



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

January 14, 2014

Timber Activities - Reduced Business and Occupation Tax Rates

This special notice provides information on House Bill 2678 (Chapter 296, Laws of 2008) and Substitute House Bill 1513 (Chapter 48, Laws of 2007) which amended RCW 82.04.260(12). Both bills are effective July 1, 2007 and expire June 30, 2024.

HB 2678 restored the preferential timber industry business and occupation (B&O) tax rate to manufacturers of biocomposite surface products. SHB 1513 extended the preferential rate for timber harvesting and certain manufacturing/processing activities to include certain sales of standing timber and changed certain definitions for this program.

B&O Tax Rate Reduction

Effective July 1, 2007 through June 30, 2024, the following activities are subject to the B&O tax rate of .003424. This rate is comprised of a base rate of .002904 plus a surcharge of .00052. However, the surcharge of .00052 will not apply if the surcharge receipts reach \$8 million during a biennium. Check the Department's website for the most updated rate information.

- Sales of standing timber (that must be severed from the land within 30 months):
 - Previously, sales of standing timber were generally subject to Real Estate Excise Tax (REET). Now, sales of standing timber that are contracted to be severed within 30 months from the date of sale are subject to business and occupation (B&O) tax under this preferred rate. Such sales are not subject to REET.
 - Transfers of standing timber that are not subject to REET, because they are excluded from the definition of "sale," are not subject to B&O tax.
 - Other sales of standing timber remain subject to REET.
- Extracting or extracting for hire timber
- Manufacturing or processing for hire timber into timber products or wood products
- Manufacturing or processing for hire timber products into other timber products or wood products
- Selling at wholesale:
 - timber extracted by the seller.
 - timber products manufactured by the seller from timber or other timber products.
 - wood products manufactured by the seller from timber or timber products.

Manufacturing/Processing For Hire of Timber or Timber Products into other Timber Products or Wood Products:

This preferential rate applies to the manufacturing and processing for hire of timber products into other timber products or timber products into wood products. Businesses manufacturing (or processing for hire) wood products into other wood products do not qualify for this preferred B&O tax rate.

For example, manufacturing wood windows from dimensional lumber does not qualify for the preferred B&O tax rate. In this case, the manufacturer is taking a wood product and manufacturing into another wood product which does not meet the criteria stated above.

Definitions

For the purposes of this preferential B&O tax rate the following definitions apply:

“Timber products” means:

- logs, wood chips, sawdust, wood waste, and similar products obtained wholly from the processing of timber, short rotation hardwoods or both
- Pulp, including market pulp and pulp, derived from recovered paper or paper products
- Recycled paper, but only when used in the manufacturing of biocomposite surface products

“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
- Biocomposite surface products

“Biocomposite surface products” means surface material products containing, by weight or volume, more than 50% recycled paper and that also use nonpetroleum-based phenolic resin as a bonding agent.

“Paper and paper products” means products made of interwoven cellulosic fibers held together largely by hydrogen bonding.

Paper and paper products include:

- newsprint, office, printing, fine and pressure-sensitive paper
- paper napkins
- towels
- 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
- related types of cellulosic products

Paper and paper products do not include:

- books
- newspapers
- magazines
- periodicals and other printed publications
- advertising materials
- calendars
- similar types of printed materials

“Recycled paper” means paper and paper products having 50% or more of their fiber content that comes from postconsumer waste. As related to this B&O tax classification “postconsumer waste” means a finished material that would normally be disposed of as solid waste, having completed its life cycle as a consumer item.

“Small Timber Harvesters” means every person who from his or her own land or from the land of another who takes title to or ownership of timber from privately or publicly owned forest land and harvests less than 2 million board feet of timber for sale or for commercial or industrial use in a calendar year. Small harvester does not include persons performing under contract the necessary labor or mechanical services for a harvester, and it does not include the harvesters of Christmas trees or short-rotation hardwoods.

“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.

Electronic Filing & Annual Survey Required for Preferential Rate

Taxpayers reporting under the reduced B&O tax rate must file all required tax returns and the annual surveys using our E-file system. The annual survey must be filed by April 30 of the year following the year in which you take advantage of the reduced tax rate. If you do not file your tax returns or the annual survey electronically, you forfeit the reduced rate for the calendar year covered by the survey, and additional tax and interest will be assessed.

Please note: Small Harvesters are not required to file the annual survey or file electronically.

B&O Tax Surcharge

The surcharge funds activities for improving and protecting banks of natural course of water on non-federal Washington forest lands designated in the 1999 forest and fish report. When surcharge receipts reach \$8 million during a biennium, it will be suspended. The surcharge is also subject to suspension or adjustment depending on amounts appropriated by the Federal Government to support tribal participation.

We will provide follow-up information electronically to those businesses that are required to E-file when the surcharge will be suspended, adjusted or reinstated. As with the reduced B&O tax rates, the surcharge expires June 30, 2024.

Multiple Activities Credit (MATC)

Business that engage in any combination of activities listed above as qualifying for the reduced B&O tax rate remain eligible for the Multiple Activities Credit (MATC). The tax due and credit amount will be calculated at the new rate. You can take the credit within the E-file application when you file on-line. The MATC will include the B&O tax surcharge rate.

B&O Tax Deduction for Small Timber Harvesters

Timber harvesters who extract or extract for others less than two million board feet of timber for sale or for commercial or industrial use may deduct up to \$100,000 per tax year from their gross receipts or value of products proceeding or accruing from timber harvested. Amounts above the \$100,000 remain subject to B&O tax.

Small Harvesters must register with the Department's Forest Tax Section even if they qualify for the above exemption and do not have a B&O tax liability.