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**Finance Committee**

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**2SSB 6215**

**Brief Description:** Clarifying and correcting RCW 82.08.962 and 82.12.962 regarding the sales and use tax treatment of machinery and equipment purchases by companies producing pipeline-quality natural gas using landfill gas.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Mullet, Ericksen, Ranker, Litzow, Chase and Fain).

**Brief Summary of Second Substitute Bill**

- Creates a sales and use tax exemption for machinery and equipment used to produce pipeline-quality natural gas.

**Hearing Date:** 3/7/14

**Staff:** Kelly Leonard (786-7147).

**Background:**

Sales taxes are imposed on the retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital products, or service when used in this state. The state, most cities, and all counties levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.1 percent, depending on the location.

There is a sales and use tax exemption for machinery and equipment used directly in generating electricity from wind, sun, fuel cells, biomass, tidal or wave energy, geothermal resources, anaerobic digestion, technology that converts otherwise lost energy from exhaust, and landfill gas. The exemption also applies to the labor and services used for installing the machinery and equipment. To qualify for the exemption, the facility using the machinery and equipment must be capable of generating not less than 1,000 watts of electricity.

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The exemption is equal to 75 percent of the tax paid, received in the form of a refund. Prior to June 30, 2011, the exemption was equal to the full sales and use tax due. The current exemption expires January 1, 2020.

**Summary of Bill:**

The sales and use tax exemption for machinery and equipment used directly in generating electricity is expanded to include machinery and equipment used to produce pipeline-quality natural gas. Machinery and equipment is considered to be used directly in producing pipeline-quality natural gas if it provides any part of the process that captures landfill gas and converts that landfill gas to a level necessary for residential or commercial use. The exemption also applies to the labor and services used for installing the machinery and equipment. To qualify for the exemption, the facility using the machinery and equipment must produce not less than 50 million British thermal units of pipeline-quality natural gas per hour.

The exemption is equal to 75 percent of the tax paid, received in the form of a refund. The exemption expires January 1, 2020.

Beginning on July 1, 2007, through June 30, 2011, the sales and use tax does not apply to the sale of machinery and equipment used directly in producing pipeline-quality natural gas or to the labor and services used for installing the machinery and equipment.

The bill is curative and remedial; however, the Legislature does not intend for the bill to retroactively create a right of refund for taxes paid on machinery and equipment purchases by companies producing pipeline-quality natural gas using landfill gas prior to the enactment of the bill.

**Appropriation:** None.

**Fiscal Note:** Requested on 3/5/14.

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