

# Special Notice

*Intended audience: timber harvesters and manufacturers of timber and wood products*

**July 24, 2019**

## **Timber activities – eligibility expanded to mass timber product manufacturers and expiration date extended for preferential rate**

The following changes take effect July 28, 2019:

- You can take a lower (preferential) business and occupation (B&O) tax rate if you are a manufacturer of mass timber products (Section 4 of Engrossed Third Substitute House Bill 1324, Chapter 336, Laws of 2019).
- The expiration date for the preferential B&O tax rate for extracting, manufacturing, and selling certain timber products has been extended through June 30, 2045.

### **What is the lower B&O tax rate?**

Through June 30, 2045, the activities described in the following section are subject to the B&O tax rate of .003424. This rate includes a base rate of .002904 plus a surcharge of .00052. However, the surcharge of .00052 will not apply if the surcharge receipts reach specified funding levels. Check our website for the most current rate information.

### **What qualifies for the lower B&O tax rate?**

The following activities qualify for the lower B&O tax rate:

- Sales of standing timber, apart from the land, where the buyer is required to sever the timber from the land within 30 months from the date of the original sale contract.

**Note:** Sales of standing timber that are not severed from the land within 30 months are subject to Real Estate Excise Tax (REET) and not subject to B&O tax. Additionally, sales of real property, which include standing timber not apart from the land, are subject to REET and not subject to B&O tax.

- Extracting timber or extracting timber for hire.
- Manufacturing timber or processing for hire:
  - timber into timber products or wood products
  - timber products into other timber products or wood products
  - mass timber products
- Wholesale sales of:
  - 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
  - mass timber products manufactured by the seller

## **Who qualifies for the lower B&O rate?**

The lower (preferential) B&O tax rate applies to businesses:

- extracting timber or extracting timber for hire
- manufacturing or processing for hire:
  - timber/timber products into other timber products
  - timber/timber products into wood products
  - mass timber products

Businesses manufacturing or 'processing for hire' wood products into other wood products do not qualify for the preferential B&O tax rate.

For example, if you manufacture wood windows from dimensional lumber you do not qualify for the lower B&O tax rate. In this case, you started with a wood product and manufactured it into another wood product, which does not meet the required element of manufacturing from timber or timber products or manufacturing a mass timber product.

## **Annual Tax Performance Report required to qualify for the lower B&O tax rate**

If you report under the lower B&O tax rate, you must file all required tax returns and the Annual Tax Performance Report through our e-file system. You must file the report by May 31 of the year following the tax year in which you report revenue subject to the lower B&O tax rate. *If you do not file your tax returns or the annual report through our e-file system, you forfeit the lower B&O tax rate for the calendar year, and you may owe additional tax and interest.*

**Note:** The law does not require small harvesters to file the Annual Tax Performance Report or file online.

## **You are still eligible for the Multiple Activities Tax Credit (MATC)**

If your business engages in any combination of activities listed above for the lower B&O tax rate, the

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business remains eligible for the MATC. Our system will calculate the tax amount you owe and the credit amount at the new rate. You can take the credit when you file online. The MATC will include the B&O tax surcharge rate.

## What can you deduct if you are a small timber harvester?

A small timber harvester (as defined below) may deduct up to \$100,000 per tax year from their gross receipts or value of products coming from harvested timber. However, harvesters will owe B&O tax on amounts above the \$100,000.

Small harvesters must register with our department's Forest Tax section even if they qualify for the above exemption and do not have a B&O tax liability.

## Definitions

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

**Bio-composite 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.

**Mass timber products** means:

- cross laminated timber
- nail laminated timber
- glue laminated timber
- laminated strand timber
- dowel laminated timber
- laminated veneer lumber
- structural composite lumber
- wood concrete composites

**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, and toilet tissue
- towels
- toilet tissue
- kraft bag, construction, and other kraft industrial papers
- paperboard, liquid packaging containers, and containerboard

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- 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

**Postconsumer waste** means a finished material that would normally be disposed of as solid waste, having completed its life cycle as a consumer item.

**Recycled paper** means paper and paper products having 50% or more of their fiber content that comes from postconsumer waste.

**Small timber harvesters** are those timber harvesters who extract or extract for others two million board feet or less of timber for sale or for commercial or industrial use.

**Timber** means forest trees, standing or down, on privately or publicly-owned land. It does not include Christmas trees that are cultivated by agricultural methods or short-rotation hardwoods.

**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 bio-composite 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
- bio-composite surface products