Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Technology & Economic Development Committee

HB 1466

Brief Description: Extending the expiration date of the public utility tax exemption for certain electrolytic processing businesses.

Sponsors: Representatives Blake, J. Walsh, Morris, Dent and Manweller.

Brief Summary of Bill

- Extends the expiration date of the public utility tax exemption for certain electrolytic processing businesses from June 30, 2019, to July 1, 2029.

Hearing Date: 2/2/17

Staff: Kirsten Lee (786-7133).

Background:

Public Utility Tax.

The Public Utility Tax (PUT) is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of electricity, natural gas, and water. The tax is paid on gross income derived from operation of public and privately owned utilities in lieu of the business and occupation tax. For electrical utilities, the applicable tax rate is 3.873 percent. Most revenues from the tax are deposited in the State General Fund. The remaining revenues provide financial assistance to local governments for maintenance of public works facilities.

The PUT does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are several deductions and credits for specific types of business activities, including sales of electricity to direct service industrial businesses.

Public Utility Tax Exemption for Certain Electrolytic Processes.

Income from the sales of electricity by a utility to a chlor-alkali or a sodium chlorate chemical business is exempt from the PUT if the sales contract between the utility and the chemical business contains the following terms:

1. The electricity used in the chemical processing is separately metered from the electricity used in the general operation of the business.
2. The price charged for the electricity used in the electrolytic process must be reduced by an amount equal to the tax exemption available to the light and power business.
3. If the tax exemption is disallowed, the chlor-alkali electrolytic business or sodium chlorate electrolytic processing business must pay the amount of the disallowed exemption to the utility.

The exemption does not apply to amounts received from the remarketing or resale of electricity originally obtained by contract for the electrolytic process.

To claim an exemption, the chlor-alkali electrolytic or sodium chlorate electrolytic processing business must provide the utility with an exemption certificate in a form and manner prescribed by the Department of Revenue (DOR). Businesses that claim the PUT exemption must report annually to the DOR details of employment, wages, and benefits per job (excluding individual employee identification). The report must also include the quantity of product produced. The first report must include employment, wage, and benefit information covering the calendar year preceding the effective date of the incentives. The report content is not subject to statutory confidentiality requirements. During any year, if a business fails to submit a report, tax savings attributable to the incentives for the year are due.

Expiration of the Public Utility Tax Preference for Certain Electrolytic Processes.

The PUT exemption expires on July 1, 2019. The PUT exemption does not apply to the sales of electricity by a utility to a chlor-alkali or a sodium chlorate chemical business after December 31, 2018.

Tax Preference Performance Statement.

All new tax preference legislation must include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference.

Summary of Bill:

Expiration of the Public Utility Tax Preference for Certain Electrolytic Processes.

The expiration date for the existing PUT exemption for chlor-alkali electrolytic processing businesses and sodium chlorate electrolytic processing businesses is extended from July 1, 2019, to July 1, 2029. The extended PUT exemption does not apply to the sales of electricity by a utility to a chlor-alkali or sodium chlorate chemical business made after December 31, 2028, instead of December 31, 2018.

<u>Tax Preference Performance Statement</u>.

A tax preference performance statement provides that the goal of the tax incentive is to maintain industry competitiveness for electrolytic processing businesses that rely on electricity as a primary manufacturing input and to retain family-wage jobs in Washington. To measure the effectiveness of the tax preference, the JLARC must evaluate the impact of the tax preference on maintaining jobs in electrolytic processing businesses in Washington. The JLARC may refer to data available from the DOR to perform the review. If the number of electrolytic processing business jobs in Washington has been preserved at a certain level, the Legislature intends to extend the expiration date of the tax exemption.

Appropriation: None.

Fiscal Note: Available.

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