

SENATE BILL REPORT

SHB 1513

As Reported By Senate Committee On:
Ways & Means, March 20, 2007

Title: An act relating to the excise taxation of forest products businesses.

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

Sponsors: House Committee on Finance (originally sponsored by Representatives Kessler, Orcutt, Grant, Alexander, Blake, VanDeWege, Kretz, Takko, Linville and Ericks).

Brief History: Passed House: 3/12/07, 98-0.

Committee Activity: Ways & Means: 3/20/07 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Zarelli, Ranking Minority Member; Brandland, Carrell, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Oemig, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Dianne Criswell (786-7433)

Background: The business & occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. In general, there are no deductions for the costs of doing business.

Several B&O categories apply to timber harvesting activities, including extracting, extracting-for-hire, manufacturing, and wholesaling. All of these activities are generally taxed at 0.484 percent. If taxpayers perform more than one taxable activity for the same product, they may take a multiple activities tax credit to avoid paying the B&O tax twice on the same amount. Small timber harvesters with gross receipts less than \$100,000 per year are exempt from B&O tax.

Real estate excise tax (REET) is a tax on the sale of real property that is paid by the seller. The state and local governments may impose REET on sales of real property. The highest combined state and local rate is 1.78 percent. WAC 458-61A-113 defines REET on sales of standing timber, which is currently in rule-making at the Department of Revenue.

In 2006, the Legislature reduced the B&O tax rate for extracting or extracting-for-hire timber, or manufacturing or processing for hire logs, wood chips, sawdust, wood waste, pulp, recycled

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paper products, paper and paper products, dimensional lumber, and engineered wood products, plywood, wood doors, and wood windows. The reduced B&O rate also applies to wholesales of these products by the extractors and manufacturers. The reduced 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 paying the reduced tax rate are required to file an annual accountability survey and the survey and tax returns must be filed electronically. A taxpayer who fails to complete the required survey forfeits the benefits of the preferential rates and must pay interest, but not penalties, on the additional taxes due. The survey information must be compiled and provided to the Legislature annually. The fiscal committees of the Legislature are required to study the effectiveness of the preferential tax rate and to report to the Legislature by November of 2011 and 2023.

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 the 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.

Summary of Substitute Bill: The manufacturing of products using recycled paper products is eliminated from the tax preference. The manufacturing of products using short rotation hardwoods, pulp derived from reclaimed paper or paper products, is added. A definition of paper and paper products is added. Books, newspapers, and other printed material are excluded from the definition and therefore from the special tax treatment. The calculation of the 0.052 percent surcharge is clarified so that it does not include the underlying tax rate. 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. Sales of standing timber formerly taxed under REET is taxed under the B&O tax at 0.2904 percent. The small harvester B&O tax exemption threshold is changed to a \$100,000 deduction. Small harvesters are not required to file the annual accountability report.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony (on companion bill SSB 5493): PRO: Concerns have been raised regarding collections of the REET on pay-as-cut timber sales. Pay-as-cut sales were not directly addressed in last year's bill. Adding these sales to the timber harvesting activities that qualify for the reduced B&O rate will promote consistency and fairness in the tax code. Converting the small harvester B&O exemption to a deduction, as well as removing

the survey requirement for small harvesters, will help owners of smaller parcels of timberland stay in forestry. The surcharge will support the goals of the 1999 Forest and Fish Report. The reduced B&O rate encourages the economic viability of forestry and prevents timberland from being developed. There are some concerns about whether the definitions of "paper" and "paper product" will cover all of the forest products that the Legislature intended to include.

OTHER: REET is due on sales of standing timber. It is hoped that the bill will resolve whether REET will apply to these sales.

Persons Testifying: PRO: Senator Hargrove, prime sponsor; Gary Graves, Washington Department of Natural Resources; Debora Munguia, Washington Forest Protection Association; Bob Meier, Rayonier; Norm Schaaf, Merrill and Ring; Bill Stauffacher, American Forest and Paper Association; Kirsten Sawin, Weyerhaeuser; Megan Lynch, Cascade Land Conservancy.

OTHER: Stuart Thronson, Department of Revenue.