

# Repeal use tax exemption for extracted fuel, except hog fuel

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**Description** This proposal would limit the use tax exemption for fuel produced by the extractor or manufacturer when the fuel is directly used in the same extracting or manufacturing operation that produced the fuel. Only wood byproducts, also referred to as “hog fuel,” would be eligible for the exemption.

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**Current Law** 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.

- The fuels for which the exemption applies are generally wood byproducts, also referred to as “hog fuel,” and refinery fuel.
- Approximately 180 wood product manufacturers and five petroleum products refineries are eligible for the exemption.
- In its preliminary 2011 Tax Preference Review Report, the Joint Legislative Audit and Review Committee notes that while no refineries existed in the state when the exemption was enacted in 1949, refinery fuels account for approximately 98 percent of the estimated value of the exemption.

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**Original Purpose and Current Analysis** To support certain manufacturing and extracting industries.

However, the biggest beneficiaries of this exemption are oil refineries that did not exist when this statute was originally enacted. Other industries pay tax when they use materials that they manufacture themselves.

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**Citizen Commission Recommendation** The Citizen Commission recommended that the Legislature review and clarify this preference because the public policy objective and intended beneficiaries are not clear.

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**Revenue Impact** General Fund Impacts (\$ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
5	\$24.3	\$26.8	\$51.1	\$27.1	\$27.3	\$54.4

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
  - *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*
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