

# FINAL BILL REPORT

## SSB 6874

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Synopsis as Enacted

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

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

**Senate Committee on Ways & Means**  
**House Committee on Finance**

**Background:** The business & 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 9 different rates, the most common rates are 0.471 percent for retailing, 0.484 percent for 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:** The B&O tax rate is reduced 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 reduced B&O rate also applies to wholesales of these products by the extractors and manufacturers. The reduced 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 reduced 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.

**Votes on Final Passage:**

Senate	40	4	
House	93	5	(House amended)
Senate	40	5	(Senate concurred)

**Effective:** July 1, 2006 (Sections 1, 3, 4-6, and 8-12)  
July 1, 2007 (Section 2)  
Contingent (Section 7)