

HOUSE BILL REPORT

HB 3362

As Amended by the Senate

Title: An act relating to tax incentives to encourage businesses to purchase highly energy efficient equipment.

Brief Description: Providing tax incentives to encourage businesses to purchase highly energy efficient equipment.

Sponsors: By Representative Kelley.

Brief History:

Committee Activity:

Finance: 2/12/08 [DP].

Floor Activity:

Passed House: 2/14/08, 94-0.

Senate Amended.

Passed Senate: 3/11/08, 49-0.

<p>Brief Summary of Bill</p> <ul style="list-style-type: none">• Establishes a state business and occupation tax credit for sales/use taxes paid by certain small businesses on specified energy-efficient appliances.

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 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

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wholesaling; 0.471 percent for retailing; and 1.5 percent for services; several 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.

Energy Star: In 1992 the U.S. Environmental Protection Agency (EPA) introduced Energy Star as a voluntary labeling program designed to identify and promote energy efficient products to reduce greenhouse gas emissions. Computers and monitors were the first labeled products. In 1995 the EPA expanded the label to additional office equipment products and residential heating and cooling equipment. The Energy Star label is now on major appliances, office equipment, lighting, home electronics, and other products. The EPA has also extended the label to cover new homes and commercial and industrial buildings.

Consortium for Energy Efficiency (CEE): The CEE is a nonprofit organization comprised of energy efficiency organizations; electric, gas, and water utilities; research and development organizations; state and provincial energy offices in the United States and Canada; and regional energy programs. The CEE promotes the use of energy-efficient products, technologies, and services. The CEE has adopted specifications for various levels of energy savings for a variety of products.

Summary of Bill:

A new credit is adopted against state B&O tax for certain small businesses for the amount of state and local retail sales/use tax paid on certain types of commercial appliances which carry Energy Star or CEE ratings for energy-efficiency:

- (a) freezers and refrigerators;
- (b) washing machines;
- (c) ice makers;
- (d) gas convection ovens;
- (e) deep fat fryers;
- (f) hot food holding cabinets; and
- (g) steam cookers.

Eligible purchases of energy-efficient appliances must be made on or after July 1, 2008, and before July 1, 2010. To qualify for the credit, the firm's gross income for the prior calendar year must not exceed \$750,000. Further, there is a cap on the amount of credit granted to all taxpayers of \$750,000.

The Department of Community, Trade and Economic Development (CTED) is required to report on the energy and cost savings as a result of this tax incentive. The CTED report is due to the Legislature on December 30, 2010.

The B&O tax credit expires on July 1, 2010.

EFFECT OF SENATE AMENDMENT(S):

Minor technical changes are made to the calculation of the B&O tax credit for sales tax paid on specified commercial appliances. Instead of allowing the credit for the actual amount of state and local sales and use tax paid, the credit equals 8.8 percent of the purchase price. This is roughly equivalent to the average sales/use tax rate. Also the date of the reference energy efficiency specifications for commercial freezers and refrigerators is revised.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect July 1, 2008.

Staff Summary of Public Testimony:

(In support) Support for the legislation was given by the prime sponsor and representatives of environmental groups. It was noted that a large commercial appliance can achieve significant energy reductions if it is rated as an Energy Star appliance or if it carries a CEE rating.

(With concerns) The \$750,000 threshold in the bill is far too low. Nearly any grocery store or major restaurant that would benefit from the B&O tax credit would have gross receipts in excess of this level. Further, the two-year duration for the program will not be sufficiently long to determine whether the incentive is truly effective.

(Opposed) None.

Persons Testifying: (In support) Representative Kelley, prime sponsor; and Kim Drury, Northwest Energy Coalition.

(With concerns) Carolyn Hogue, Washington Food Industry.

Persons Signed In To Testify But Not Testifying: None.