



# Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

JUNE 24, 2009

## Tax Incentives for Generation of Electricity from Renewable Resources

Effective July 1, 2009, Engrossed Substitute Senate Bill 6170 Part I (Chapter 469, Laws of 2009) provides retail sales and use tax exemptions as incentives for the generation of electricity from renewable energy resources.

One exemption program applies to purchases and installation of machinery and equipment for use in facilities capable of generating **no more than ten kilowatts of electricity using solar energy**. There is no minimum amount of electricity that must be generated.

The other exemption program applies to purchases and installation of machinery and equipment for use in facilities capable of generating **at least one kilowatt of electricity using various forms of renewable energy**, including solar energy. This program begins as a sales tax exemption, but after two years becomes a partial exemption in the form of a refund program administered by the Department of Revenue. This exemption program replaces the expiring sales and use tax exemptions on purchases of machinery and equipment for use in facilities capable of generating at least 200 watts of electricity using certain renewable energy sources. RCW 82.08.02567 and 82.12.02567 expire June 30, 2009.

Program Overlap: Both programs apply to the purchase of machinery and equipment for use in generating at least one kilowatt but no more than 10 kilowatts of electricity using solar energy. We recommend systems that qualify for both programs use the sales tax exemption for facilities that generate no more than 10 kilowatts as described below.

Both programs expire on June 30, 2013.

### Solar Energy Facility Generating Not More Than 10 Kilowatts of Electricity

Sales and use tax exemptions apply to charges for purchasing and installing machinery and equipment that will be used directly to generate electricity using solar power in a facility that generates not more than ten kilowatts of electricity based on the nameplate rating of the equipment.

“Machinery and equipment” means industrial fixtures, devices, and support facilities that are integral and necessary to the generation of electricity using solar energy.

“Machinery and equipment” does not include:

- Hand-powered tools
- Property with a useful life of less than one year
- Repair parts required to restore machinery and equipment to normal working order
- Replacement parts that do not increase productivity, improve efficiency, or extend the useful life of machinery and equipment
- Buildings
- Building fixtures that are not integral and necessary to the generation of electricity that are permanently affixed to and become a physical part of a building

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## **Used Directly**

Machinery and equipment is “used directly” in generating electricity with solar energy if it provides any part of the process that captures the energy of the sun, converts that energy to electricity, and stores, transforms, or transmits that electricity for entry into or operation in parallel with electric transmission and distribution systems.

Examples of qualifying machinery and equipment:

Where solar energy is the principal source of power: Solar modules; power conditioning equipment; batteries; transformers; power poles; power lines; and connectors to the utility grid system or point of use.

## **Claiming the Sales/Use Tax Exemption**

To claim the sales tax exemption, the buyer must give the seller a properly completed *Buyer's Retail Sales Tax Exemption Certificate*. The form is available on our web site under “Get a form or publication.” The seller must keep this document with their business records for five years from the date the sale occurs.

## **Renewable Energy Facility Generating Not Less Than One Kilowatt of Electricity**

Separate sales and use tax exemptions apply to purchases of and charges for installing machinery and equipment that will be used directly to generate electricity using fuel cells, sun, wind, biomass energy, tidal and wave energy, geothermal resources, anaerobic digestion, technology that converts otherwise lost energy from exhaust, or landfill gas in a facility that generates not less than one kilowatt of electricity based on the nameplate of the equipment.

## **Exemption Amount**

- From July 1, 2009 through June 30, 2011 the exemption is equal to 100 percent of the total sales or use tax due when the sale occurs.
- From July 1, 2011, through June 30, 2013, the exemption is a partial exemption in the form of a refund from the Department of Revenue for 75 percent of total sales or use tax paid to the seller when the sale occurs.

The exemptions expire June 30, 2013.

## **Definitions**

“Biomass energy” includes:

- Byproducts of pulping and wood manufacturing process
- Animal waste
- Solid organic fuels from wood
- Forest or field residues
- Wooden demolition or construction debris
- Food waste
- Liquors derived from algae and other sources
- Dedicated energy crops
- Biosolids
- Yard waste

“Biomass energy” excludes:

- Wood treated with chemical preservatives such as creosote, pentachlorophenol, or copper-chrome-arsenic
- Wood from old growth forests
- Municipal solid waste

“Fuel cell” means an electrochemical reaction that generates electricity by combining atoms of hydrogen and oxygen in the presence of a catalyst.

“Landfill gas” means biomass fuel, of the type qualified for federal tax credits under Title 26 U.S.C. Sec. 29 of the federal internal revenue code, collected from a “landfill” as defined under RCW 36 70.95.030.

“Machinery and equipment” means fixtures, devices, and support facilities that are integral and necessary to the generation of electricity using fuel cells, wind, sun, biomass energy, tidal or wave energy, geothermal

resources, anaerobic digestion, technology that converts otherwise lost energy from exhaust, or landfill gas as the principal source of power.

“Machinery and equipment” does not include:

- Hand-powered tools
- Property with a useful life of less than one year
- Repair parts required to restore machinery and equipment to normal working order replacement parts that do not increase productivity, improve efficiency, or extend the useful life of machinery and equipment
- Buildings
- Building fixtures that are not integral and necessary to the generation of electricity that are permanently affixed to and become a physical part of a building

### **Used Directly**

Machinery and equipment is “used directly” in generating electricity by wind energy, solar energy, biomass energy, tidal or wave energy, geothermal resources, anaerobic digestion, technology that converts otherwise lost energy from exhaust, or landfill gas power if it provides any part of the process that captures the energy of the wind, sun, biomass energy, tidal or wave energy, geothermal resources, anaerobic digestion, technology that converts otherwise lost energy from exhaust, or landfill gas, converts that energy to electricity, and stores, transforms, or transmits that electricity for entry into or operation in parallel with electric transmission and distribution systems.

Machinery and equipment is “used directly” in generating electricity by fuel cells if it provides any part of the process that captures the energy of the fuel, converts that energy to electricity, and stores, transforms, or transmits that electricity for entry into or operation in parallel with electric transmission and distribution systems.

Examples of Qualifying Machinery and Equipment:

- Where wind is the principal source of power: Turbines; blades; generators; towers and tower pads; substations; guy wires and ground stays; power conditioning equipment; anemometers; recording meters; transmitters; power poles; power lines; and connectors to the utility grid system or point of use.
- Where landfill gas is the principal source of power: Turbines; blades; blowers; burners; heat exchangers; generators; towers and tower pads; substations; guy wires and ground stays; pipe; valves; power conditioning equipment; pressure control equipment; recording meters; transmitters; power poles; power lines; and connectors to the utility grid system or point of use.
- Where fuel cells are the principal source of power: Fuel cell assemblies; fuel storage and delivery systems; power inverters; transmitters; transformers; power poles; power lines; and connectors to the utility grid system or point of use.

### **Claiming the Sales/Use Tax Exemption**

From July 1, 2009 through June 30, 2011:

- To purchase the machinery/equipment and installation labor exempt from sales tax, the buyer must provide the seller or installer with a properly completed Buyer’s Retail Sales Tax Exemption Certificate.
- The seller must maintain the documentation in his/her records for five years.

From July 1, 2011 through June 30, 2013:

- The buyer must pay the sales tax due on the purchase of machinery/equipment and installation labor to the seller,
- The buyer may then apply to the Department of Revenue for a refund of 75 percent of the total sales tax paid. The Department will provide additional information about the refund process prior to July 1, 2011.

### **Where can I get more information?**

For more information, contact the Department’s Telephone Information Center at 1-800-647-7706.