

# HOUSE BILL REPORT

## HB 1443

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**As Reported by House Committee On:**  
Rural Development, Agriculture, & Natural Resources

**Title:** An act relating to extending the tax preferences in RCW 82.04.260(12).

**Brief Description:** Extending the tax preferences in RCW 82.04.260(12).

**Sponsors:** Representatives Chapman, Maycumber, Tharinger, Blake and Schmick.

**Brief History:**

**Committee Activity:**

Rural Development, Agriculture, & Natural Resources: 2/6/19, 2/13/19 [DP].

**Brief Summary of Bill**

- Adds mass timber products to the list of timber products that receive the preferential timber products business and occupation tax.

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### HOUSE COMMITTEE ON RURAL DEVELOPMENT, AGRICULTURE, & NATURAL RESOURCES

**Majority Report:** Do pass. Signed by 13 members: Representatives Blake, Chair; Shewmake, Vice Chair; Dent, Assistant Ranking Minority Member; Chapman, Dye, Fitzgibbon, Lekanoff, Orcutt, Pettigrew, Ramos, Schmick, Springer and Walsh.

**Staff:** Robert Hatfield (786-7117).

**Background:**

Business and Occupation Tax.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of all taxable business activities conducted within the state, unless otherwise exempt. There is no deduction for the costs of doing business. Revenues are deposited into the State General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. Business and occupation taxes are collected by the Department of Revenue.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Major B&O tax rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere.

Several preferential rates also apply to specific business activities. Extraction, production, and wholesaling of timber and wood products are subject to a preferential B&O tax rate of 0.2904 percent. The preferential timber and wood products B&O tax rate is currently set to expire June 30, 2024.

State Building Code.

The State Building Code (Code) establishes minimum performance standards and requirements for construction and construction materials in the state, consistent with accepted standards of engineering, fire, and life safety. The Code comprises a number of model codes and standards, developed and published by international and national organizations, which are adopted by reference in the State Building Code Act.

Mass timber products are defined in the Code as a type of building component or system that uses large, panelized wood construction, such as cross-laminated timber, glue-laminated timber, and laminated strand timber.

Tax Preference Performance Statement and Expiration Date.

All new tax preference legislation must include a tax preference performance statement, unless exempted. 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 to evaluate the efficacy of the tax preference.

New tax preferences expire 10 years after the effective date of the tax preference, unless otherwise provided.

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**Summary of Bill:**

Mass timber products, as defined in the State Building Code, are included in the list of timber products that receive the preferential timber products business and occupation (B&O) tax rate.

The preferential timber products B&O tax rate may not be construed to affect the taxation of certain other specified activities.

The inclusion of mass timber products in the list of timber products that receive the preferential timber products B&O tax is exempted from requirements regarding a tax preference statement and an expiration date.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on October 1, 2019.

**Staff Summary of Public Testimony:**

(In support) There is potential in mass timber products to address multiple needs of the state's communities, including affordable housing. One cross-laminated timber facility will open in Eastern Washington later this year, and there is interest in opening similar facilities in other communities. This bill represents a simple legislative fix. Had mass timber manufacturing been around at the time of the original preferential timber products business and occupation (B&O) tax rate, it surely would have been included.

In addition to the base timber products B&O tax rate, timber products also pay a surcharge of 0.052 percent. When combined with the base timber products B&O tax rate of 0.2904 percent, the actual tax rate on timber products is 0.3424 percent, which is only 0.1416 percent less than the standard manufacturing B&O tax rate of 0.484 percent.

Many members in the Legislature have already done the important work of advancing building code and building standards on mass timber products. Mass timber is different than standard dimensional lumber; it is a value-added product that is fully integrated into buildings. Mass timber is an example of advancing technologies that help utilize materials beyond traditional markets. These types of bills help rural economies by providing a low-carbon alternative and promoting resiliency in forests.

(Opposed) None.

**Persons Testifying:** Representative Chapman, prime sponsor; Matt Ojala, Forterra; Todd Beyreuther, Kattera and Advanced Building Materials; and John Ehrenreich, Washington Forest Protection Association.

**Persons Signed In To Testify But Not Testifying:** None.