
SUBSTITUTE HOUSE BILL 1646

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By House Committee on Technology, Energy & Communications (originally sponsored by Representatives B. Sullivan, Holmquist, Upthegrove, Linville, Blake, Morris, Orcutt, Lovick, Campbell, Chase, Williams, Schindler, Wood, Rodne, Sells, Hinkle and Simpson)

READ FIRST TIME 02/25/05.

1 AN ACT Relating to tax incentives for alternative fuels; reenacting
2 and amending RCW 82.04.260; adding a new section to chapter 82.08 RCW;
3 adding a new section to chapter 82.12 RCW; adding a new section to
4 chapter 84.36 RCW; adding a new section to chapter 82.29A RCW; adding
5 a new section to chapter 82.04 RCW; creating a new section; providing
6 an effective date; providing contingent expiration dates; and declaring
7 an emergency.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

9 NEW SECTION. **Sec. 1.** A new section is added to chapter 82.08 RCW
10 to read as follows:

11 (1) The tax levied by RCW 82.08.020 does not apply to sales of
12 tangible personal property that is used in the construction of a
13 manufacturing facility or sales of or charges made for labor and
14 services rendered with respect to the construction of a manufacturing
15 facility, if the facility is used primarily to manufacture an
16 alternative fuel.

17 (2) The tax levied by RCW 82.08.020 does not apply to sales of fuel
18 storage tanks, delivery vehicles, or associated facilities or to sales
19 of or charges made for labor and services rendered in respect to

1 installing, repairing, cleaning, altering, or improving the storage
2 tanks, delivery vehicles, and associated facilities, including repair
3 parts and replacement parts, necessary for fuel storage or distribution
4 if the fuel distributed by the vehicles is liquefied natural gas
5 produced from renewable, waste, or stranded sources of methane gas.

6 (3) A person taking an exemption under this section must keep
7 records necessary for the department to verify eligibility under this
8 section. The exemption is available only when the buyer provides the
9 seller with an exemption certificate in a form and manner prescribed by
10 the department. The seller shall retain a copy of the certificate for
11 the seller's files.

12 (4) For the purposes of this section, "alternative fuel" has the
13 same meaning as provided in section 6(1)(a) of this act.

14 (5)(a) This section expires July 1, 2015 or July 1 of the year
15 following the year in which the department of licensing estimates that
16 the aggregate volume of alternative fuels sold at retail for vehicular
17 purposes represents twenty percent of the aggregate volume of all fuels
18 sold at retail for vehicular purposes.

19 (b) In order to calculate the percentage of alternative fuel sales
20 in (a) of this subsection, the department of licensing may use as a
21 proxy the estimated portion of the tax base of the special fuels tax
22 under chapter 82.38 RCW relating to fuels other than diesel fuel. If
23 exact volumes are unknown, the department may use reasonable methods to
24 derive estimates of volumes. To make the calculation, the department
25 shall convert fuel volumes to gasoline-equivalent gallons, using the
26 method utilized by the United States department of energy in reporting
27 such comparisons as of January 1, 2005.

28 (c) The department of licensing is authorized to promulgate rules
29 necessary to implement this section.

30 NEW SECTION. **Sec. 2.** A new section is added to chapter 82.12 RCW
31 to read as follows:

32 (1) The provisions of this chapter do not apply to the use of
33 tangible personal property that is incorporated in the construction of
34 a manufacturing facility or the use of labor and services rendered with
35 respect to the construction of a manufacturing facility, if the
36 facility is used primarily to manufacture an alternative fuel.

1 (2) The provisions of this chapter do not apply to the use of fuel
2 storage tanks, delivery vehicles, or associated facilities or to sales
3 of or charges made for labor and services rendered in respect to
4 installing, repairing, cleaning, altering, or improving the storage
5 tanks, delivery vehicles, and associated facilities, including repair
6 parts and replacement parts, necessary for fuel storage or distribution
7 if the fuel distributed by the vehicles is liquefied natural gas
8 produced from renewable, waste, or stranded sources of methane gas.

9 (3) A person taking an exemption under this section must keep
10 records necessary for the department to verify eligibility under this
11 section. The exemption is available only when the buyer provides the
12 seller with an exemption certificate in a form and manner prescribed by
13 the department. The seller shall retain a copy of the certificate for
14 the seller's files.

15 (4) For the purposes of this section, "alternative fuel" has the
16 same meaning as provided in section 6(1)(a) of this act.

17 (5)(a) This section expires July 1, 2015 or July 1 of the year
18 following the year in which the department of licensing estimates that
19 the aggregate volume of alternative fuels sold at retail for vehicular
20 purposes represents twenty percent of the aggregate volume of all fuels
21 sold at retail for vehicular purposes.

22 (b) In order to calculate the percentage of alternative fuel sales
23 in (a) of this subsection, the department of licensing may use as a
24 proxy the estimated portion of the tax base of the special fuels tax
25 under chapter 82.38 RCW relating to fuels other than diesel fuel. If
26 exact volumes are unknown, the department may use reasonable methods to
27 derive estimates of volumes. To make the calculation, the department
28 shall convert fuel volumes to gasoline-equivalent gallons, using the
29 method utilized by the United States department of energy in reporting
30 such comparisons as of January 1, 2005.

31 (c) The department of licensing is authorized to promulgate rules
32 necessary to implement this section.

33 NEW SECTION. **Sec. 3.** A new section is added to chapter 84.36 RCW
34 to read as follows:

35 (1)(a) All buildings, machinery, equipment, and other personal
36 property which is used primarily for the manufacture of an alternative
37 fuel, the land upon which this property is located, and land that is

1 reasonably necessary in the manufacture of the alternative fuel, which
2 together comprise a new manufacturing facility or an addition to an
3 existing manufacturing facility, are exempt from property taxes payable
4 for the six years beginning with taxes payable the following year from
5 the date the facility or the addition to the existing facility becomes
6 operational.

7 (b) For manufacturing facilities which manufacture products in
8 addition to an alternative fuel, the amount of the property tax
9 exemption shall be based upon the annual percentage of the total value
10 of all products manufactured that is the value of the alternative fuel
11 manufactured.

12 (2) Claims for exemptions authorized by this section shall be filed
13 with the county assessor on forms prescribed by the department of
14 revenue and furnished by the assessor. Once filed, the exemption is
15 valid for six years and shall not be renewed. The assessor shall
16 verify and approve claims as the assessor determines to be justified
17 and in accordance with this section. No claims may be approved after
18 December 31, 2009.

19 (3) The department of revenue may promulgate rules, pursuant to
20 chapter 34.05 RCW, as necessary to properly administer this section.

21 (4) For the purposes of this section, "alternative fuel" has the
22 same meaning as provided in section 6(1)(a) of this act.

23 (5)(a) This section expires January 1, 2016 or January 1 of the
24 year following the year in which the department of licensing estimates
25 that the aggregate volume of alternative fuels sold at retail for
26 vehicular purposes represents twenty percent of the aggregate volume of
27 all fuels sold at retail for vehicular purposes.

28 (b) In order to calculate the percentage of alternative fuel sales
29 in (a) of this subsection, the department of licensing may use as a
30 proxy the estimated portion of the tax base of the special fuels tax
31 under chapter 82.38 RCW relating to fuels other than diesel fuel. If
32 exact volumes are unknown, the department may use reasonable methods to
33 derive estimates of volumes. To make the calculation, the department
34 shall convert fuel volumes to gasoline-equivalent gallons, using the
35 method utilized by the United States department of energy in reporting
36 such comparisons as of January 1, 2005.

37 (c) The department of licensing is authorized to promulgate rules
38 necessary to implement this section.

1 NEW SECTION. **Sec. 4.** A new section is added to chapter 82.29A RCW
2 to read as follows:

3 (1)(a) All leasehold interests in buildings, machinery, equipment,
4 and other personal property which is used primarily for the manufacture
5 of an alternative fuel, the land upon which this property is located,
6 and land that is reasonably necessary in the manufacture of the
7 alternative fuel, which together comprise a new manufacturing facility
8 or an addition to an existing manufacturing facility, are exempt from
9 leasehold taxes for a period of six years from the date on which the
10 facility or the addition to the existing facility becomes operational.

11 (b) For manufacturing facilities which manufacture products in
12 addition to an alternative fuel, the amount of the leasehold tax
13 exemption shall be based upon the annual percentage of the total value
14 of all products manufactured that is the value of the alternative fuel
15 manufactured.

16 (2) Claims for exemptions authorized by this section shall be filed
17 with the department of revenue on forms prescribed by the department of
18 revenue and furnished by the department of revenue. Once filed, the
19 exemption is valid for six years and shall not be renewed. The
20 department of revenue shall verify and approve claims as the department
21 of revenue determines to be justified and in accordance with this
22 section. No claims may be approved after December 31, 2009.

23 (3) The department may promulgate rules, pursuant to chapter 34.05
24 RCW, as necessary to properly administer this section.

25 (4) For the purposes of this section, "alternative fuel" has the
26 same meaning as provided in section 6(1)(a) of this act.

27 (5)(a) This section expires July 1, 2015 or July 1 of the year
28 following the year in which the department of licensing estimates that
29 the aggregate volume of alternative fuels sold at retail for vehicular
30 purposes represents twenty percent of the aggregate volume of all fuels
31 sold at retail for vehicular purposes.

32 (b) In order to calculate the percentage of alternative fuel sales
33 in (a) of this subsection, the department of licensing may use as a
34 proxy the estimated portion of the tax base of the special fuels tax
35 under chapter 82.38 RCW relating to fuels other than diesel fuel. If
36 exact volumes are unknown, the department may use reasonable methods to
37 derive estimates of volumes. To make the calculation, the department

1 shall convert fuel volumes to gasoline-equivalent gallons, using the
2 method utilized by the United States department of energy in reporting
3 such comparisons as of January 1, 2005.

4 (c) The department of licensing is authorized to promulgate rules
5 necessary to implement this section.

6 **Sec. 5.** RCW 82.04.260 and 2003 2nd sp.s. c 1 s 4 and 2003 2nd
7 sp.s. c 1 s 3 are each reenacted and amended to read as follows:

8 (1) Upon every person engaging within this state in the business of
9 manufacturing:

10 (a) Wheat into flour, barley into pearl barley, soybeans into
11 soybean oil, canola into canola oil, canola meal, or canola byproducts,
12 or sunflower seeds into sunflower oil; as to such persons the amount of
13 tax with respect to such business shall be equal to the value of the
14 flour, pearl barley, oil, canola meal, or canola byproduct
15 manufactured, multiplied by the rate of 0.138 percent;

16 (b) Seafood products which remain in a raw, raw frozen, or raw
17 salted state at the completion of the manufacturing by that person; as
18 to such persons the amount of tax with respect to such business shall
19 be equal to the value of the products manufactured, multiplied by the
20 rate of 0.138 percent;

21 (c) By canning, preserving, freezing, processing, or dehydrating
22 fresh fruits and vegetables, or selling at wholesale fresh fruits and
23 vegetables canned, preserved, frozen, processed, or dehydrated by the
24 seller and sold to purchasers who transport in the ordinary course of
25 business the goods out of this state; as to such persons the amount of
26 tax with respect to such business shall be equal to the value of the
27 products canned, preserved, frozen, processed, or dehydrated multiplied
28 by the rate of 0.138 percent. As proof of sale to a person who
29 transports in the ordinary course of business goods out of this state,
30 the seller shall annually provide a statement in a form prescribed by
31 the department and retain the statement as a business record;

32 (d) Dairy products that as of September 20, 2001, are identified in
33 21 C.F.R., chapter 1, parts 131, 133, and 135, including byproducts
34 from the manufacturing of the dairy products such as whey and casein;
35 or selling the same to purchasers who transport in the ordinary course
36 of business the goods out of state; as to such persons the tax imposed
37 shall be equal to the value of the products manufactured multiplied by

1 the rate of 0.138 percent. As proof of sale to a person who transports
2 in the ordinary course of business goods out of this state, the seller
3 shall annually provide a statement in a form prescribed by the
4 department and retain the statement as a business record;

5 ~~(e) ((Alcohol fuel, biodiesel fuel, or biodiesel feedstock, as
6 those terms are defined in RCW 82.29A.135; as to such persons the
7 amount of tax with respect to the business shall be equal to the value
8 of alcohol fuel, biodiesel fuel, or biodiesel feedstock manufactured,
9 multiplied by the rate of 0.138 percent. This subsection (1)(e)
10 expires July 1, 2009; and~~

11 ~~(f) Alcohol fuel or wood biomass fuel, as those terms are defined
12 in RCW 82.29A.135; as to such persons the amount of tax with respect to
13 the business shall be equal to the value of alcohol fuel or wood
14 biomass fuel manufactured, multiplied by the rate of 0.138 percent))~~
15 Alternative fuel; as to such persons the amount of tax imposed shall be
16 equal to the value of the products manufactured multiplied by the rate
17 of 0.138 percent. This subsection (1)(e) expires July 1, 2015; and

18 (f) Natural gas liquefaction equipment, including equipment to
19 produce compressed natural gas formed by pressurizing and vaporizing
20 liquefied natural gas; as to such persons the amount of tax imposed
21 shall be equal to the value of the products manufactured multiplied by
22 the rate of 0.138 percent. This subsection (1)(f) expires July 1,
23 2015.

24 (2) Upon every person engaging within this state in the business of
25 splitting or processing dried peas; as to such persons the amount of
26 tax with respect to such business shall be equal to the value of the
27 peas split or processed, multiplied by the rate of 0.138 percent.

28 (3) Upon every nonprofit corporation and nonprofit association
29 engaging within this state in research and development, as to such
30 corporations and associations, the amount of tax with respect to such
31 activities shall be equal to the gross income derived from such
32 activities multiplied by the rate of 0.484 percent.

33 (4) Upon every person engaging within this state in the business of
34 slaughtering, breaking and/or processing perishable meat products
35 and/or selling the same at wholesale only and not at retail; as to such
36 persons the tax imposed shall be equal to the gross proceeds derived
37 from such sales multiplied by the rate of 0.138 percent.

1 (5) Upon every person engaging within this state in the business of
2 making sales, at retail or wholesale, of nuclear fuel assemblies
3 manufactured by that person, as to such persons the amount of tax with
4 respect to such business shall be equal to the gross proceeds of sales
5 of the assemblies multiplied by the rate of 0.275 percent.

6 (6) Upon every person engaging within this state in the business of
7 manufacturing nuclear fuel assemblies, as to such persons the amount of
8 tax with respect to such business shall be equal to the value of the
9 products manufactured multiplied by the rate of 0.275 percent.

10 (7) Upon every person engaging within this state in the business of
11 acting as a travel agent or tour operator; as to such persons the
12 amount of the tax with respect to such activities shall be equal to the
13 gross income derived from such activities multiplied by the rate of
14 0.275 percent.

15 (8) Upon every person engaging within this state in business as an
16 international steamship agent, international customs house broker,
17 international freight forwarder, vessel and/or cargo charter broker in
18 foreign commerce, and/or international air cargo agent; as to such
19 persons the amount of the tax with respect to only international
20 activities shall be equal to the gross income derived from such
21 activities multiplied by the rate of 0.275 percent.

22 (9) Upon every person engaging within this state in the business of
23 stevedoring and associated activities pertinent to the movement of
24 goods and commodities in waterborne interstate or foreign commerce; as
25 to such persons the amount of tax with respect to such business shall
26 be equal to the gross proceeds derived from such activities multiplied
27 by the rate of 0.275 percent. Persons subject to taxation under this
28 subsection shall be exempt from payment of taxes imposed by chapter
29 82.16 RCW for that portion of their business subject to taxation under
30 this subsection. Stevedoring and associated activities pertinent to
31 the conduct of goods and commodities in waterborne interstate or
32 foreign commerce are defined as all activities of a labor, service or
33 transportation nature whereby cargo may be loaded or unloaded to or
34 from vessels or barges, passing over, onto or under a wharf, pier, or
35 similar structure; cargo may be moved to a warehouse or similar holding
36 or storage yard or area to await further movement in import or export
37 or may move to a consolidation freight station and be stuffed,
38 unstuffed, containerized, separated or otherwise segregated or

1 aggregated for delivery or loaded on any mode of transportation for
2 delivery to its consignee. Specific activities included in this
3 definition are: Wharfage, handling, loading, unloading, moving of
4 cargo to a convenient place of delivery to the consignee or a
5 convenient place for further movement to export mode; documentation
6 services in connection with the receipt, delivery, checking, care,
7 custody and control of cargo required in the transfer of cargo;
8 imported automobile handling prior to delivery to consignee; terminal
9 stevedoring and incidental vessel services, including but not limited
10 to plugging and unplugging refrigerator service to containers,
11 trailers, and other refrigerated cargo receptacles, and securing ship
12 hatch covers.

13 (10) Upon every person engaging within this state in the business
14 of disposing of low-level waste, as defined in RCW 43.145.010; as to
15 such persons the amount of the tax with respect to such business shall
16 be equal to the gross income of the business, excluding any fees
17 imposed under chapter 43.200 RCW, multiplied by the rate of 3.3
18 percent.

19 If the gross income of the taxpayer is attributable to activities
20 both within and without this state, the gross income attributable to
21 this state shall be determined in accordance with the methods of
22 apportionment required under RCW 82.04.460.

23 (11) Upon every person engaging within this state as an insurance
24 agent, insurance broker, or insurance solicitor licensed under chapter
25 48.17 RCW; as to such persons, the amount of the tax with respect to
26 such licensed activities shall be equal to the gross income of such
27 business multiplied by the rate of 0.484 percent.

28 (12) Upon every person engaging within this state in business as a
29 hospital, as defined in chapter 70.41 RCW, that is operated as a
30 nonprofit corporation or by the state or any of its political
31 subdivisions, as to such persons, the amount of tax with respect to
32 such activities shall be equal to the gross income of the business
33 multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5
34 percent thereafter. The moneys collected under this subsection shall
35 be deposited in the health services account created under RCW
36 43.72.900.

37 (13)(a) Beginning October 1, 2005, upon every person engaging
38 within this state in the business of manufacturing commercial

1 airplanes, or components of such airplanes, as to such persons the
2 amount of tax with respect to such business shall, in the case of
3 manufacturers, be equal to the value of the product manufactured, or in
4 the case of processors for hire, be equal to the gross income of the
5 business, multiplied by the rate of:

6 (i) 0.4235 percent from October 1, 2005, through the later of June
7 30, 2007, or the day preceding the date final assembly of a
8 superefficient airplane begins in Washington state, as determined under
9 RCW 82.32.550; and

10 (ii) 0.2904 percent beginning on the later of July 1, 2007, or the
11 date final assembly of a superefficient airplane begins in Washington
12 state, as determined under RCW 82.32.550.

13 (b) Beginning October 1, 2005, upon every person engaging within
14 this state in the business of making sales, at retail or wholesale, of
15 commercial airplanes, or components of such airplanes, manufactured by
16 that person, as to such persons the amount of tax with respect to such
17 business shall be equal to the gross proceeds of sales of the airplanes
18 or components multiplied by the rate of:

19 (i) 0.4235 percent from October 1, 2005, through the later of June
20 30, 2007, or the day preceding the date final assembly of a
21 superefficient airplane begins in Washington state, as determined under
22 RCW 82.32.550; and

23 (ii) 0.2904 percent beginning on the later of July 1, 2007, or the
24 date final assembly of a superefficient airplane begins in Washington
25 state, as determined under RCW 82.32.550.

26 (c) For the purposes of this subsection (13), "commercial
27 airplane," "component," and "final assembly of a superefficient
28 airplane" have the meanings given in RCW 82.32.550.

29 (d) In addition to all other requirements under this title, a
30 person eligible for the tax rate under this subsection (13) must report
31 as required under RCW 82.32.545.

32 (e) This subsection (13) does not apply after the earlier of: July
33 1, 2024; or December 31, 2007, if assembly of a superefficient airplane
34 does not begin by December 31, 2007, as determined under RCW 82.32.550.

35 NEW SECTION. **Sec. 6.** A new section is added to chapter 82.04 RCW,
36 to be codified between RCW 82.04.010 and 82.04.220, to read as follows:

37 (1)(a) Alternative fuel means:

1 (i) Alcohol fuel, biodiesel fuel, biodiesel feedstock, or wood
2 biomass fuel, as those terms are defined in RCW 82.29A.135; or

3 (ii)(A) Liquefied natural gas, if the gas is manufactured from
4 renewable, waste, or stranded sources of methane gas;

5 (B) Compressed natural gas, if the gas is derived from liquefied
6 natural gas that is manufactured from renewable, waste, or stranded
7 sources of methane gas; or

8 (C) Methane, if the methane is: (I) Obtained from the anaerobic
9 digestion of material, including but not limited to, agricultural waste
10 or sewage; and (II) subsequently used to manufacture liquefied natural
11 gas.

12 (b) "Anaerobic digestion" means a biological process that enables
13 organic matter to be broken down by bacteria in the absence of air to
14 produce a gas principally composed of methane.

15 (2)(a) Subsection (1)(a)(i) of this section expires July 1, 2009.

16 (b) This section expires July 1, 2015.

17 NEW SECTION. **Sec. 7.** Section 3 of this act applies to taxes
18 levied for collection in 2006 and thereafter.

19 NEW SECTION. **Sec. 8.** This act is necessary for the immediate
20 preservation of the public peace, health, or safety, or support of the
21 state government and its existing public institutions, and takes effect
22 July 1, 2005.

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