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**Finance Committee**

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**HB 1513**

**Brief Description:** Modifying provisions relating to the excise taxation of forest products businesses.

**Sponsors:** Representatives Kessler, Orcutt, Grant, Alexander, Blake, VanDeWege, Kretz, Takko, Linville and Ericks.

**Brief Summary of Bill**

- Makes changes to the 2006 timber tax bill as follows:
- Applies lower business and occupation (B&O) tax rates to wholesalers of timber grown by the seller and to short rotation hardwoods.
- Eliminates manufacturing of products using recycled paper products from timber B&O tax preference and adds manufacturing of products from pulp derived from reclaimed paper or paper products.
- Changes small harvester B&O tax exemption to a \$100,000 deduction.
- Exempts certain sales of standing timber from real estate excise tax if timber is cut within 30 months.

**Hearing Date:** 2/7/07

**Staff:** Rick Peterson (786-7150).

**Background:**

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484

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percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

Small timber harvesters (less than two million board feet of harvest in a calendar year) with taxable business activity of less than \$100,000 per tax year are exempt from B&O tax.

Preferential manufacturing B&O tax rates have been provided by the Legislature in recent years for aerospace, semiconductor microchips and materials, biodiesel fuel, aluminum smelting, solar energy systems, and timber/wood products.

In 2006 B&O tax rate reductions were provided for the timber industry. The B&O tax rate was lowered 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 lower B&O rate also applies to the wholesales of these products by the extractors and manufacturers. The lower 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 lower tax rate are required to file an annual accountability survey.

Starting July 1, 2007, a 0.052 percent surcharge is imposed on taxpayers using the reduced tax rate. The proceeds of the surcharge are placed in a dedicated account and are used for implementation of 1999 Forest and Fish Report to the Forest Practices board and the Governor's Salmon Recovery Office. The report made recommendations to ensure 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. 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.

Property meeting certain conditions may have property taxes determined on current use values rather than market values. There are four categories of lands that are classified and assessed on current use. Three categories are covered in the open space law: open space lands; farm and agriculture lands; and timberlands. The remaining category is designated forest land in the timber tax law.

The real estate excise tax (REET) is imposed on each sale of real property. The state tax rate is 1.28 percent of the selling price. Additional local rates are allowed. The most common total tax rates are 1.53 percent and 1.78 percent. The sale of standing timber is considered a sale of real property and is subject to REET.

### **Summary of Bill:**

Wholesalers of timber are eligible for the lower timber tax rate on timber grown but not harvested by the seller.

The special tax rates apply to the extracting, manufacturing, and wholesaling of short rotation hardwoods grown on lands assessed under the open space timberland program.

The manufacturing of products using recycled paper products is eliminated from the tax preference. The manufacturing of products using pulp derived from reclaimed paper or paper products is added.

The calculation of the 0.052 percent surcharge is clarified so that it does not include the underlying tax rate.

The small harvester B&O tax exemption is changed to a \$100,000 deduction. Small harvesters are not required to file the annual accountability report.

The sale of standing timber is exempt from REET if the timber is sold separately from the land and the timber is cut within 30 months of sale.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2007.