
Finance Committee

E2SSB 6111

Brief Description: Concerning generating electricity from tidal and wave energy.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Hobbs, Poulsen, Jacobsen and Tom).

Brief Summary of Engrossed Second Substitute Bill

- Establishes excise tax incentives for tidal and wave energy generating devices.

Hearing Date: March 3, 2008

Staff: Don Taylor (786-7388).

Background:

RETAIL SALES/USE TAX:

Washington's major tax is the state retail sales tax and its companion use tax. Together, these comprise approximately 47 percent of all state tax receipts. In addition, local sales/use taxes are a major source of revenue for cities, counties and other types of local taxing districts. The state levies a sales/use tax rate of 6.5 percent; local sales/use tax rates range from 0.5 to 2.4 percent. Starting in April, 2008 the highest combined rate in the state will be 9.0 percent.

The sales tax applies to purchases for which the buyer actually uses the item or service (i.e., not for direct resale); use tax applies to items upon which the retail sales tax was not paid (e.g., items purchased out of state or from nonretail vendors). Most purchases of tangible personal property, including items used by businesses, are subject to the tax. Some services, such as contract construction or repair of tangible personal property, are subject to the tax; however, the majority of personal and profession services are not taxable. A variety of exemptions apply to certain types of goods - e.g., manufacturing machinery and motor vehicle fuel - or to specific types of purchasers. Various exemptions are provided to encourage the use of renewable energy sources.

PUBLIC UTILITY TAX:

The state public utility tax applies to a variety of public service activities which are exempt from B&O tax. Originally, most of these activities were subject to regulation by the state but that is no

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longer necessarily true. Principal activities covered by the tax are the generation and distribution of energy, communication services, and in-state transportation of goods and people. The tax produces about 2.0 percent of state tax revenue; most of the receipts are deposited in the state general fund. Generation and distribution of electrical energy is subject to a tax rate of 3.873 percent of the gross operating revenue.

Summary of Bill:

RETAIL SALES/USE TAX:

Exemptions from state and local retail sales and use taxes are enacted for devices that generate electrical energy by using tidal or wave energy. The exemptions covers the cost of the equipment, as well as installation labor. To qualify, the device must be capable of producing at least five kilowatts of energy. These exemptions expire on June 30, 2018.

PUBLIC UTILITY TAX:

A new tax deduction is established for the cost of production of electrical energy from tidal or wave energy devices. Firms that produce or generate electrical energy may deduct such costs from their public utility tax liability for up to 30 years after the tidal or wave energy device is placed in operation. Only new facilities for which construction began after January 1, 2008 but before January 1, 2018 are eligible. The Department of Revenue shall consult with the Utilities and Transportation Commission and local regulated utilities to determine the eligibility of specific projects and the amount of qualifying tax deduction.

WORK GROUP:

The Department of Ecology is directed to convene a work group to review issues related to siting and operation of tidal and wave energy facilities. Various state agencies, private firms engaged in developing these facilities and related industry associations, university researchers, the NW Indian Fisheries Commission, an electrical utility, and a local government entity shall comprise the stakeholder group. The review shall include state and federal regulatory requirements, environmental analysis of tidal and wave energy technologies, and existing or new state policies relating to these facilities. The report of the work group is due by the end of 2008.

Appropriation: None.

Fiscal Note: Available.

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