

DEPARTMENT OF TAXATION

2015 Fiscal Impact Statement

1. **Patron** C. Matthew Fariss

3. **Committee** Passed House and Senate

4. **Title** Forest Products Tax

2. **Bill Number** HB 1724

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would revise the Forest Products Tax by shifting the imposition of the tax to the first manufacturer using, consuming, processing, or storing the forest product for sale or shipment out of state. A manufacturer would be defined as any person that for commercial purposes at a fixed place of business i) processes forest products into various sizes and forms, including chips; ii) processes forest products into other products; iii) uses or consumes forest products; or iv) stores forest products for sale or shipment out of state. The bill would convert the rate of tax for chips and mulch to a cents per ton rate for loads consisting of pine and loads consisting of other species. The bill also would impose the Forest Products Tax on loads of chips and mulch consisting of both pine and other species, including products such as biomass chips and fuel chips, at the rate of \$0.10 per ton.

Generally, the forest products tax is payable by every person engaged in business in Virginia as a manufacturer or shipper of forest products for sale, profit, or commercial use. This currently includes businesses processing forest products from mobile locations such as loggers and chippers. In addition, the tax applies to the severance of timber and other forest products from Virginia soil, including land owned by the Commonwealth of Virginia or by the United States within the geographical confines of Virginia, where the forest products severed enter commercial channels of trade for competitive markets. The tax does not apply to forest products severed from soil outside Virginia.

The effective date of this bill is not specified.

This is a Department of Forestry Bill.

6. **Budget amendment necessary:** No.

7. **No Fiscal Impact.** (See Line 8.)

8. Fiscal implications:

Administrative Costs

The Department of Taxation considers implementation of this bill as routine, and does not require additional funding.

The Department of Forestry considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would have no impact on state or local revenues. The bill would provide a rate for loads of chips and mulch consisting of both pine and other species. The Department understands that industry data was used to calculate the rate and that it is intended to be revenue neutral. The new mixed rate would be used instead of requiring taxpayers to determine the ratio of pine and other species in each load in order to calculate the amount of tax due. The bill also would shift the imposition of the tax to taxpayers operating from fixed places of manufacturing in order to reflect the current industry practice.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Forestry

10. Technical amendment necessary: No.

11. Other comments:

Forest Products Tax

Generally, the forest products tax is payable by every person engaged in business in Virginia as a manufacturer or shipper of forest products for sale, profit, or commercial use. This currently includes businesses processing forest products from mobile locations such as loggers and chippers. In addition, the tax applies to the severance of timber and other forest products from Virginia soil, including land owned by the Commonwealth of Virginia or by the United States within the geographical confines of Virginia, where the forest products severed enter commercial channels of trade for competitive markets. The tax does not apply to forest products severed from soil outside Virginia.

The Forest Products Tax revenues are dedicated to the protection and development of forest resources and the reforestation of timberlands. If for any biennium the General Assembly fails to appropriate General Fund revenues for the reforestation of timberland activity a sum which equals or exceeds the amount of Forest Products Tax revenues collected in the immediately preceding two years, the Forest Products Tax would be imposed at a lower alternative rate.

Historically, mills and other large businesses were responsible for the tax. However, in recent years, more timber is being chipped or otherwise processed in the forests by logging companies before it is transferred to manufacturers for use or further processing. These changes in business practices have resulted in more businesses processing forest products from mobile locations becoming subject to the tax.

Generally, loads of chip and mulch are comprised of debris left after logging and consist of both pine and other species. Taxpayers find it difficult to determine the exact ratio of pine and other species in each load. This bill would provide a rate for loads of chips and mulch consisting of both pine and other species in order to ease this administrative burden.

This bill would shift the imposition of the Forest Products Tax to the commercial taxpayers operating from fixed place of businesses from processors operating in the woods in order to reflect current industry practices and enable taxpayers to more easily comply with the law.

Proposal

This bill would revise the Forest Products Tax by shifting the imposition of the tax to the first manufacturer using, consuming, processing, or storing the forest product for sale or shipment out of state. A manufacturer would be defined as any person that for commercial purposes at a fixed place of business i) processes forest products into various sizes and forms, including chips; ii) processes forest products into other products; iii) uses or consumes forest products; or iv) stores forest products for sale or shipment out of state. The bill also would impose the Forest Products Tax on loads of chips and mulch consisting of both pine and other species, including products such as biomass chips and fuel chips, at the rate of \$0.10 per ton with an alternative rate of \$0.03 per ton in the event that the General Assembly fails to appropriate General Fund revenues for the reforestation of timberland activity a sum which equals or exceeds the amount of Forest Products Tax revenues collected in the immediately preceding two years in any biennium. The bill would convert the rate of tax for chips and mulch to a cents per ton rate for loads consisting of pine and loads consisting of other species.

Manufacturers without nexus with the Commonwealth would be able register and pay the tax. If the manufacturer is registered for the tax, the manufacturer would be liable for the tax on taxable transactions. The manufacturer would not be liable for the Forest Products Tax if the tax was paid by the severer, shipper, or seller of the forest products and proper documentation is received. If there is no manufacturer, or the manufacturer is not registered for the tax, then the tax would be levied on the severer, shipper, or seller.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 3/16/2015 AM
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