Tax incentives for converting biogas into marketable coproducts and manufacturing wood biomass fuel

Summary

Beginning July 1, 2018, the law reinstates and expands tax incentives for anaerobic digesters and certain landfills (Engrossed Substitute House Bill (ESHB) 2580 (Chapter 164, Laws of 2018)). The bill also expands the definition of wood biomass fuel that applies to the biomass fuel manufacturers’ lower B&O tax rate.

Who qualifies for these incentives?

- People or businesses that manufacture wood biomass fuel
- Owners and operators of anaerobic digesters
- Owners and operators of landfills that convert biogas into marketable coproducts
- People or businesses that process biogas from anaerobic digesters and landfills into marketable products

Retail sales and use tax exemption

If you own or operate anaerobic digesters, you are eligible for a retail sales and use tax exemption on the following purchases:

- Tangible personal property that becomes a component of the anaerobic digester and
- Services to install, construct, repair, clean, alter or improve the anaerobic digester.

The anaerobic digester includes the equipment necessary to process the biogas or digestate produced into marketable coproducts.

The new law includes digesters that process any kind of organic material into biogas and digestate, in addition to anaerobic digesters that primarily treat livestock manure.

If you process biogas from a landfill or anaerobic digester, you are eligible for a retail sales and use tax exemption on purchases of equipment you use to process biogas into marketable coproducts, including, but not limited to:

- Equipment you use to condition and compress biogas
- Equipment you use for nutrient recovery
- Electrical generation equipment
You can also use the exemptions on purchases of services to install, construct, repair, clean, alter, or improve this equipment.

**How to report:**

**If you are a buyer you must:**

- Provide a completed Buyers’ Retail Sales Tax Exemption Certificate or a Farmers’ Certificate for Wholesale Purchases and Sales Tax Exemptions to your vendors to get the sales tax exemption.
- Complete the buyer’s tax preference addendum in MY DOR when filing your excise tax returns. The department will add these exemptions to the addendum by October 31, 2018.

**If you are a seller you must:**

- Keep a copy of the exemption certificate obtained from the buyer (see above) in your records in the case of an audit to show why you did not collect sales tax.
- If you file electronically, report the sales and use tax exemptions for anaerobic digesters and landfill biogas processing equipment under the other deduction through October 2018. We expect to have the specific deductions specific available in MY DOR in October 2018.
- If you are a paper return filer, report the sales and use tax exemptions for anaerobic digesters and landfill biogas processing equipment under the other deduction.
- When you use the other deduction, you need to write sales to anaerobic digesters or landfills under RCW 82.08.900 in the explanation box.

The exemptions expire January 1, 2029 (RCW 82.08.900 and 82.12.900).

**Property and leasehold excise tax exemption**

If you own and operate an anaerobic digester, you may apply to your county assessor for a property tax exemption on property you use primarily to operate an anaerobic digester. The following are eligible for the exemption:

- buildings, machinery, equipment, and other personal property
- land on which the property is located
- land necessary to operate the anaerobic digester (does not include land used to grow agricultural products)

You can use this exemption for six assessment years after the date the facility or addition becomes operational. The application is available on our website. Once you complete it, file the application with the county assessor for the property.

You can also use a leasehold excise tax exemption for the same personal and real property. However, you need to apply to the Department of Revenue for the leasehold excise tax exemption. The application is available on our website.

If you have claimed a property tax or leasehold excise tax exemption (RCW 84.36.635 or 82.29A.135), you cannot reapply or renew your claim on the same structures, land, or equipment.

**You cannot apply for these exemptions after December 31, 2024.**

(See RCW 84.36.635 and 82.29A.135)
Renewable energy system sales and use tax exemption

Beginning July 1, 2018, anaerobic digesters and landfills no longer qualify for sales and use tax exemptions as energy sources for equipment used directly in generating electricity (RCW 82.08.962 and 82.12.962). Previously, these exemptions were in the form of a 75 percent refund of the tax paid. Now, these purchases qualify for 100 percent exemption as provided in this new legislation (RCW 82.08.900 and 82.12.900).

Manufacturing wood biomass fuel

People or businesses that manufacture wood biomass fuel are eligible for a reduced B&O tax rate of 0.138 percent (RCW 82.04.260). Beginning July 1, 2018, the definition for wood biomass fuel changes to:

a liquid or gaseous fuel that is produced from lignocellulosic feedstocks, including wood, forest, field residue, and dedicated energy crops, and that does not include wood treated with chemical preservations such as creosote, pentachlorophenol, or copper-chrome-arsenic.

In MY DOR, there is a specific line to report the gross income that receives this preferential manufacturing B&O tax rate. As with all manufacturers you must also report the sale of the product under the Wholesaling and/or Retailing B&O tax classifications. For more information on how to report income from manufacturing, see Washington Administrative Code (WAC) 458-20-136.

People or businesses filing under the preferential rate do not have to file an annual tax performance report.

The preferential B&O tax rate expires January 1, 2029.

Definitions

"Anaerobic digester" means a facility that processes organic material into biogas and digestate using microorganisms in a decomposition process within a closed, oxygen-free container as well as the equipment necessary to process biogas or digestate produced by an anaerobic digester into marketable coproducts, including but not limited to biogas conditioning, compression, nutrient recovery, and electrical generation equipment.

"Eligible person" means any person establishing or operating an anaerobic digester or landfill or processing biogas from an anaerobic digester or landfill into marketable coproducts.

Questions?

Please call 1-800-647-7706.