

# HOUSE BILL REPORT

## HB 2678

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### As Passed Legislature

**Title:** An act relating to restoring the preferential timber industry business and occupation tax rate to the manufacture of environmentally responsible surface material products from recycled paper.

**Brief Description:** Restoring the preferential timber industry business and occupation tax rate to the manufacture of environmentally responsible surface material products from recycled paper.

**Sponsors:** By Representatives Kessler, VanDeWege, Blake, Williams and McIntire.

#### Brief History:

##### Committee Activity:

Finance: 1/30/08, 2/6/08 [DP].

##### Floor Activity:

Passed House: 2/14/08, 93-1.

Passed Senate: 3/11/08, 48-1.

Passed Legislature.

#### Brief Summary of Bill

- Broadening the application of the lower business and tax rate for timber and wood products.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 9 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

**Staff:** Don Taylor (786-7388).

#### Background:

Washington's principal tax on businesses is the state business and occupation (B&O) tax. The B&O tax applies to the gross receipts derived from engaging in business. Although the tax

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does not reflect the cost of doing business, there are a variety of exemptions, deductions, and other tax incentives permitted by law. Major tax rates are 0.484 percent for manufacturing and wholesaling; 0.471 percent for retailing, and 1.5 percent for services; and a variety of lower rates also apply to specific business activities. The B&O tax generates about 16 percent of all state tax collections; most of the receipts are deposited in the State General Fund.

In 2006 the Legislature authorized a lower B&O tax rate for extracting and wholesaling of timber and for manufacturing of timber and wood products. The applicable tax rate dropped from 0.484 percent to 0.4235 percent for Fiscal Year 2007 and then to 0.2904 starting on July 1, 2007. This rate is scheduled to remain in effect until June 30, 2024.

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**Summary of Bill:**

Eligible products that qualify for the reduced tax rate are broadened by the bill. The term "timber products" would include recycled paper that is used in manufacturing of biocomposite surface products and the term "wood products" would include biocomposite surface products.

Definitions and requirements for these items are provided. At least 50 percent of the fiber content of recycled paper must be post-consumer waste which would otherwise be disposed of as solid waste. Biocomposite surface products must contain at least 50 percent recycled paper and have a bonding agent consisting of nonpetroleum-based phenolic resin.

The provisions are retroactive to July 1, 2007.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** (In support) The bill impacts only one known firm. This firm originally thought that the timber/wood products rate reduction for state B&O tax, enacted in 2006, applied to them. Later, they found out the Department of Revenue disagrees. This bill would specifically include this one firm in the lower tax rate classification. The firm processes materials which are environmentally friendly. By making commercial use of items which would otherwise be destined for the landfill, this bill helps to encourage recycling and helps to alleviate the volume of materials being sent to the landfill.

(Opposed) None.

**Persons Testifying:** Representative Kessler, prime sponsor.

**Persons Signed In To Testify But Not Testifying:** None.