

# **Understanding the Extracted Fuel Use Tax Exemption**

Washington State Senate

Energy, Environment & Telecommunications Committee

January 15, 2014

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# What is the exemption?

“Fuel consumed by manufacturers or extractors is exempt from use tax when the fuel is used in the process of manufacturing or extracting at the same plant.”

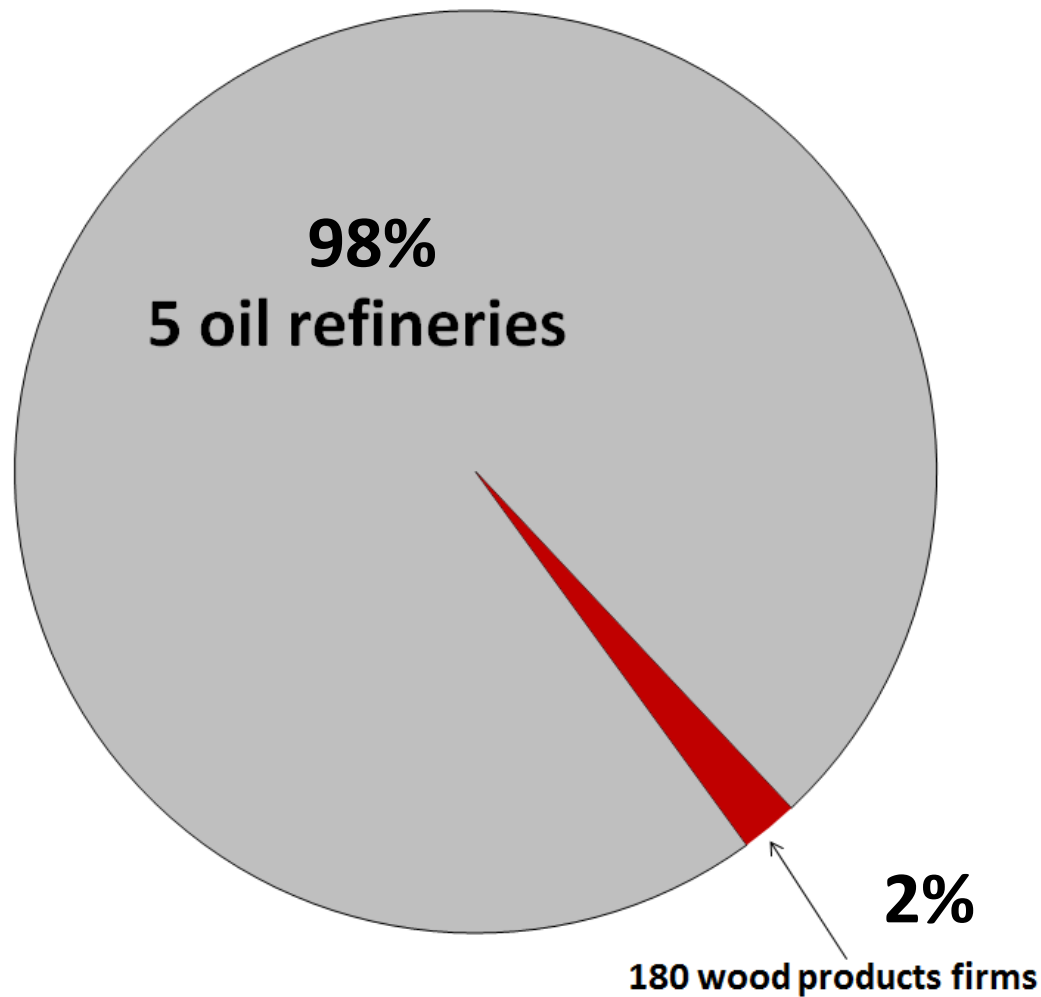
Source: Washington Department of Revenue, “2012 Tax Exemption Study,” 82.12.0263

# What is the exemption?

- It was created in 1949.
- The benefit was apparently intended for sawmills and other wood products manufacturers.
- Washington's first oil refinery was built in 1954.
- The state's biggest refinery (BP at Cherry Point) was not built until 1971.

Source: The Joint Legislative Audit and Review Committee (JLARC), 2011 Tax Preference Performance Reviews

# Where does the money go?



Source: The Joint Legislative Audit and Review Committee (JLARC), 2011 Tax Preference Performance Reviews

# What does JLARC say?

**“It is not clear why the legislature carved out a specific preference for fuel produced and used by the extractor/manufacturer that produced it.”**

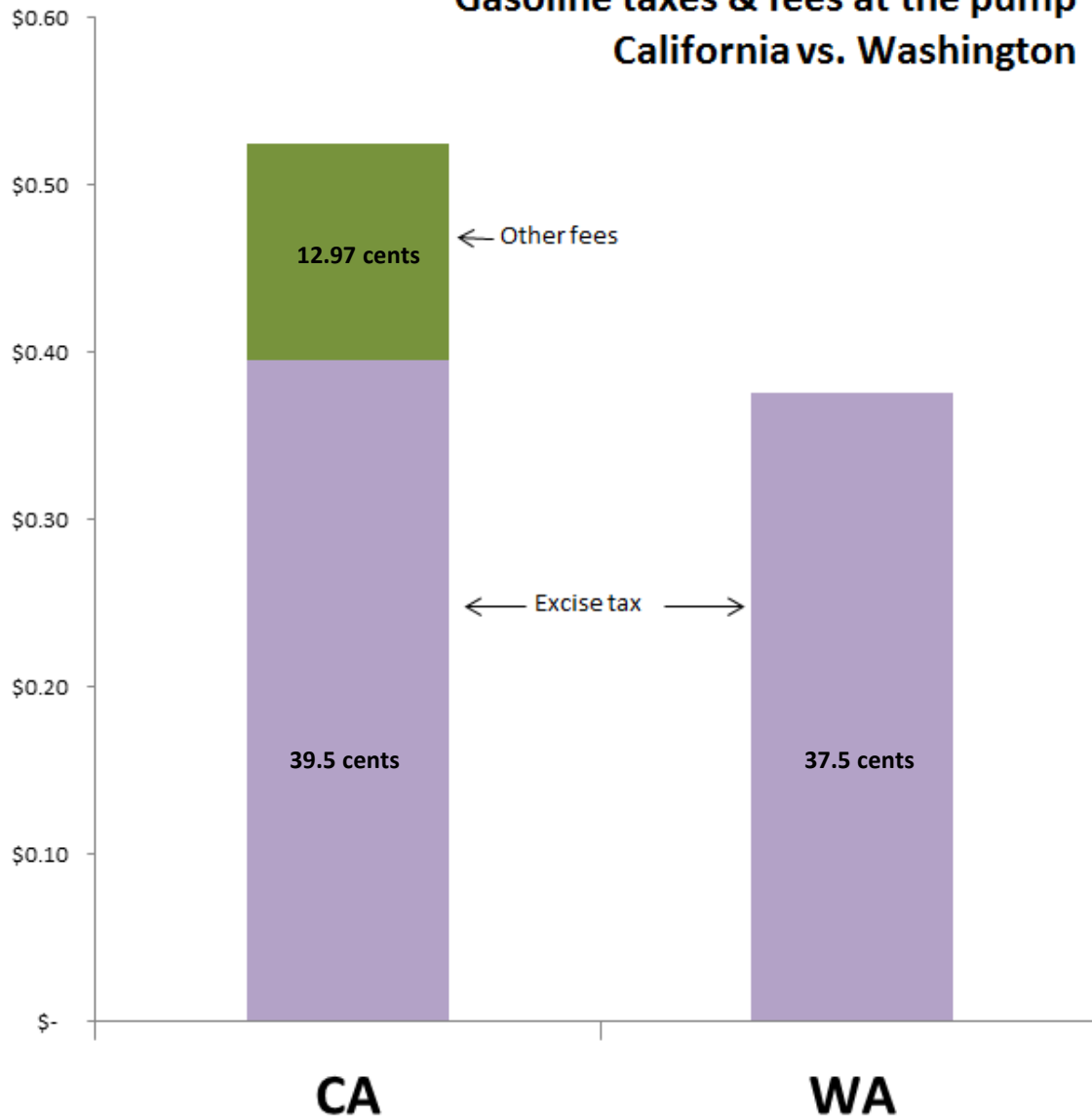
“Because the public policy objective is unclear, it is difficult to determine whether the preference is achieving any intended objective.”

Source: The Joint Legislative Audit and Review Committee (JLARC), 2011 Tax Preference Performance Reviews

# What do other states do?

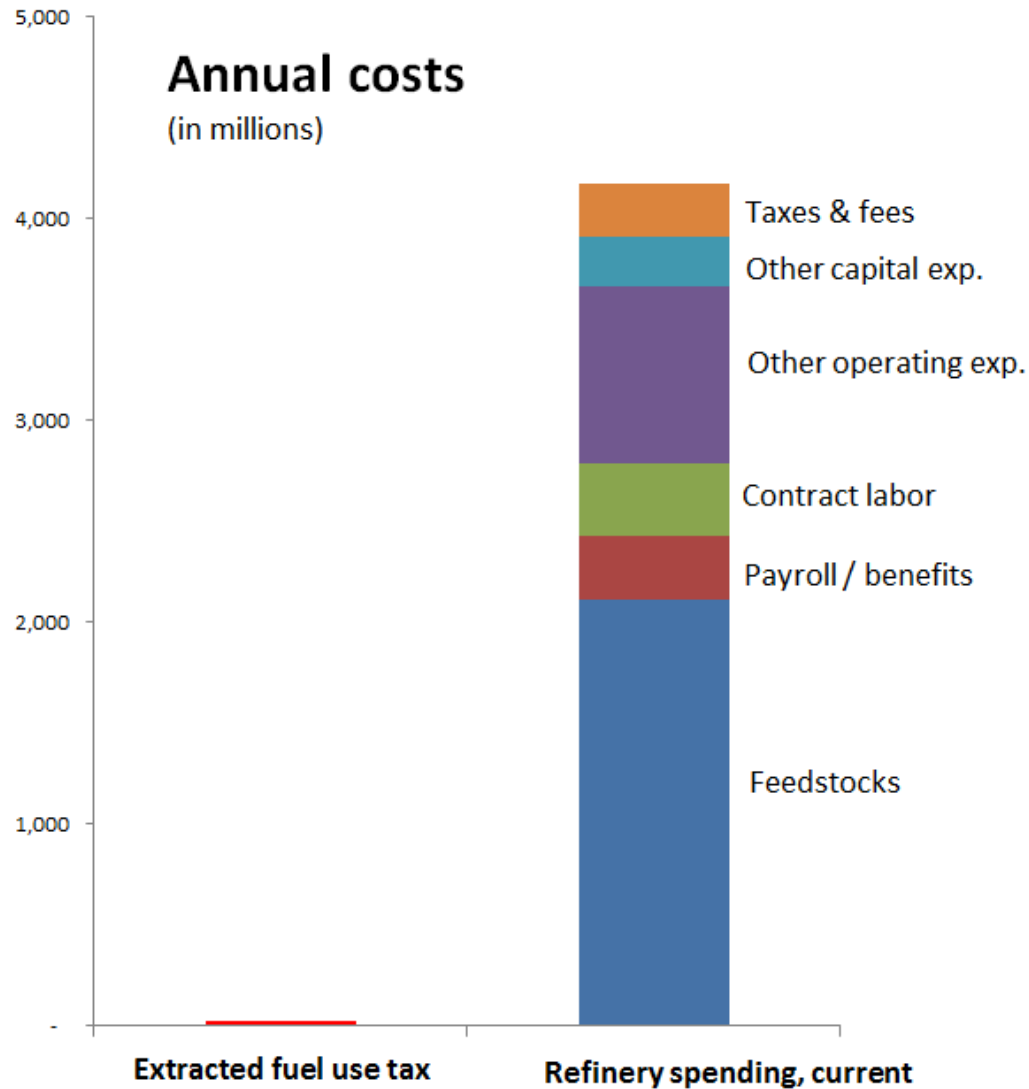
“There are 45 states and the District of Columbia that impose a use tax. **JLARC found only one other state that provides a specific exemption for fuel used by the plant that manufactured it.** Alabama allows a use tax exemption for fuel that is generated by a petroleum-refining process and that is subsequently used to refine petroleum products or generate heat.”

## Gasoline taxes & fees at the pump California vs. Washington



Source: American Petroleum Institute, motor fuel taxes, January 2014

# Would the tax bankrupt refiners?



Source: Washington Research Council report provided to Washington State Senate, Energy Environment and Telecommunications Committee, April 17, 2013.



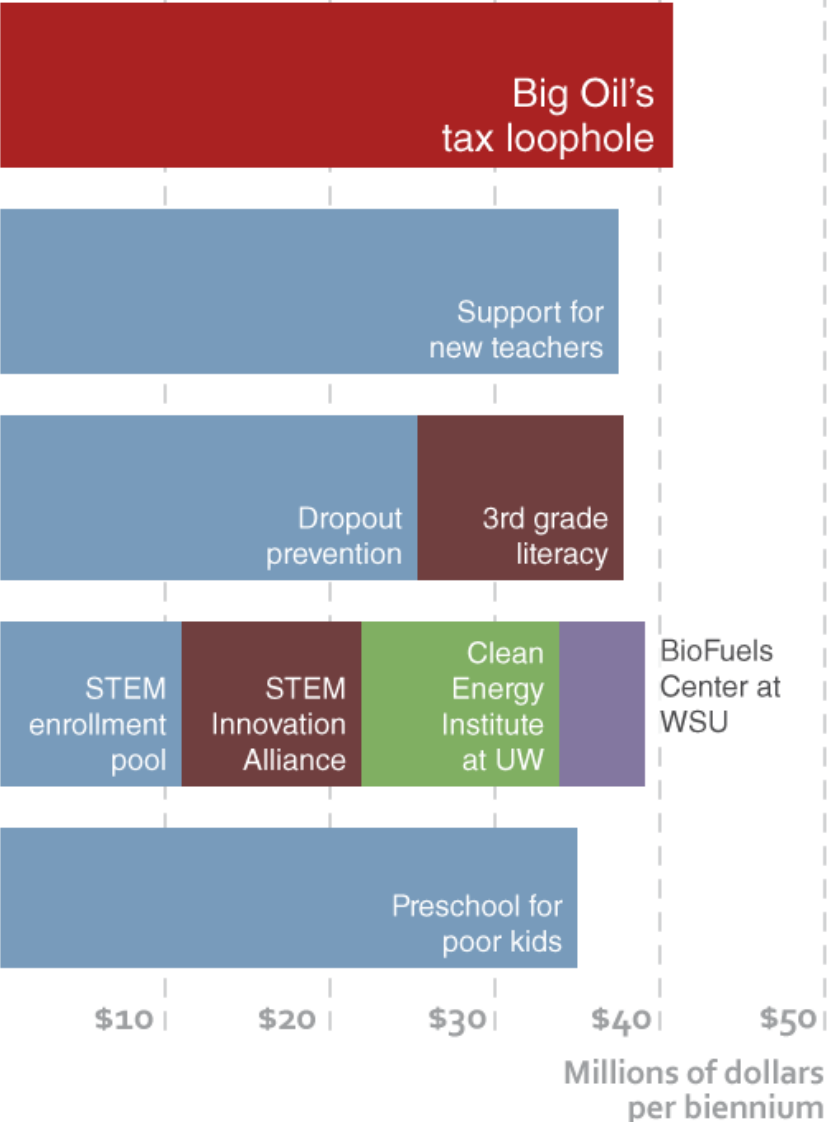
# What does the state Supreme Court say?

“The need for immediate action could not be more apparent...

**...it is incumbent upon the state to demonstrate, through immediate, concrete action, that it is making real and measurable progress, not simply promises. ...**

Toward that end, it is hereby ordered: the State shall submit, no later than April 30, 2014, a complete plan for fully implementing its program of basic education...”

# Closing Big Oil's tax loophole: what could it do for our kids?



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