Department of Revenue Washington State

Impose PUT on fuel extracted, manufactured, and consumed in petroleum production

Description

This proposal imposes public utility tax (PUT) on fuel extracted, manufactured, and consumed in petroleum production. The tax rate is 3.852 percent which is the tax rate for natural gas distribution.

Current Law

Fuel consumed by manufacturers or extractors is exempt from use tax and is currently not subject to PUT when the fuel is used in the process of manufacturing or extracting at the same plant.

- The fuels for which the exemption applies are generally wood byproducts, also referred to as "hog fuel," and refinery fuel.
- Approximately 180 wood product manufacturers and five petroleum products refineries are eligible for the exemption.
- In its 2011 Tax Preference Review Report, the Joint Legislative Audit and Review Committee noted that while no refineries existed in the state when the exemption was enacted in 1949, refinery fuels now account for approximately 98% of the estimated value of the exemption.

Policy Concerns

It may be hard to tax this under PUT because PUT is imposed only on gross income. This activity does not generate income. Any legislation would need to create a new measure of tax in order to tax the value of the fuel.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
5	$ -	$ 10.5	$ 10.5	$ 11.9	$ 12.3	$ 24.2

Notes:

- *Estimates assume a July 1, 2016 effective date, representing 11 months of collections for FY 2017.*
- *Estimates reflect the November 2015 Economic & Revenue Forecast Council revenue forecast.*

Expenditure Impact

FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
$ 36,100	$ -	$ 36,100	$ -	$ -	$ -