

SENATE BILL REPORT

SB 6240

As of January 25, 2024

Title: An act relating to jet fuel.

Brief Description: Expanding tax preferences for jet fuel.

Sponsors: Senator Warnick.

Brief History:

Committee Activity: Business, Financial Services, Gaming & Trade: 1/25/24.

Brief Summary of Bill

- Reduces threshold for earning tax credits from 20 million gallons to 500,000 gallons for businesses that produce alternative jet fuel in 15 counties that meet the criteria to be defined as a distressed area of Washington State as of January 1, 2024.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES, GAMING & TRADE

Staff: Clint McCarthy (786-7319)

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 business activities conducted within the state without any deduction for the costs of doing business. A taxpayer may have more than one B&O tax rate depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for businesses with taxable income of less than \$1 million; and 1.75 percent for businesses with taxable income of \$1 million or more and for services and activities not classified elsewhere. Several preferential rates also apply to specific business activities.

Tax Incentives for Alternative Jet Fuel. In 2023 the Legislature provided a preferential

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B&O tax rate of 0.275 percent for the manufacturing and wholesaling of alternative jet fuel. The preferential tax rate begins after the Department of Revenue (DOR) receives notification from the Department of Ecology (Ecology) that there are one or more facilities operating in the state with a cumulative production capacity of at least 20 million gallons of alternative jet fuel per year. The preferential tax rate lasts for ten years.

Eligibility for the credit for sales of alternative jet fuel is limited to businesses located in a qualifying county or a business's designated alternative jet fuel blender located in Washington. Qualifying county is a county that has a population less than 650,000.

Credits may only be earned on purchases of alternative jet fuel for flights departing in Washington.

Contract pricing for sales of alternative jet fuel between a person claiming the credit and the final consumer must be adjusted to reflect the per gallon credit.

The credit is calculated only on the portion of jet fuel that is considered alternative jet fuel and does not include conventional jet fuel when the fuels are blended or used in a jet fuel mixture.

Credits against the B&O tax for sales of alternative jet fuel may only be claimed on alternative jet fuel manufacturing and wholesaling activities that would otherwise qualify for the new preferential B&O tax rate. Credits earned against the B&O or public utility tax for purchases of alternative fuel may be claimed against any B&O tax liability.

Credits may not be earned until DOR receives notification from Ecology that there are one or more facilities operating in this state with a cumulative production capacity of at least 20 million gallons of alternative jet fuel per year. Credits may be earned for ten years. A credit earned during one calendar year may be carried over and claimed against taxes incurred for the next subsequent year but may not be carried over for any calendar year thereafter.

Credits may not be earned until Ecology, in consultation with the Department of Archeology and Historic Preservation, verifies that persons applying for a tax credit are not engaged in the manufacturing of alternative jet fuel at a location listed by the Department of Archeology and Historic Preservation as a historic cemetery or tribal burial grounds.

The preferential tax rate and tax credits are subject to review by the Joint Legislative Audit and Review Committee. The automatic ten-year expiration for tax preferences does not apply to this act.

Summary of Bill: The threshold to reach for earning tax credits is reduced from 20 million gallons to 500,000 for businesses that produce alternative jet fuel in a distressed area of Washington State. The term "distressed area" is defined as a county that has been

designated as such by the Employment Security Department as of January 1, 2024, with a population less than 650,000. This includes the following counties:

- Clallam;
- Franklin;
- Ferry;
- Garfield;
- Grant;
- Grays Harbor;
- Jefferson;
- Lewis;
- Mason;
- Okanogan;
- Pacific;
- Pend Oreille;
- Stevens; and
- Yakima.

The automatic ten-year expiration for tax preferences does not apply to this act.

Appropriation: None.

Fiscal Note: Requested on January 15, 2024.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony: PRO: This bill makes incentives available at a lower level and will promote production and consumption of alternative jet fuel. We want to accelerate sustainable fuels and keep our workers at the forefront of this innovative technology and the focus on distressed areas in the state of Washington.

CON: This incentive is ill conceived. These fuels are just as dirty as traditional jet fuels. The gains of using this fuel are small and unconfirmed.

Persons Testifying: PRO: Senator Judy Warnick, Prime Sponsor; Donny Donovan, IAM 751; Derek Phelps, Twelve.

CON: Ursula Euler.

Persons Signed In To Testify But Not Testifying: No one.