
Finance Committee

HB 1537

Brief Description: Terminating certain tax preferences for fossil fuel products.

Sponsors: Representatives Ramel, Harris-Talley, Berry and Macri.

Brief Summary of Bill

- Narrows the brokered natural gas tax exemption for natural gas used as a transportation fuel.
- Repeals the tax exemption for natural gas, petroleum coke, liquid fuel, and fuel gas used in processing of petroleum products.
- Repeals the sales and use tax exemption for poultry farmer's purchases of propane or natural gas used to heat structures that house chickens.

Hearing Date: 3/23/21

Staff: Rachelle Harris (786-7137).

Background:

Brokered Natural Gas Taxation.

When a consumer uses natural or manufactured gas, and the person who sold the gas to the consumer has not yet paid public utility tax on the sale, use tax is due for the privilege of using the gas. The tax does not apply to gas delivered to the consumer by means other than through a pipeline. This includes compressed natural gas (CNG) and liquefied natural gas (LNG). The state tax rate is 3.852 percent, which is equivalent to the rate of the public utility tax on gas distribution businesses. Local tax rates vary by location.

There are several exemptions from the brokered natural gas tax:

- use of natural or manufactured gas by an aluminum smelter through January 1, 2027;

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- use of natural or manufactured gas by a silicon smelter; and
- use of natural or manufactured gas as a transportation fuel.

Petroleum Products Processing Tax Exemption.

A tax is imposed on possession of petroleum products. The possession of natural gas, petroleum coke, liquid fuel, and fuel gas used in processing of petroleum products is exempt from this tax. This exemption is set to expire July 1, 2030.

Sales and Use Tax Exemption for Fuel Used to Heat Chicken Houses.

Farmers who produce chickens for meat or eggs are exempt from sales and use tax on purchases of:

- propane or natural gas used to heat barns, sheds, or other similar structures used to house chickens; and
- bedding materials such as wood shavings, straw, sawdust, or shredded paper, or other similar products used to collect and help remove chicken manure.

Qualifying farmers must produce the chickens or eggs for sale rather than for their own use. The propane or natural gas must exclusively heat structures that exclusively house chickens sold as agricultural products.

Summary of Bill:

The brokered natural gas use tax exemption for use of natural gas used as a transportation fuel is expired as of January 1, 2022. Instead, the exemption is narrowed so that the brokered natural gas tax does not apply to:

- use of natural gas, CNG, or LNG by a transit agency if the transit agency uses the gas for transportation fuel until January 1, 2025;
- use of renewable natural gas or CNG and LNG derived from renewable natural gas if the consumer uses the gas for transportation fuel; or
- use of natural gas, CNG, or LNG, if the consumer uses the gas for transportation fuel and if the consumer offsets that consumption with renewable gas credits purchased from a gas distribution business in the state.

The narrowed exemptions will expire in 10 years.

The tax exemption for natural gas, petroleum coke, liquid fuel, and fuel gas used in processing of petroleum products is repealed.

The sales and use tax exemption for poultry farmer's purchases of propane or natural gas used to heat structures that house chickens is repealed.

Appropriation: None.

Fiscal Note: Available.

Effective Date: This bill takes effect 90 days after adjournment of the session in which the bill is passed, except for section 3, related to the brokered natural gas exemption, which takes effect when section 2 expires, contingent on a provision that relies on exempt silicon smelters meeting employment standards.