

OIL SPILL TAX
Chapter 82.23B RCW

Tax Base Crude oil or petroleum products which are transported by ship or barge in navigable waters of the state and off-loaded at an in-state marine terminal.

Tax Rate 4 cents per 42 gallon barrel. The law allows a tax rate of 5 cents per barrel, but 1 cent of the rate is contingent upon the fund balance in the oil spill response account. The full 5 cent rate was in effect from the initial imposition of the tax on October 1, 1991, until January 1, 2002, when the 1 cent rate was temporarily curtailed. The 1 cent response rate was reimposed on April 1, 2007, and it remained in effect until October 1, 2009.

Levied by State

Administration Department of Revenue. The owner of the taxable products when they are off-loaded into the storage tanks of a marine terminal is liable for the tax. Operators of marine terminals collect the tax from importers of the taxable products and report the tax on a monthly basis on a specialized tax return. Alternatively, the Department may allow direct payment of the tax by the importer. The return is due on the 25th of the month following the taxable activity.

Recent Collections (\$000)

<u>Fiscal Year</u>	<u>Collections</u>	<u>% Change</u>	<u>% of All State Taxes</u>
2009	\$4,966	9.2%	0.0%
2008	4,547	51.5	0.0
2007	3,000	(43.1)	0.0
2006	5,277	(14.5)	0.0
2005	6,170	8.1	0.0
2004	5,708	16.5	0.0
2003	4,898	(11.9)	0.0
2002	5,561	(6.6)	0.0
2001	5,955	5.1	0.1
2000	5,664	85.4	0.0

Distribution of Receipts

There are two parts to the tax rate, each of which funds a different activity relating to oil spill protection. RCW 82.23B.020(1) levies a 1 cent per barrel tax, the receipts of which are deposited into an oil spill response account. These funds are used to cover state response costs to oil spills which involve clean-up costs in excess of \$50,000. RCW 82.23B.020(2) levies a 4 cent per barrel tax, the receipts of which go to the oil spill administration account. They are used to fund oil spill prevention, response, and restoration programs, primarily in the Office of Marine Safety and the Departments of Ecology and Fish and Wildlife, and administrative costs of the Office of Marine Safety, as well as tax collection costs of the Department of Revenue.

Imposition of the 1 cent tax for clean-up costs is contingent upon the fund balance in the response account. At the close of each calendar quarter, the Office of Financial Management determines the fund balance. If the balance is less than \$9 million, then the tax remains in effect; if the balance is reached, then the tax is to be suspended for the following quarter. If the tax was not imposed during the previous quarter and the balance is less than \$8 million, then the tax will be reimposed. Further, the law has provided for transferring excess funds from the response account to the administration account.

Exemptions, Deductions or Credits

- subsequent transportation of previously taxed products within the state;
- credit for products which are exported from the state, including bunker fuel and aircraft jet fuel consumed in the processing of exporting petroleum products;
- credit or refund for products which are used for purposes other than fuel;
- credit or refund for products which are used as components or ingredients of manufactured items other than fuel.

History

The tax was instituted in 1991 and was first effective on October 1, 1991. The initial tax rates were 3 cents for the administration account and 2 cents for the response account. The statute created an Office of Marine Safety to develop and administer the program. The original law specified that the function would be transferred to the Department of Ecology on July 1, 1997. In 1998, the current 4 cent and 1 cent rates became effective. An amendment in 1992 changed the imposition of the tax from the owner of the products just prior to off-loading to the owner at the time the products are transferred into storage tanks. A shift in the tax rates, transferring additional revenues from the response account into the administration account, occurred in 1997. Trigger levels for the 1 cent tax were reduced by \$1 million in 1999.

The history of the changes in oil spill tax rates is shown below:

	<u>Administration Rate</u>	<u>Response Rate</u>
Oct. 1, 1991	3	2
Jan. 1, 1998	4	1
Jan. 1, 2002	4	0
April 1, 2007	4	1
Oct. 1, 2009	4	0

Discussion/Major Issues

The tax is intended to fund a program to prevent oil spills on navigable waters and to help finance the cost of spill clean-up by making the owner of the products contribute to the state's cost. Fewer than 20 firms currently pay the tax. There has been confusion regarding the appropriate tax base. In the initial years some taxpayers significantly overpaid the tax, presumably because they did not understand the export credit. This resulted in large subsequent credits, which have made it difficult to forecast the future receipts accruing to the two accounts. Because of the magnitude of export tax credits and increased imports of oil into the state via pipeline (which are not subject to this tax), the tax base has not been stable and tax receipts have fluctuated rather dramatically in some years. Also, there has been volatility in receipts as a result of audit assessments and refunds. This has made administration of the oil spill programs difficult from a budgetary and planning perspective.