

Initiative Measure No. 702 filed October 13, 2014

---

BILL REQUEST - CODE REVISER'S OFFICE

---

BILL REQ. #: I-2902.1/14

ATTY/TYPIST: JA:akl

BRIEF DESCRIPTION:

# Initiative Measure No. 702, filed October 13, 2014

AN ACT Relating to promoting sustainable economic development; amending RCW 82.04.240, 82.04.240, 82.04.2404, 82.04.2909, 82.04.294, 82.08.020, and 82.08.0206; reenacting and amending RCW 82.32.790 and 82.04.260; adding a new chapter to Title 82 RCW; and providing an effective date.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** INTENT. The intent of this act is to reduce carbon emissions and encourage economic growth with a phased-in one percentage point reduction of the state sales tax, a reduction of the business and occupation tax on manufacturing, and a sales tax rebate for qualifying low-income persons, all funded by a phased-in carbon pollution tax on fossil fuels consumed in the state. Sections 4 through 6 of this act create accounts in the state treasury and concern withdrawals from those accounts; sections 7 through 9 of this act concern the

carbon pollution tax; sections 10 through 16 of this act reduce the business and occupation tax on manufacturers; section 17 of this act reduces the state sales tax; and section 18 of this act increases the working families' tax exemption. The proceeds of this tax are not intended to be used for highway purposes. This chapter is not intended to exempt any person from tax liability under any other law.

NEW SECTION. **Sec. 2.** FINDINGS AND DECLARATION OF POLICY. The people find that reduction of Washington state's high sales tax will increase commerce in this state; reduction of the business and occupation tax on manufacturers will encourage business formation by reducing the burden of this tax and encourage the expansion of existing manufacturing businesses; the funding of the working families tax rebate program will allow the execution of a policy expressed at the inception of that program; and the imposition of a fossil fuel tax to fund these actions will establish Washington state's national leadership in reducing both climate change and the acidification of the oceans.

NEW SECTION. **Sec. 3.** DEFINITIONS. The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Aircraft fuel" has the same meaning as in RCW 82.42.010.

(2) "Carbon calculation" means carbon content calculations for fuels or combustible materials adopted by the energy information administration, the United States department of energy, or its successor in effect on January 1st of each year, which the department of revenue must put into effect by the

following July 1st. If carbon content calculations cease to be so adopted, the last calculation effective on the last January 1st must be used.

(3) "Carbon pollution tax" means the tax created in section 7 of this act.

(4) "Coal" means coal of any kind, including anthracite coal, bituminous coal, subbituminous coal, lignite, waste coal, syncoal, and coke of any kind.

(5) "Consumer price index" means, for any calendar year, that year's annual average consumer price index, for Washington state, for wage earners and clerical workers, all items, compiled by the bureau of labor and statistics, United States department of labor. If the bureau of labor and statistics develops more than one consumer price index for areas within the state, the index covering the greatest number of people, covering areas exclusively within the boundaries of the state, and including all items must be used for the adjustments for inflation in this section.

(6) "Direct service industrial customer" means a person who is an industrial customer that contracts for the purchase of electricity from outside the state or from the Bonneville power administration, in either case for direct consumption. "Direct service industrial customer" includes a person who is a subsidiary that is more than fifty percent owned by a direct service industrial customer and who receives electricity from outside the state or from the Bonneville power administration, in either case, pursuant to the parent's contract for electricity.

(7) "Fossil fuel" means petroleum products, motor vehicle fuel, special fuel, aircraft fuel, natural gas, petroleum, coal, or any form of solid, liquid, or gaseous fuel derived from these

products, including without limitation still gas and petroleum residuals including bunker fuel.

(8) "Load" means the amount of kilowatt-hours of electricity delivered in the most recently completed year by a qualifying utility to its Washington retail customers.

(9) "Motor vehicle fuel" has the same meaning as provided in RCW 82.38.020.

(10) "Natural gas" means naturally occurring mixtures of hydrocarbon gases and vapors consisting principally of methane, whether in gaseous or liquid form, including methane clathrate.

(11) "Person" means any individual, division, or instrumentality of a government, business, corporation, partnership, or trust.

(12) "Petroleum product" has the same meaning as in RCW 82.23A.010.

(13) "Qualified sequestration" means sequestration qualified for credit pursuant to RCW 80.70.020 or sequestration of carbon in accordance with a method approved by the United States environmental protection agency or its successor.

(14) "Qualifying utility" means any electric utility that is:

(a) An "electrical company" as defined in RCW 80.04.010;

(b) Operating under authority of chapter 35.92 or 87.03 RCW or Title 54 RCW; or

(c) A profit, nonprofit, or mutual corporation operating within this state for the sale or distribution of electricity to others.

(15) "Rule" means a rule adopted by any agency or other entity of Washington state government to carry out the intent and purposes of this chapter.

(16) "Special fuel" has the same meaning as in RCW 82.38.020 and includes fuel that is sold or used to propel vessels.

(17) "Year" means the twelve-month period commencing January 1st and ending December 31st unless otherwise specified.

NEW SECTION. **Sec. 4.** CARBON POLLUTION TAX ACCOUNT. The carbon pollution tax account is created in the custody of the state treasury. All receipts from the collected carbon pollution tax must be deposited into this account. The account is subject to allotment procedures under chapter 43.88 RCW, but an appropriation is not required for expenditures.

NEW SECTION. **Sec. 5.** DISBURSEMENT FROM CARBON POLLUTION TAX ACCOUNT AUTHORIZED BY OFFICE OF FINANCIAL MANAGEMENT. The office of financial management must estimate the funding requirements for fulfilling anticipated expenditures from the sustainable economy working families' tax exemption account created in section 6 of this act, one hundred ten percent of which estimate must at all times be maintained as a required reserve in the sustainable economy working families' tax exemption account before disbursement of further funds from the carbon pollution tax account. Funds in excess of this required reserve in the carbon pollution tax account must be disbursed into the general fund.

NEW SECTION. **Sec. 6.** SUSTAINABLE ECONOMY WORKING FAMILIES ACCOUNT. The sustainable economy working families' tax exemption account is created in the custody of the state treasury. All expenditures from the account may be used only to provide the working families' tax exemption as specified in RCW 82.08.0206

and administrative costs incurred in its administration. The account is subject to allotment procedures under chapter 43.88 RCW, but an appropriation is not required for expenditures.

NEW SECTION. **Sec. 7.** CARBON POLLUTION TAX. (1) There is levied and collected a separate and independent fossil fuel carbon pollution tax upon the carbon content of fossil fuels extracted, manufactured, or introduced into this state.

(2) The tax rate is equal to fifteen dollars per metric ton of carbon dioxide as of July 1, 2016, increasing to twenty-five dollars per metric ton as of July 1, 2017, with automatic increases thereafter by five percent each year beginning July 1st, but not to exceed a rate of one hundred dollars per metric ton when converted into 2016 dollars by adjusting for inflation using the consumer price index.

(3) The tax is determined in each case by applying a carbon calculation to the particular fossil fuel, upon the sale or use in Washington of:

(a) Fossil fuels used by a qualifying utility to generate electricity within Washington and fossil fuels intrinsically embedded in electricity by virtue of being a source of generating energy to generate electricity that:

(i) Are imported (by way of wheeling or otherwise) into Washington by or for the account of a direct service industrial customer or the state or any subdivision or municipal corporation; or

(ii) Are purchased from the Bonneville power administration by a qualifying utility or by a direct service industrial customer; and

(iii) Have carbon dioxide equivalent contents which, for purposes of this act, are determined by using the fuel mix data

calculated and disclosed as provided in RCW 19.29A.060 by filing with the department, except that electricity products comprised of no declared resources as specified in RCW 19.29A.060(1)(b) must be assumed to generate one metric ton per megawatt-hour;

(b) Fossil fuels used to refine fossil fuels the carbon dioxide contents of which, for purposes of this act, must be determined by using reports filed with the federal environmental protection agency or its successor under its greenhouse gas reporting program or successor program, a duplicate of which report by each refinery must be simultaneously filed with the department together with such information as the department may require by regulation; and

(c) Fossil fuels sold or used in Washington by any person (except fossil fuels used to generate electricity or to refine fossil fuels) including, but not limited to, fossil fuels sold or used for aviation or marine purposes, but excluding fossil fuels intended for export outside this state. Fuels containing fossil fuels must be taxed by the percentage of fossil-nonfossil fuel mix unless otherwise specified in this section. Export to a federally recognized Indian tribal reservation located within this state is not considered export outside this state.

(4) Any tax collected under this section must be reported and collected in the following manner with respect to the following fossil fuels:

(a) Motor vehicle fuel, in accordance with and at the intervals provided in chapter 82.36 RCW in accordance with supplemental regulations and forms the department adopts;

(b) Special fuel, in accordance with and at the intervals provided in chapter 82.36 RCW, and to the extent not covered therein, then in accordance with chapter 82.38 RCW, all in accordance with supplemental regulations and forms the department adopts;

(c) Aircraft fuel, in accordance with and at the intervals provided in chapter 82.42 RCW in accordance with supplemental regulations and forms the department adopts;

(d) Every other product derived from the refining of crude oil, in accordance with and at the intervals provided in chapter 82.23A RCW in accordance with supplemental regulations and forms the department adopts;

(e) Fossil fuels not listed elsewhere in this subsection and not consumed to generate electricity, in accordance with chapters 82.08 and 82.12 RCW and supplemental regulations and forms the department adopts unless expressly provided otherwise in this section;

(f) Fossil fuels consumed to generate electricity must be reported in accordance with RCW 19.29A.060 to the department and collected in accordance with chapter 82.16 RCW with respect to light and power businesses with supplemental regulations and forms the department adopts. The department and the department of commerce may cooperate to adopt a consolidated form to be submitted to both departments; and

(g) Carbon pollution emanating into the atmosphere from refineries must be reported by each refinery operator as provided in subsection (3)(b) of this section, and the tax on the carbon reported thereon must be paid to the department within fifteen days thereafter in accordance with regulations adopted by the department.

(5) Tax collected under this section must be based upon the same tax schedule for in-state generated electricity as for out-of-state generated electricity. In the absence of a timely and accurate filing under subsection (4)(g) of this section, the applicable tax rate is conclusively presumed to be one metric ton per megawatt-hour for the respective month.

(6) The carbon pollution tax must be reduced or refunded for uses of fossil fuels that can be shown and verified not to contribute to increasing carbon pollution, for example by reason of qualified sequestration. The tax reduction in such cases must be proportional to the fraction of emissions that are so sequestered. The right to carbon pollution tax reduction under this subsection may not be transferred, traded, or banked.

(7) It is the intent and purpose of this act that the tax is imposed only once and at the time and place of the first taxable event and upon the first taxable person within this state. Any person whose activities would otherwise require payment of the tax imposed by this act but are exempt from the tax has a precollection obligation for the tax that must be imposed on the first taxable event within this state. Failure to pay the tax with respect to a taxable event may not prevent tax liability from arising by reason of a subsequent taxable event.

(8) The department must adopt rules as necessary to implement the carbon pollution tax and sequestration tax credits provided for in subsection (3) of this section. The department must develop and make available worksheets and guidance documents necessary to calculate the carbon pollution produced by various fossil fuels. The department must use the carbon calculation to calculate the amount of carbon pollution produced by each type of fuel and the consequent tax rate for each fuel.

(9) Any person extracting or importing fossil fuels or importing electricity is liable for payment of the carbon pollution tax imposed under this section with respect to those fuels or that electricity.

(10) While collected in accordance with the chapters referred to above, the proceeds of this separate and independent tax collected under this section must be deposited as set forth in the following order of priority:

(a) Into the carbon pollution tax account created in section 4 of this act from which withdrawals in favor of the funds identified in this section must be made;

(b) Into the sustainable economy working families' tax exemption account created in section 6 of this act: Funds determined as provided in section 5 of this act to be sufficient to provide the working families' tax exemption in RCW 82.08.0206 including administrative costs incurred to implement this exemption;

(c) Into the general fund: All remaining funds.

NEW SECTION. **Sec. 8.** EXEMPTIONS. (1) The tax levied under section 7 of this act does not apply to:

(a) Fossil fuels brought into this state by means of the fuel supply tank of a motor vehicle, vessel, locomotive, or aircraft;

(b) Diesel fuel, biodiesel fuel, or aircraft fuel, used solely for agricultural purposes. This exemption is available only if the buyer provides the seller with an exemption certificate in a form and manner prescribed by the department;

(c) Fuel that is purchased for the purpose of public transportation and for which the purchaser is entitled to a refund or an exemption under RCW 82.38.080(1) (f) and (g) or 82.38.180(3)(b); or

(d) Fuel that is purchased by a private, nonprofit transportation provider certified under chapter 81.66 RCW and for which the purchaser is entitled to a refund or an exemption under RCW 82.38.080(1)(d) or 82.38.180(3)(a).

(2) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Agricultural purposes" means the performance of activities directly related to the growing, raising, or producing of agricultural products.

(b) "Agricultural purposes" does not include:

(i) Heating space for human habitation or pumping water for human consumption; or

(ii) Transportation on public roads, except when the transportation is incidental to transportation on private property.

(c) "Aircraft fuel" is defined as provided in RCW 82.42.010.

(d) "Biodiesel fuel" is defined as provided in RCW 19.112.010.

(e) "Diesel fuel" is defined as provided in 26 U.S.C. Sec. 4083, as amended or renumbered as of January 1, 2006.

(f) "Farm fossil fuel user" means: (i) A farmer; or (ii) a person who provides horticultural services for farmers, such as soil preparation services, crop cultivation services, and crop harvesting services.

(g) "Farmer" has the same meaning as provided in RCW 82.04.213.

(3) Nothing in this chapter may be construed to exempt the state or any political subdivision thereof from the payment of the tax.

NEW SECTION. **Sec. 9.** DELINQUENCY, LATE FILING PENALTY, INTEREST ON DELINQUENT TAX. The tax levied by section 7 of this act is delinquent if not paid by the applicable due date under RCW 1.12.040, after the due date, interest accrues at the higher of (1) twelve percent per annum or (2) six percentage points above the equivalent coupon issue yield (as published by the

board of governors of the federal reserve system) of the average bill rate for twenty-six week treasury bills as determined at the first bill market auction conducted during the calendar month immediately preceding the due date, until paid.

**Sec. 10.** RCW 82.04.240 and 2004 c 24 s 4 are each amended to read as follows:

(1) Upon every person engaging within this state in business as a manufacturer, except persons taxable as manufacturers under other provisions of this chapter; as to such persons the amount of the tax with respect to such business (~~shall be~~) is equal to the value of the products, including byproducts, manufactured, multiplied by the rate of (~~0.484~~) 0.001 percent.

(2) The measure of the tax is the value of the products, including byproducts, so manufactured regardless of the place of sale or the fact that deliveries may be made to points outside the state.

**Sec. 11.** RCW 82.04.240 and 2010 c 114 s 104 are each amended to read as follows:

(1) Upon every person engaging within this state in business as a manufacturer, except persons taxable as manufacturers under other provisions of this chapter; as to such persons the amount of the tax with respect to such business is equal to the value of the products, including byproducts, manufactured, multiplied by the rate of (~~0.484~~) 0.001 percent.

(2)(a) Upon every person engaging within this state in the business of manufacturing semiconductor materials, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product

manufactured, or, in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of (~~0.275~~) 0.001 percent. For the purposes of this subsection "semiconductor materials" means silicon crystals, silicon ingots, raw polished semiconductor wafers, compound semiconductors, integrated circuits, and microchips.

(b) A person reporting under the tax rate provided in this subsection (2) must file a complete annual report with the department under RCW 82.32.534.

(c) This subsection (2) expires twelve years after the effective date of this act.

(3) The measure of the tax is the value of the products, including byproducts, so manufactured regardless of the place of sale or the fact that deliveries may be made to points outside the state.

**Sec. 12.** RCW 82.32.790 and 2010 c 114 s 201 are each reenacted and amended to read as follows:

(1)(a) Section 11, chapter . . . , Laws of 2015 (section 11 of this act), section 206, chapter 106, Laws of 2010, sections 104, 110, 117, 123, 125, 129, 131, and 150, chapter 114, Laws of 2010, section 3, chapter 461, Laws of 2009, section 7, chapter 300, Laws of 2006, and section 4, chapter 149, Laws of 2003 are contingent upon the siting and commercial operation of a significant semiconductor microchip fabrication facility in the state of Washington.

(b) For the purposes of this section:

(i) "Commercial operation" means the same as "commencement of commercial production" as used in RCW 82.08.965.

(ii) "Semiconductor microchip fabrication" means "manufacturing semiconductor microchips" as defined in RCW 82.04.426.

(iii) "Significant" means the combined investment of new buildings and new machinery and equipment in the buildings, at the commencement of commercial production, will be at least one billion dollars.

(2) Chapter 149, Laws of 2003 takes effect the first day of the month in which a contract for the construction of a significant semiconductor fabrication facility is signed, as determined by the director of the department of revenue.

(3)(a) The department of revenue must provide notice of the effective date of section 11, chapter . . ., Laws of 2015 (section 11 of this act), section 206, chapter 106, Laws of 2010, sections 104, 110, 117, 123, 125, 129, 131, and 150, chapter 114, Laws of 2010((+,+)), section 3, chapter 461, Laws of 2009, section 7, chapter 300, Laws of 2006, and section 4, chapter 149, Laws of 2003 to affected taxpayers, the legislature, and others as deemed appropriate by the department.

(b) If, after making a determination that a contract has been signed and chapter 149, Laws of 2003 is effective, the department discovers that commencement of commercial production did not take place within three years of the date the contract was signed, the department must make a determination that chapter 149, Laws of 2003 is no longer effective, and all taxes that would have been otherwise due are deemed deferred taxes and are immediately assessed and payable from any person reporting tax under RCW 82.04.240(2) or claiming an exemption or credit under section 2 or 5 through 10, chapter 149, Laws of 2003. The department is not authorized to make a second determination regarding the effective date of chapter 149, Laws of 2003.

**Sec. 13.** RCW 82.04.2404 and 2010 c 114 s 105 are each amended to read as follows:

(1) Upon every person engaging within this state in the business of manufacturing or processing for hire semiconductor materials, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured, or, in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of (~~(0.275)~~) 0.001 percent.

(2) For the purposes of this section "semiconductor materials" means silicon crystals, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers.

(3) A person reporting under the tax rate provided in this section must file a complete annual report with the department under RCW 82.32.534.

(4) This section expires December 1, 2018.

**Sec. 14.** RCW 82.04.2909 and 2011 c 174 s 301 are each amended to read as follows:

(1) Upon every person who is an aluminum smelter engaging within this state in the business of manufacturing aluminum; as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of (~~(.2904)~~) 0.001 percent.

(2) Upon every person who is an aluminum smelter engaging within this state in the business of making sales at wholesale of aluminum manufactured by that person, as to such persons the amount of tax with respect to such business is equal to the

gross proceeds of sales of the aluminum multiplied by the rate of .2904 percent.

(3) A person reporting under the tax rate provided in this section must file a complete annual report with the department under RCW 82.32.534.

(4) This section expires January 1, 2017.

**Sec. 15.** RCW 82.04.260 and 2014 c 140 s 6 and 2014 c 140 s 4 are each reenacted and amended to read as follows:

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

(a) Wheat into flour, barley into pearl barley, soybeans into soybean oil, canola into canola oil, canola meal, or canola by-products, or sunflower seeds into sunflower oil; as to such persons the amount of tax with respect to such business is equal to the value of the flour, pearl barley, oil, canola meal, or canola by-product manufactured, multiplied by the rate of ~~((0.138))~~ 0.001 percent;

(b) Beginning July 1, 2015, seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing by that person; or selling manufactured seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing, to purchasers who transport in the ordinary course of business the goods out of this state; as to such persons the amount of tax with respect to such business is equal to the value of the products manufactured or the gross proceeds derived from such sales, multiplied by the rate of ~~((0.138))~~ 0.001 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state;

(c)(i) Beginning July 1, 2015, dairy products; or selling dairy products that the person has manufactured to purchasers who either transport in the ordinary course of business the goods out of state or purchasers who use such dairy products as 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 products manufactured or the gross proceeds derived from such sales multiplied by the rate of (~~0.138~~) 0.001 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state or sold to a manufacturer for use as an ingredient or component in the manufacturing of a dairy product.

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

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

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

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

(d)(i) Beginning July 1, 2015, fruits or vegetables by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables, or selling at wholesale fruits or vegetables manufactured by the seller by canning, preserving,

freezing, processing, or dehydrating fresh fruits or vegetables and sold to purchasers who transport in the ordinary course of business the goods out of this state; as to such persons the amount of tax with respect to such business is equal to the value of the products manufactured or the gross proceeds derived from such sales multiplied by the rate of (~~(0.138)~~) 0.001 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state.

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

(e) Until July 1, 2009, alcohol fuel, biodiesel fuel, or biodiesel feedstock, as those terms are defined in RCW 82.29A.135; as to such persons the amount of tax with respect to the business is equal to the value of alcohol fuel, biodiesel fuel, or biodiesel feedstock manufactured, multiplied by the rate of (~~(0.138)~~) 0.001 percent; and

(f) Wood biomass fuel as defined in RCW 82.29A.135; as to such persons the amount of tax with respect to the business is equal to the value of wood biomass fuel manufactured, multiplied by the rate of (~~(0.138)~~) 0.001 percent.

(2) Upon every person engaging within this state in the business of splitting or processing dried peas; as to such persons the amount of tax with respect to such business is equal to the value of the peas split or processed, multiplied by the rate of (~~(0.138)~~) 0.001 percent.

(3) Upon every nonprofit corporation and nonprofit association engaging within this state in research and development, as to such corporations and associations, 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.

(4) Upon every person engaging within this state in the business of slaughtering, breaking and/or processing perishable meat products and/or selling the same at wholesale only and not at retail; as to such persons the tax imposed is equal to the gross proceeds derived from such sales multiplied by the rate of (~~0.138~~) 0.001 percent.

(5) Upon every person engaging within this state in the business of acting as a travel agent or tour operator; as to such persons the amount of the tax with respect to such activities is equal to the gross income derived from such activities multiplied by the rate of 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 of stevedoring and associated activities pertinent to the movement of goods and commodities in waterborne interstate or foreign commerce; as to such persons the amount of tax with respect to such business is equal to the gross proceeds derived from such activities multiplied 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 RCW for that portion of their business subject to taxation under this subsection. Stevedoring and associated activities pertinent to the conduct of goods and commodities in waterborne interstate or

foreign commerce are defined as all activities of a labor, service or transportation nature whereby cargo may be loaded or unloaded to or from vessels or barges, passing over, onto or under a wharf, pier, or similar structure; cargo may be moved to a warehouse or similar holding or storage yard or area to await further movement in import or export or may move to a consolidation freight station and be stuffed, unstuffed, containerized, separated or otherwise segregated or aggregated for delivery or loaded on any mode of transportation for delivery to its consignee. Specific activities included in this definition are: Wharfage, handling, loading, unloading, moving of cargo to a convenient place of delivery to the consignee or a convenient place for further movement to export mode; documentation services in connection with the receipt, delivery, checking, care, custody and control of cargo required in the transfer of cargo; imported automobile handling prior to delivery to consignee; terminal stevedoring and incidental vessel services, including but not limited to plugging and unplugging refrigerator service to containers, trailers, and other refrigerated cargo receptacles, and securing ship hatch covers.

(8)(a) Upon every person engaging within this state in the business of disposing of low-level waste, as defined in RCW 43.145.010; as to such persons the amount of the tax with respect to such business is equal to the gross income of the business, excluding any fees imposed under chapter 43.200 RCW, multiplied by the rate of 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 retail or wholesale, of commercial airplanes or components of such airplanes, manufactured by the seller, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of:

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

(ii) (~~0.2904~~) 0.001 percent beginning July 1, 2007.

(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 engaging within this state in the business of manufacturing tooling specifically designed for use in manufacturing commercial airplanes or components of such airplanes, or making sales, at retail or wholesale, of such

tooling manufactured by the seller, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in the case of processors for hire, be equal to the gross income of the business, multiplied by the rate of (~~0.2904~~) 0.001 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 report with the department under RCW 82.32.534.

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

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

(12)(a) Until July 1, 2024, upon every person engaging within this state in the business of extracting timber or extracting for hire timber; as to such persons the amount of tax

with respect to the business is, in the case of extractors, equal to the value of products, including by-products, extracted, or in the case of extractors for hire, equal to the gross income of the business, multiplied by the rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30, 2024.

(b) Until July 1, 2024, upon every person engaging within this state in the business of manufacturing or processing for hire: (i) Timber into timber products or wood products; or (ii) timber products into other timber products or wood products; as to such persons the amount of the tax with respect to the business is, in the case of manufacturers, equal to the value of products, including by-products, manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and ~~((0.2904))~~ 0.001 percent from July 1, 2007, through June 30, 2024.

(c) Until July 1, 2024, upon every person engaging within this state in the business of selling at wholesale: (i) Timber extracted by that person; (ii) timber products manufactured by that person from timber or other timber products; or (iii) wood products manufactured by that person from timber or timber products; 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, timber products, or wood products multiplied by the rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30, 2024.

(d) Until July 1, 2024, 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 the buyer is required to sever the timber within thirty months from the date of the original contract, regardless of the method of payment for the timber and whether title to the timber transfers before, upon, or after severance.

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

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

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

(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.

(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 recovered paper or paper products; and

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

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

(f) Except for small harvesters as defined in RCW 84.33.035, a person reporting under the tax rate provided in this subsection (12) must file a complete annual survey with the department under RCW 82.32.585.

(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 0.365 percent through June 30, 2013, and beginning July 1, 2013, multiplied by the rate of 0.35 percent.

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

**Sec. 16.** RCW 82.04.294 and 2013 2nd sp.s. c 13 s 902 are each amended to read as follows:

(1) Upon every person engaging within this state in the business of manufacturing solar energy systems using photovoltaic modules or stirling converters, or of manufacturing solar grade silicon, silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers to be used exclusively in components of such systems; as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of (~~0.275~~) 0.001 percent.

(2) Upon every person engaging within this state in the business of making sales at wholesale of solar energy systems using photovoltaic modules or stirling converters, or of solar grade silicon, silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers to be used exclusively in components of such systems, manufactured by that person; as to such persons the amount of tax with respect to such business is equal to the gross proceeds of sales of the solar energy systems using photovoltaic modules or stirling converters, or of the solar grade silicon to be used exclusively in components of such systems, multiplied by the rate of 0.275 percent.

(3) Silicon solar wafers, silicon solar cells, thin film solar devices, solar grade silicon, or compound semiconductor

solar wafers are "semiconductor materials" for the purposes of RCW 82.08.9651 and 82.12.9651.

(4) The definitions in this subsection apply throughout this section.

(a) "Compound semiconductor solar wafers" means a semiconductor solar wafer composed of elements from two or more different groups of the periodic table.

(b) "Module" means the smallest nondivisible self-contained physical structure housing interconnected photovoltaic cells and providing a single direct current electrical output.

(c) "Photovoltaic cell" means a device that converts light directly into electricity without moving parts.

(d) "Silicon solar cells" means a photovoltaic cell manufactured from a silicon solar wafer.

(e) "Silicon solar wafers" means a silicon wafer manufactured for solar conversion purposes.

(f) "Solar energy system" means any device or combination of devices or elements that rely upon direct sunlight as an energy source for use in the generation of electricity.

(g) "Solar grade silicon" means high-purity silicon used exclusively in components of solar energy systems using photovoltaic modules to capture direct sunlight. "Solar grade silicon" does not include silicon used in semiconductors.

(h) "Stirling converter" means a device that produces electricity by converting heat from a solar source utilizing a stirling engine.

(i) "Thin film solar devices" means a nonparticipating substrate on which various semiconducting materials are deposited to produce a photovoltaic cell that is used to generate electricity.

(5) A person reporting under the tax rate provided in this section must file a complete annual survey with the department under RCW 82.32.585.

(6) This section expires June 30, 2017.

**Sec. 17.** RCW 82.08.020 and 2014 c 140 s 12 are each amended to read as follows:

(1) There is levied and collected a tax equal to six and five-tenths percent, decreasing to six percent beginning July 1, 2016, and to five and five-tenths percent beginning July 1, 2017, of the selling price on each retail sale in this state of:

(a) Tangible personal property, unless the sale is specifically excluded from the RCW 82.04.050 definition of retail sale;

(b) Digital goods, digital codes, and digital automated services, if the sale is included within the RCW 82.04.050 definition of retail sale;

(c) Services, other than digital automated services, included within the RCW 82.04.050 definition of retail sale;

(d) Extended warranties to consumers; and

(e) Anything else, the sale of which is included within the RCW 82.04.050 definition of retail sale.

(2) There is levied and collected an additional tax on each retail car rental, regardless of whether the vehicle is licensed in this state, equal to five and nine-tenths percent of the selling price. The revenue collected under this subsection must be deposited in the multimodal transportation account created in RCW 47.66.070.

(3) Beginning July 1, 2003, there is levied and collected an additional tax of three-tenths of one percent of the selling price on each retail sale of a motor vehicle in this state,

other than retail car rentals taxed under subsection (2) of this section. The revenue collected under this subsection must be deposited in the multimodal transportation account created in RCW 47.66.070.

(4) For purposes of subsection (3) of this section, "motor vehicle" has the meaning provided in RCW 46.04.320, but does not include:

(a) Farm tractors or farm vehicles as defined in RCW 46.04.180 and 46.04.181, unless the farm tractor or farm vehicle is for use in the production of marijuana;

(b) Off-road vehicles as defined in RCW 46.04.365;

(c) Nonhighway vehicles as defined in RCW 46.09.310; and

(d) Snowmobiles as defined in RCW 46.04.546.

(5) Beginning on December 8, 2005, 0.16 percent of the taxes collected under subsection (1) of this section must be dedicated to funding comprehensive performance audits required under RCW 43.09.470. The revenue identified in this subsection must be deposited in the performance audits of government account created in RCW 43.09.475.

(6) The taxes imposed under this chapter apply to successive retail sales of the same property.

(7) The rates provided in this section apply to taxes imposed under chapter 82.12 RCW as provided in RCW 82.12.020.

**Sec. 18.** RCW 82.08.0206 and 2008 c 325 s 2 are each amended to read as follows:

(1) A working families' tax exemption, in the form of a remittance tax due under this chapter and chapter 82.12 RCW, is provided to eligible low-income persons for sales taxes paid under this chapter after January 1, 2008.

(2) For purposes of the exemption in this section, an eligible low-income person is:

(a) An individual, or an individual and that individual's spouse if they file a federal joint income tax return;

(b) (~~(An individual who)~~) An individual who is eligible for, and is granted, the credit provided in Title 26 U.S.C. Sec. 32; and

(c) (~~(An individual who)~~) An individual who properly files a federal income tax return as a Washington resident, and has been a resident of the state of Washington more than one hundred eighty days of the year for which the exemption is claimed.

(3) For remittances made in 2009 and 2010, the working families' tax exemption for the prior year is a retail sales tax exemption equal to the greater of five percent of the credit granted as a result of Title 26 U.S.C. Sec. 32 of the federal internal revenue code in the most recent year for which data is available or twenty-five dollars. For (~~(2011 and thereafter)~~) 2016, the working families' tax exemption for the prior year is equal to the greater of (~~(ten)~~) fifteen percent of the credit granted as a result of Title 26 U.S.C. Sec. 32 of the federal internal revenue code in the most recent year for which data is available or (~~(fifty)~~) one hundred dollars. For 2017 and thereafter, the working families' tax exemption for the prior year is equal to the greater of twenty-five percent of the credit granted as a result of 26 U.S.C. Sec. 32 of the federal internal revenue code in the most recent year for which data is available or one hundred dollars.

(4) For any fiscal period, the working families' tax exemption authorized under this section (~~(shall)~~) must be approved by the legislature in the state omnibus appropriations

act before persons may claim the exemption during the fiscal period.

(5) The working families' tax exemption (~~shall~~) must be administered as provided in this subsection.

(a) An eligible low-income person claiming an exemption under this section must pay the tax imposed under chapters 82.08, 82.12, and 82.14 RCW in the year for which the exemption is claimed. The eligible low-income person may then apply to the department for the remittance as calculated under subsection (3) of this section.

(b) Application (~~shall~~) must be made to the department in a form and manner determined by the department, but the department must provide alternative filing methods for applicants who do not have access to electronic filing.

(c) Application for the exemption remittance under this section must be made in the year following the year for which the federal return was filed, but in no case may any remittance be provided for any period before January 1, 2008. The department may use the best available data to process the exemption remittance. The department shall begin accepting applications October 1, 2009.

(d) The department (~~shall~~) must review the application and determine eligibility for the working families' tax exemption based on information provided by the applicant and through audit and other administrative records, including, when it deems it necessary, verification through internal revenue service data.

(e) The department (~~shall~~) must remit the exempted amounts to eligible low-income persons who submitted applications. Remittances may be made by electronic funds transfer or other means.

(f) The department may, in conjunction with other agencies or organizations, design and implement a public information campaign to inform potentially eligible persons of the existence of and requirements for this exemption.

(g) The department may contact persons who appear to be eligible low-income persons as a result of information received from the internal revenue service under such conditions and requirements as the internal revenue service may by law require.

(6) The provisions of chapter 82.32 RCW apply to the exemption in this section.

(7) The department may adopt rules necessary to implement this section.

(8) The department (~~shall~~) must limit its costs for the exemption program to the initial start-up costs to implement the program. The state omnibus appropriations act (~~shall~~) must specify funding to be used for the ongoing administrative costs of the program. These ongoing administrative costs include, but are not limited to, costs for: The processing of internet and mail applications, verification of application claims, compliance and collections, additional full-time employees at the department's call center, processing warrants, updating printed materials and web information, media advertising, and support and maintenance of computer systems.

NEW SECTION. **Sec. 19.** The department and the department of licensing must adopt rules as necessary for the implementation of this chapter and may coordinate concerning the process, timelines, and documentation related to such rule making, as necessary.

NEW SECTION. **Sec. 20.** If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. **Sec. 21.** This chapter may be known and cited as the environmental tax reform act.

NEW SECTION. **Sec. 22.** Sections 1 through 9, 19, and 21 of this act constitute a new chapter in Title 82 RCW.

NEW SECTION. **Sec. 23.** This act takes effect July 1, 2015.

--- END ---