel vehicles. The most popular blend is known as E85, which is 85 percent ethanol and 15 percent gasoline. Heavy-duty trucks typically use E95 (ethanol blended with five percent unleaded gasoline) and E93 (ethanol blended with five percent methanol and two percent kerosene). These higher percentage ethanol fuels are not available to the general public in Washington at this time.

Liquid fuels can be produced from wood and wood residues. Two of the methods used for producing the oils that are used in fuel products are pyrolysis and gasification. Pyrolysis is the

breakdown of biomass in the absence of oxygen at temperatures above 250C. The process produces a solid (char or charcoal), a liquid (bio-oil), and a mixture of gases. Much of the present interest in pyrolysis focuses on its liquid output (bio-oil) due to its high energy density (energy per unit of volume) and potential for liquid fuel substitution. Wood-derived bio-oil can be used through a process of gasification to produce synthetic liquid fuel for use as a transportation fuel. It can be blended at any percentage with petroleum diesel or gasoline or used as a pure product.

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.

Summary of Substitute Bill: The sale of parts or components that are integral and necessary to enable a motor vehicle to operate using at least a 50 percent concentration by volume of an alternative fuel is exempted from the state retail and use tax. The labor and/or service that is necessary and integral to enabling a vehicle to operate on the alternative fuel is likewise exempted. To be eligible for the exemption, the buyer must give the seller an exemption certificate that has been approved by the Department of Revenue and the seller must keep a copy of the certificate in his files.

Alternative fuel is defined as a fuel that is at least fifty percent, by volume, alcohol fuel, biodiesel fuel, biodiesel feedstock, or wood biomass fuel.

The exemption expires in ten years.

Substitute Bill Compared to Original Bill: The words "integral and necessary" replaced the "specifically enable" with respect to parts and services that are eligible for the exemption. Exemptions expire in ten years.

Appropriation: None.

Fiscal Note: Available

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2006.

Testimony For: Purpose of bill is to encourage people to engage in the activity of a one time conversion to use alternative fuel.

Testimony Against: None.

Who Testified: PRO: Senator Fraser, prime sponsor.