SENATE BILL REPORT
EHB 2672

As of Second Reading

Title: An act relating to tax relief for aluminum smelters.

Brief Description: Concerning tax relief for aluminum smelters.

Sponsors: Representatives Linville, Ericksen, Quall, Morris, Armstrong, Williams, Condotta, Simpson, Van De Wege and Conway.

Brief History: Passed House: 3/17/10, 94-0.
Committee Activity: Ways & Means:

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dean Carlson (786-7305)

Background: In 2004 the aluminum manufacturing industry received a package of incentives designed to keep it operating during a period of high energy costs and falling aluminum prices. The incentives were scheduled to expire on January 1, 2007, but were renewed by the 2006 Legislature. Tax incentives for the aluminum industry are:

- a reduced business and occupation (B&O) rate from 0.484 percent to 0.2904 percent for manufacturers of aluminum;
- a B&O tax credit for the amount of property taxes paid on an aluminum smelter;
- a sales and use tax credit against the state portion of the tax for personal property, construction materials, and labor and services performed on buildings and property at an aluminum smelter; and
- an exemption from the brokered natural gas use tax on gas delivered through a pipeline.

The exemptions provide about $3.5 million per year of tax relief for the participants.
The excise tax preferences expire January 1, 2012, and the B&O credit for property taxes ends with property taxes paid in calendar year 2011.

The Citizen Commission for Performance Measurement of Tax Preferences (Commission) was established by the 2006 Legislature (EHB 1069). The seven-member Commission is made up of five appointees: two appointed by the House of Representatives; two appointed by the Senate; one appointed by the Governor; and two non-voting members: the State Auditor and the Chair of the Joint Legislative Audit and Review Committee (JLARC). The

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Commission develops a schedule to review nearly all tax preferences at least once every 10 years. The Commission also schedules preferences with expiration dates for reviews two years before the tax preference expires.

Tax preference reviews are conducted by the JLARC according to the schedule established by the Commission. For each tax preference, the JLARC provides recommendations to continue, modify, schedule for future review, or terminate the preference. The Commission reviews and comments on the JLARC report.

The aluminum tax incentives were reviewed in 2009. The JLARC recommended that the Legislature should extend the expiration date for the aluminum smelter tax preferences because the public policy goal of preserving family wage jobs is being maintained, and because the high energy prices that brought about the tax preference are higher and more volatile than when the incentives were originally enacted.

The Commission endorsed the recommendation to extend the expiration date, and further recommended that the Legislature should consider establishing a final expiration date. In addition, the Legislature should explore other alternative means of achieving family wage jobs in rural communities.

Summary of Bill: The aluminum tax incentives set to expire in 2012 are extended for five years.

The following tax incentives are extended until January 1, 2017: the reduced B&O rate from 0.484 percent to 0.2904 percent for manufacturers of aluminum; the sales and use tax credit against the state portion of the tax for personal property, construction materials, and labor and services performed on buildings and property at an aluminum smelter; and the exemption from the brokered natural gas use tax on gas delivered through a pipeline. The B&O tax credit for the amount of property taxes paid on an aluminum smelter is extended through 2017 property taxes.

Reports on the effectiveness of the tax incentives by the fiscal committees of the House of Representatives and Senate are eliminated and replaced by the JLARC tax preference review process.

JLARC is required to conduct a review of the tax preferences for the aluminum industry in 2015 with a specific analysis of the jobs retained as a result of the tax preferences.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.