

# HOUSE BILL REPORT

## HB 2848

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### As Reported by House Committee On: Finance

**Title:** An act relating to changing the expiration date for the sales and use tax exemption of hog fuel to coincide with the 2045 deadline for fossil fuel-free electrical generation in Washington state and to protect jobs with health care and retirement benefits in economically distressed communities.

**Brief Description:** Changing the expiration date for the sales and use tax exemption of hog fuel to coincide with the 2045 deadline for fossil fuel-free electrical generation in Washington state and to protect jobs with health care and retirement benefits in economically distressed communities.

**Sponsors:** Representatives Chapman, Orcutt, Tharinger, Walsh, Blake, Tarleton, Springer, Maycumber, Fitzgibbon and Lekanoff.

#### **Brief History:**

##### **Committee Activity:**

Finance: 2/6/20, 2/7/20 [DP].

#### **Brief Summary of Bill**

- Extends the sales and use tax exemption on hog fuel until June 30, 2045.
- Defines the term "biofuel" to replace a reference to RCW 43.325.101, which expired June 30, 2016.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 12 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Orwall, Springer, Stokesbary, Vick and Wylie.

**Staff:** Nick Tucker (786-7383).

#### **Background:**

Retail Sales and Use Tax.

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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.*

Retail sales taxes are imposed on 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 tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities 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 3.9 percent, depending on the location.

#### Tax Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

#### Hog Fuel Tax Exemption.

Hog fuel used to produce electricity, steam, heat, or biofuel is exempt from sales and use tax. Taxpayers claiming the exemption are required to complete an annual tax performance report for each facility owned or operated in the state. If a taxpayer claiming the exemption closes a facility in the state, resulting in a loss of jobs in the state, the amount of the tax exempted for the previous two calendar years is due immediately. The hog fuel sales and use tax exemption expires June 30, 2024.

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#### **Summary of Bill:**

The hog fuel sales and use tax exemption is extended until June 30, 2045.

"Biofuel" means a liquid or gaseous fuel derived from organic matter intended for use as a transportation fuel, including, but not limited to, biodiesel, renewable diesel, ethanol, renewable natural gas, and renewable propane.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) The JLARC reported that this tax preference is meeting its goals. There are many mills across the state that would benefit from the exemption. These mills provide good jobs and this bill would show that the state supports the industry. The industry has invested in workers and is accountable with the JLARC review, so it deserves to receive the preference.

Biomass, such as hog fuel, is very important for renewable energy production in the state. Historically there was not a good use for hog fuel; this is an environmentally friendly way to use the hog fuel that could replace fossil fuel.

Carbon neutrality and forestry or forest products manufacturing are synced together. The current renewable energy standard in the state is to have no fossil fuel used in electrical generation by 2045. This puts pressure on the pulp and paper industry to invest in their mills to transition to a completely renewable portfolio. Extending the tax exemption would allow these mills to make the necessary capital investments to meet this goal.

(Opposed) None.

**Persons Testifying:** Representative Chapman, prime sponsor; Bill Stauffacher, Northwest Pulp and Paper Association; and John Ehrenreich, Washington Forest Protection Association.

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