ENGROSSED THIRD SUBSTITUTE HOUSE BILL 1324

AS AMENDED BY THE SENATE

Passed Legislature - 2019 Regular Session

State of Washington 66th Legislature 2019 Regular Session

By House Appropriations (originally sponsored by Representatives Chapman, Maycumber, Springer, Chandler, Blake, Stokesbary, Steele, Reeves, Pettigrew, Dolan, Volz, Barkis, Eslick, Lekanoff, Tharinger, Hoff, Jinkins, Kilduff, and Leavitt)

READ FIRST TIME 03/01/19.

AN ACT Relating to creating the Washington rural development and opportunity zone act; amending RCW 82.04.260 and 82.04.261; creating new sections; and providing an expiration date.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 NEW SECTION. Sec. 1. The legislature finds that while many 6 parts of the state are thriving economically, some rural and 7 distressed communities have struggled to keep pace. These communities represent significant opportunity for economic growth and innovation. 8 9 However, businesses and entrepreneurs often find it difficult to obtain the capital they need to expand and grow in these areas. 10 11 Therefore, it is the intent of the legislature to study the creation 12 of a program to incentivize private investments and job creation in 13 rural and distressed communities while ensuring no loss of revenue to 14 the state.

15 <u>NEW SECTION.</u> Sec. 2. (1) The Washington state institute for 16 public policy must conduct a study on certain programs incentivizing 17 private investment and job creation in rural and distressed 18 communities. In conducting the study, the institute must:

(a) Conduct a fifty-state review on the structure andcharacteristics of certified capital company programs, new markets

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1 tax credit programs, rural jobs programs, and other similar economic 2 development programs in other states; and

3 (b) Review any available research on these initiatives and, to 4 the extent possible, describe the effects of each type of initiative 5 on employment, earnings, property values, and job creation.

6 (2) The Washington state institute for public policy must submit 7 a report on its findings to the appropriate committees of the 8 legislature, in compliance with RCW 43.01.036, by July 1, 2020.

9 Sec. 3. (1) The legislature finds that the <u>NEW SECTION.</u> 10 Washington state forest practices habitat conservation plan was approved in 2006 by the United States fish and wildlife service and 11 national oceanic and atmospheric administration's marine 12 the fisheries service. The legislature further finds that the 13 conservation plan protects habitat of aquatic species, supports 14 15 economically viable and healthy forests, and creates regulatory 16 stability for landowners. The legislature further finds that funding 17 for the adaptive management program and participation grants are required to implement the forest and fish agreement and meet the 18 goals of the conservation plan. The legislature further finds that 19 20 the surcharge on the timber products business and occupation tax rate 21 was agreed to by the forest products industry, tribal leaders, and 22 stakeholders as a way to provide funding and safeguard the future of conservation plan. The legislature further finds that the 23 the 24 forestry industry assumed significant financial obligation with the 25 enactment of this conservation plan, in exchange for operational certainty under the endangered species act. Therefore, the 26 27 legislature concludes that the timber products business and occupation tax rate and the surcharge should continue until the 28 expiration date of the forest and fish agreement, in 2056. 29

30 The legislature finds that Washington has one of the (2)31 strongest economies in the country. However, the local economies in some rural counties continue to struggle. The legislature further 32 finds that the economic prosperity of our state must be shared by all 33 of our communities. The legislature further finds that forest product 34 sectors provide family-wage jobs in economically struggling areas of 35 the state. The legislature further finds that in 2017 the Washington 36 forest products industry, directly and indirectly, 37 employed one 38 hundred one thousand workers, earning 5.5 billion dollars in wages. 39 Therefore, the legislature concludes that the forest products

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1 industries support our local rural economies and contribute towards 2 the effort to lower unemployment rates across the state, especially 3 in rural areas.

4 Sec. 4. RCW 82.04.260 and 2018 c 164 s 3 are each amended to 5 read as follows:

6 (1) Upon every person engaging within this state in the business 7 of manufacturing:

8 (a) Wheat into flour, barley into pearl barley, soybeans into 9 soybean oil, canola into canola oil, canola meal, or canola by-10 products, or sunflower seeds into sunflower oil; as to such persons 11 the amount of tax with respect to such business is equal to the value 12 of the flour, pearl barley, oil, canola meal, or canola by-product 13 manufactured, multiplied by the rate of 0.138 percent;

(b) Beginning July 1, 2025, seafood products that remain in a 14 15 raw, raw frozen, or raw salted state at the completion of the 16 manufacturing by that person; or selling manufactured seafood products that remain in a raw, raw frozen, or raw salted state at the 17 completion of the manufacturing, to purchasers who transport in the 18 ordinary course of business the goods out of this state; as to such 19 20 persons the amount of tax with respect to such business is equal to 21 the value of the products manufactured or the gross proceeds derived from such sales, multiplied by the rate of 0.138 percent. Sellers 22 must keep and preserve records for the period required by RCW 23 24 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state; 25

(c)(i) Except as provided otherwise in (c)(iii) of this 26 27 subsection, from July 1, 2025, until January 1, 2036, dairy products; selling dairy products that the person has manufactured to 28 or purchasers who either transport in the ordinary course of business 29 30 the goods out of state or purchasers who use such dairy products as 31 an ingredient or component in the manufacturing of a dairy product; as to such persons the tax imposed is equal to the value of the 32 products manufactured or the gross proceeds derived from such sales 33 multiplied by the rate of 0.138 percent. Sellers must keep and 34 35 preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the 36 ordinary course of business out of this state or sold to a 37 38 manufacturer for use as an ingredient or component in the manufacturing of a dairy product. 39

1 (ii) For the purposes of this subsection (1)(c), "dairy products"
2 means:

3 (A) Products, not including any marijuana-infused product, that 4 as of September 20, 2001, are identified in 21 C.F.R., chapter 1, 5 parts 131, 133, and 135, including by-products from the manufacturing 6 of the dairy products, such as whey and casein; and

7 (B) Products comprised of not less than seventy percent dairy
8 products that qualify under (c)(ii)(A) of this subsection, measured
9 by weight or volume.

10 (iii) The preferential tax rate provided to taxpayers under this 11 subsection (1)(c) does not apply to sales of dairy products on or 12 after July 1, 2023, where a dairy product is used by the purchaser as 13 an ingredient or component in the manufacturing in Washington of a 14 dairy product;

(d) (i) Beginning July 1, 2025, fruits or vegetables by canning, 15 16 preserving, freezing, processing, or dehydrating fresh fruits or 17 vegetables, or selling at wholesale fruits or vegetables manufactured by the seller by canning, preserving, freezing, processing, or 18 dehydrating fresh fruits or vegetables and sold to purchasers who 19 transport in the ordinary course of business the goods out of this 20 21 state; as to such persons the amount of tax with respect to such 22 business is equal to the value of the products manufactured or the gross proceeds derived from such sales multiplied by the rate of 23 0.138 percent. Sellers must keep and preserve records for the period 24 25 required by RCW 82.32.070 establishing that the goods were 26 transported by the purchaser in the ordinary course of business out of this state. 27

(ii) For purposes of this subsection (1)(d), "fruits" and vegetables" do not include marijuana, useable marijuana, or marijuana-infused products; and

31 (e) Wood biomass fuel; as to such persons the amount of tax with 32 respect to the business is equal to the value of wood biomass fuel manufactured, multiplied by the rate of 0.138 percent. For the 33 purposes of this section, "wood biomass fuel" means a liquid or 34 gaseous fuel that is produced from lignocellulosic feedstocks, 35 36 including wood, forest, $\left(\left(\frac{\{or\}}{or}\right)\right)$ or field residue $\left(\left(\frac{1}{r}\right)\right)$ and dedicated energy crops, and that does not include wood treated with chemical 37 preservations such as creosote, pentachlorophenol, or copper-chrome-38 39 arsenic.

1 (2) Upon every person engaging within this state in the business 2 of splitting or processing dried peas; as to such persons the amount 3 of tax with respect to such business is equal to the value of the 4 peas split or processed, multiplied by the rate of 0.138 percent.

5 (3) Upon every nonprofit corporation and nonprofit association 6 engaging within this state in research and development, as to such 7 corporations and associations, the amount of tax with respect to such 8 activities is equal to the gross income derived from such activities 9 multiplied by the rate of 0.484 percent.

10 (4) Upon every person engaging within this state in the business 11 of slaughtering, breaking and/or processing perishable meat products 12 and/or selling the same at wholesale only and not at retail; as to 13 such persons the tax imposed is equal to the gross proceeds derived 14 from such sales multiplied by the rate of 0.138 percent.

15 (5) Upon every person engaging within this state in the business 16 of acting as a travel agent or tour operator; as to such persons the 17 amount of the tax with respect to such activities is equal to the 18 gross income derived from such activities multiplied by the rate of 19 0.275 percent.

(6) Upon every person engaging within this state in business as an international steamship agent, international customs house broker, international freight forwarder, vessel and/or cargo charter broker in foreign commerce, and/or international air cargo agent; as to such persons the amount of the tax with respect to only international activities is equal to the gross income derived from such activities multiplied by the rate of 0.275 percent.

(7) Upon every person engaging within this state in the business 27 of stevedoring and associated activities pertinent to the movement of 28 29 goods and commodities in waterborne interstate or foreign commerce; as to such persons the amount of tax with respect to such business is 30 31 equal to the gross proceeds derived from such activities multiplied 32 by the rate of 0.275 percent. Persons subject to taxation under this subsection are exempt from payment of taxes imposed by chapter 82.16 33 RCW for that portion of their business subject to taxation under this 34 subsection. Stevedoring and associated activities pertinent to the 35 conduct of goods and commodities in waterborne interstate or foreign 36 commerce are defined as all activities of a labor, service or 37 transportation nature whereby cargo may be loaded or unloaded to or 38 39 from vessels or barges, passing over, onto or under a wharf, pier, or 40 similar structure; cargo may be moved to a warehouse or similar

holding or storage yard or area to await further movement in import 1 or export or may move to a consolidation freight station and be 2 3 stuffed, unstuffed, containerized, separated or otherwise segregated or aggregated for delivery or loaded on any mode of transportation 4 for delivery to its consignee. Specific activities included in this 5 6 definition are: Wharfage, handling, loading, unloading, moving of cargo to a convenient place of delivery to the consignee or a 7 convenient place for further movement to export mode; documentation 8 services in connection with the receipt, delivery, checking, care, 9 custody and control of cargo required in the transfer of cargo; 10 11 imported automobile handling prior to delivery to consignee; terminal 12 stevedoring and incidental vessel services, including but not limited to plugging and unplugging refrigerator service to containers, 13 trailers, and other refrigerated cargo receptacles, and securing ship 14 hatch covers. 15

16 (8)(a) Upon every person engaging within this state in the 17 business of disposing of low-level waste, as defined in RCW 18 43.145.010; as to such persons the amount of the tax with respect to 19 such business is equal to the gross income of the business, excluding 20 any fees imposed under chapter 43.200 RCW, multiplied by the rate of 21 3.3 percent.

(b) If the gross income of the taxpayer is attributable to activities both within and without this state, the gross income attributable to this state must be determined in accordance with the methods of apportionment required under RCW 82.04.460.

(9) Upon every person engaging within this state as an insurance producer or title insurance agent licensed under chapter 48.17 RCW or a surplus line broker licensed under chapter 48.15 RCW; as to such persons, the amount of the tax with respect to such licensed activities is equal to the gross income of such business multiplied by the rate of 0.484 percent.

(10) Upon every person engaging within this state in business as a hospital, as defined in chapter 70.41 RCW, that is operated as a nonprofit corporation or by the state or any of its political subdivisions, as to such persons, the amount of tax with respect to such activities is equal to the gross income of the business multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5 percent thereafter.

(11) (a) Beginning October 1, 2005, upon every person engaging
 within this state in the business of manufacturing commercial

airplanes, or components of such airplanes, or making sales, at 1 retail or wholesale, of commercial airplanes or components of such 2 airplanes, manufactured by the seller, as to such persons the amount 3 of tax with respect to such business is, 4 in the case of manufacturers, equal to the value of the product manufactured and the 5 6 gross proceeds of sales of the product manufactured, or in the case of processors for hire, equal to the gross income of the business, 7 multiplied by the rate of: 8

9 (i) 0.4235 percent from October 1, 2005, through June 30, 2007; 10 and

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(ii) 0.2904 percent beginning July 1, 2007.

12 (b) Beginning July 1, 2008, upon every person who is not eligible to report under the provisions of (a) of this subsection (11) and is 13 engaging within this state in the business of manufacturing tooling 14 specifically designed for use in manufacturing commercial airplanes 15 16 or components of such airplanes, or making sales, at retail or 17 wholesale, of such tooling manufactured by the seller, as to such 18 persons the amount of tax with respect to such business is, in the 19 case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in 20 the case of processors for hire, be equal to the gross income of the 21 22 business, multiplied by the rate of 0.2904 percent.

(c) For the purposes of this subsection (11), "commercial airplane" and "component" have the same meanings as provided in RCW 82.32.550.

(d) In addition to all other requirements under this title, a person reporting under the tax rate provided in this subsection (11) must file a complete annual tax performance report with the department under RCW 82.32.534.

30 (e) (i) Except as provided in (e) (ii) of this subsection (11),
31 this subsection (11) does not apply on and after July 1, 2040.

32 (ii) With respect to the manufacturing of commercial airplanes or making sales, at retail or wholesale, of commercial airplanes, this 33 subsection (11) does not apply on and after July 1st of the year in 34 which the department makes a determination that any final assembly or 35 wing assembly of any version or variant of a commercial airplane that 36 is the basis of a siting of a significant commercial airplane 37 manufacturing program in the state under RCW 82.32.850 has been sited 38 39 outside the state of Washington. This subsection (11)(e)(ii) only 40 applies to the manufacturing or sale of commercial airplanes that are

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1 the basis of a siting of a significant commercial airplane 2 manufacturing program in the state under RCW 82.32.850.

(12) (a) Until July 1, ((2024)) 2045, upon every person engaging 3 within this state in the business of extracting timber or extracting 4 for hire timber; as to such persons the amount of tax with respect to 5 6 the business is, in the case of extractors, equal to the value of 7 products, including by-products, extracted, or in the case of extractors for hire, equal to the gross income of the business, 8 multiplied by the rate of 0.4235 percent from July 1, 2006, through 9 June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30, 10 11 ((2024)) 2045.

12 (b) Until July 1, ((2024)) 2045, upon every person engaging within this state in the business of manufacturing or processing for 13 14 hire: (i) Timber into timber products or wood products; ((or)) (ii) timber products into other timber products or wood products; or (iii) 15 16 products defined in RCW 19.27.570(1); as to such persons the amount 17 of the tax with respect to the business is, in the case of 18 manufacturers, equal to the value of products, including by-products, manufactured, or in the case of processors for hire, equal to the 19 gross income of the business, multiplied by the rate of 0.4235 20 21 percent from July 1, 2006, through June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30, ((2024)) 2045. 22

(c) Until July 1, ((2024)) 2045, upon every person engaging 23 within this state in the business of selling at wholesale: (i) Timber 24 25 extracted by that person; (ii) timber products manufactured by that 26 person from timber or other timber products; ((or)) (iii) wood products manufactured by that person from timber or timber products; 27 or (iv) products defined in RCW 19.27.570(1) manufactured by that 28 29 person as to such persons the amount of the tax with respect to the business is equal to the gross proceeds of sales of the timber, 30 31 timber products, ((or)) wood products, or products defined in RCW 32 19.27.570(1) multiplied by the rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and 0.2904 percent from July 1, 2007, 33 through June 30, ((2024)) <u>2045</u>. 34

(d) Until July 1, ((2024)) 2045, upon every person engaging within this state in the business of selling standing timber; as to such persons the amount of the tax with respect to the business is equal to the gross income of the business multiplied by the rate of 0.2904 percent. For purposes of this subsection (12)(d), "selling standing timber" means the sale of timber apart from the land, where

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1 the buyer is required to sever the timber within thirty months from 2 the date of the original contract, regardless of the method of 3 payment for the timber and whether title to the timber transfers 4 before, upon, or after severance.

5 (e) For purposes of this subsection, the following definitions 6 apply:

7 (i) "Biocomposite surface products" means surface material 8 products containing, by weight or volume, more than fifty percent 9 recycled paper and that also use nonpetroleum-based phenolic resin as 10 a bonding agent.

11 (ii) "Paper and paper products" means products made of interwoven 12 cellulosic fibers held together largely by hydrogen bonding. "Paper and paper products" includes newsprint; office, printing, fine, and 13 14 pressure-sensitive papers; paper napkins, towels, and toilet tissue; kraft bag, construction, and other kraft industrial papers; 15 16 paperboard, liquid packaging containers, containerboard, corrugated, 17 solid-fiber containers including linerboard and corrugated and 18 medium; and related types of cellulosic products containing primarily, by weight or volume, cellulosic materials. "Paper and 19 paper products" does not include books, newspapers, magazines, 20 21 periodicals, and other printed publications, advertising materials, calendars, and similar types of printed materials. 22

(iii) "Recycled paper" means paper and paper products having fifty percent or more of their fiber content that comes from postconsumer waste. For purposes of this subsection (12)(e)(iii), "postconsumer waste" means a finished material that would normally be disposed of as solid waste, having completed its life cycle as a consumer item.

(iv) "Timber" means forest trees, standing or down, on privately or publicly owned land. "Timber" does not include Christmas trees that are cultivated by agricultural methods or short-rotation hardwoods as defined in RCW 84.33.035.

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(v) "Timber products" means:

(A) Logs, wood chips, sawdust, wood waste, and similar products
 obtained wholly from the processing of timber, short-rotation
 hardwoods as defined in RCW 84.33.035, or both;

(B) Pulp, including market pulp and pulp derived from recoveredpaper or paper products; and

39 (C) Recycled paper, but only when used in the manufacture of 40 biocomposite surface products.

1 (vi) "Wood products" means paper and paper products; dimensional 2 lumber; engineered wood products such as particleboard, oriented 3 strand board, medium density fiberboard, and plywood; wood doors; 4 wood windows; and biocomposite surface products.

5 (f) Except for small harvesters as defined in RCW 84.33.035, a 6 person reporting under the tax rate provided in this subsection (12) 7 must file a complete annual tax performance report with the 8 department under RCW 82.32.534.

9 (g) Nothing in this subsection (12) may be construed to affect 10 the taxation of any activity defined as a retail sale in RCW 11 82.04.050(2) (b) or (c), defined as a wholesale sale in RCW 12 82.04.060(2), or taxed under RCW 82.04.280(1)(g).

(13) Upon every person engaging within this state in inspecting, testing, labeling, and storing canned salmon owned by another person, as to such persons, the amount of tax with respect to such activities is equal to the gross income derived from such activities multiplied by the rate of 0.484 percent.

(14) (a) Upon every person engaging within this state in the business of printing a newspaper, publishing a newspaper, or both, the amount of tax on such business is equal to the gross income of the business multiplied by the rate of 0.35 percent until July 1, 2024, and 0.484 percent thereafter.

(b) A person reporting under the tax rate provided in this subsection (14) must file a complete annual tax performance report with the department under RCW 82.32.534.

26 Sec. 5. RCW 82.04.261 and 2017 c 323 s 501 are each amended to 27 read as follows:

(1) In addition to the taxes imposed under RCW 82.04.260(12), a surcharge is imposed on those persons who are subject to any of the taxes imposed under RCW 82.04.260(12). Except as otherwise provided in this section, the surcharge is equal to 0.052 percent. The surcharge is added to the rates provided in RCW 82.04.260(12) (a), (b), (c), and (d). ((The surcharge and this section expire July 1, 2024.))

35 (2) All receipts from the surcharge imposed under this section 36 must be deposited into the forest and fish support account created in 37 RCW 76.09.405, with any receipts above eight million dollars per 38 <u>biennium specifically used as additional funding for tribal</u> 39 participation grants.

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(3) (a) The surcharge imposed under this section is suspended if:

2 (i) <u>Before July 1, 2024, r</u>eceipts from the surcharge total at 3 least eight million <u>five hundred thousand</u> dollars during any fiscal 4 biennium; ((or))

((The office of financial management certifies to the 5 (ii) 6 department that the federal government has appropriated at least two million dollars for participation in forest and fish report-related 7 activities by federally recognized Indian tribes located within the 8 geographical boundaries of the state of Washington for any federal 9 10 fiscal year.)) Between July 1, 2024, and July 30, 2029, receipts from the surcharge total at least nine million dollars during any fiscal 11 12 biennium; and

13 (iii) After July 30, 2029, the receipts from the surcharge total 14 at least nine million five hundred thousand dollars during any fiscal 15 biennium.

16 (b)(((i))) The suspension of the surcharge under (((a)(i) of)) 17 this subsection (3) takes effect on the first day of the calendar 18 month that is at least thirty days after the end of the month during 19 which the department determines that receipts from the surcharge 20 total ((at least eight million dollars)) the values specified in this 21 <u>subsection (3)</u> during the fiscal biennium. The surcharge is imposed 22 again at the beginning of the following fiscal biennium.

(((ii) The suspension of the surcharge under (a)(ii) of this 23 24 subsection (3) takes effect on the later of the first day of October 25 of any federal fiscal year for which the federal government appropriates at least two million dollars for participation in forest 26 and fish report-related activities by federally recognized Indian 27 28 tribes located within the geographical boundaries of the state of Washington, or the first day of a calendar month that is at least 29 30 thirty days following the date that the office of financial 31 management makes a certification to the department under subsection 32 (5) of this section. The surcharge is imposed again on the first day 33 of the following July.

34 (4) (a) If, by October 1st of any federal fiscal year, the office 35 of financial management certifies to the department that the federal 36 government has appropriated funds for participation in forest and 37 fish report-related activities by federally recognized Indian tribes 38 located within the geographical boundaries of the state of Washington 39 but the amount of the appropriation is less than two million dollars, 1 the department must adjust the surcharge in accordance with this

2 subsection.

3 (b) The department must adjust the surcharge by an amount that the department estimates will cause the amount of funds deposited 4 into the forest and fish support account for the state fiscal year 5 that begins July 1st and that includes the beginning of the federal 6 fiscal year for which the federal appropriation is made, to be 7 reduced by twice the amount of the federal appropriation for 8 participation in forest and fish report-related activities by 9 federally recognized Indian tribes located within the geographical 10 boundaries of the state of Washington. 11

12 (c) Any adjustment in the surcharge takes effect at the beginning 13 of a calendar month that is at least thirty days after the date that 14 the office of financial management makes the certification under 15 subsection (5) of this section.

16 (d) The surcharge is imposed again at the rate provided in 17 subsection (1) of this section on the first day of the following 18 state fiscal year unless the surcharge is suspended under subsection 19 (3) of this section or adjusted for that fiscal year under this 20 subsection.

21 (e) Adjustments of the amount of the surcharge by the department 22 are final and may not be used to challenge the validity of the 23 surcharge imposed under this section.

24 (f) The department must provide timely notice to affected 25 taxpayers of the suspension of the surcharge or an adjustment of the 26 surcharge.

27 (5) The office of financial management must make the 28 certification to the department as to the status of federal 29 appropriations for tribal participation in forest and fish report-30 related activities.))

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(4) This section expires July 1, 2045.

32 <u>NEW SECTION.</u> Sec. 6. The provisions of RCW 82.32.808 do not 33 apply to sections 4 and 5 of this act.

34 <u>NEW SECTION.</u> Sec. 7. If specific funding for the purposes of 35 this act, referencing this act by bill or chapter number, is not

1 provided by June 30, 2019, in the omnibus appropriations act, this

2 act is null and void.

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