

SPECIAL NOTICE

May 22, 2006

For further information contact:

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Timber Activities - Reduced Business and Occupation Tax Rate

This special notice provides an overview of the new business and occupation (B&O) tax rate for timber harvesting and certain manufacturing/processing activities. The changes are contained in SSB 6874, Chapter 300, Laws of 2006, effective July 1, 2006.

This law does not affect persons who are eligible for the B&O tax exemption for small harvesters. See section on small timber harvesters.

B&O Tax Rate Reduction

Effective July 1, 2006, the B&O tax rate is reduced for the following activities:

- Extracting timber or extracting timber for-hire;
- Manufacturing or processing timber into timber products or wood products;
- Manufacturing or processing 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; and
 - wood products manufactured by the seller from timber or timber products.

Timber products are:

- Logs, wood chips, saw dust, wood waste, and similar products obtained wholly from the processing of timber
- Pulp
- Recycled paper products

Wood products are:

- Paper and paper products
- Dimensional lumber
- Engineered wood products such as particle board, oriented strand board, medium density fiber board, and plywood
- Wood doors
- Wood windows

The reduced B&O tax rate will be phased in as follows:

<u>Rate</u>	<u>Time Period</u>
0.004235	July 1, 2006 to June 30, 2007
0.002904	July 1, 2007 to July 1, 2024

The reduced tax rate expires on July 1, 2024.

Electronic Filing and Annual Survey Required

Taxpayers reporting under the reduced tax rate must file all tax returns and the annual survey using our E-file system. An annual survey must be completed by March 31 of each year following the year in which you take advantage of the reduced tax rate. If you do not file your tax returns and 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.

Once you use our E-file system to file your excise tax returns, we will notify you electronically that you **must** E-file the annual survey each calendar year that you take advantage of the reduced tax rate.

B&O Tax Surcharge

Businesses reporting under the reduced B&O tax rate are also subject to a surcharge of .00052, effective July 1, 2007. The surcharge funds activities for improving and protecting banks of a 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 electronic reminders to businesses that file their tax returns via E-file about the surcharge in June 2007, as well as when the surcharge will be suspended, adjusted, or reinstated.

Multiple Activities Tax Credit (MATC)

Businesses that engage in any combination of activities listed above as qualifying for the reduced B&O tax rate remain eligible for the Multiple Activities Tax 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. Beginning July 2007, the MATC will include the B&O tax surcharge rate.

B&O Exemption for Small Harvesters Continues

Small timber harvesters are exempt of B&O tax. A small timber harvester is a person who within a calendar year:

- Extracts or extracts for others less than two million board feet of timber for sale or for commercial or industrial use; and
- Receives gross income from such sales of extracted timber of less than \$100,000 per year.

Small harvesters must register with the Department's Forest Tax Section even if they qualify for the B&O exemption for small harvesters.

To inquire about the availability of this document in an alternate format for the visually impaired, please call (360) 705-6715. Teletype (TTY) users please call 1-800-451-7985.