



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

JUNE 18, 2007

Timber Activities - Reduced Business and Occupation Tax Rates

Revised June 18, 2007 - Originally Issued May 31, 2007

This special notice provides information about SHB 1513 which extends the preferential rate for timber harvesting and certain manufacturing/ processing activities to include certain sales of standing timber and changes certain definitions for this program. SHB 1513, Chapter 48, Laws of 2007, is effective July 1, 2007 and expires on July 1, 2024.

B&O Tax Rate Reduction

Effective July 1, 2007 the following activities are subject to the B&O tax rate of .002904.

- **Sales of standing timber (that must be severed 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 no longer 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; and
 - wood products manufactured by the seller from timber or timber products.

Preferential Rate Limited to Certain Manufacturing/Processing For Hire Activities:

This preferential rate only applies to the manufacturing and processing for hire of timber or timber products into other timber products or 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.

Definitions:

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

"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.

Timber products include:

- Logs, wood chips, sawdust, wood waste, and similar products obtained wholly from the processing of timber, short rotation hardwoods or both; and
- Pulp, including market pulp and pulp derived from recovered paper or paper products.

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Wood products include:

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

“Paper and paper Products” means products made of interwoven cellulosic fibers held together largely by hydrogen bonding. Paper and paper products includes newsprint; office, printing, fine and pressure-sensitive papers; paper napkins, towels, and toilet tissue; kraft bag, construction and other kraft industrial papers; paperboard, liquid packaging containers, containerboard, corrugated and solid-fiber containers including linerboard and corrugated, and solid fiber containers including linerboard and corrugated medium; and related types of cellulosic materials. Paper and paper products does not include books, newspapers, magazines, periodicals, and other printed publications, advertising materials, calendars, and similar types of printed materials.

Small Timber Harvesters:

Are those timber harvesters who extract or extract for others less than less than two million board feet of timber for sale or for commercial or industrial use.

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 March 31 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.

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

B&O Tax Surcharge

Businesses reporting under the reduced B&O tax rate are also subject to a surcharge of 0.052 percent, effective July 1, 2007. 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 electronic reminders to businesses that filed their tax returns via E-file about the surcharge in June 2007, as well as when the surcharge will be suspended, adjusted or reinstated.

As with the reduced B&O tax rates, the surcharge expires July 1, 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 harvester 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 one hundred thousand dollars per tax year from their gross receipts or value of products proceeding or accruing from timber harvested. Amounts above the one hundred thousand 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.