

Washington State Slashes Taxes on Timber Industry

With the stroke of a pen on March 29, Washington Gov. Chris Gregoire reduced taxes on forestland owners, timber harvesters, and wood products and paper manufacturers by nearly \$56.5 million over the next 5 years. The bill she signed, introduced in January by State Sen. Mark Doumit (D), cuts the state's business and occupation (B&O) tax on forest products companies by 12.5 percent in fiscal year 2007 and by 40 percent through 2024.

"This is a very significant assist to most segments of the forest industry in Washington. In our case, it's particularly helpful to our pulp and paper operations," said Curt R. Copenhagen, director of public affairs for Longview Fibre Company. "Of course, it helps with other types of manufacturing—container plants, lumber, and other wood products. It also helps private timberland owners. To say the least, we're very appreciative of Governor Gregoire's signing of the bill."

The legislation, Senate Bill 6874, was passed by large, bipartisan majorities in both houses of the Washington legislature: 93 to 5 in the House and 40 to 5 in the Senate.

Copenhagen said the lower tax burden would help Longview Fibre and other companies compete in the global marketplace.

"We must compete globally. In recent years, new paper-manufacturing operations have opened in China, Indonesia, and Latin America. They have lower costs for fiber, environmental protection, energy, and labor. This [tax relief] bill will help us compete with those countries," said Copenhagen.

Longview Fibre manages about 585,000 acres of softwood timberlands, including 240,000 acres in Washington, and has several manufacturing facilities in Washington as well as in other states. (The company is in the process of converting its timberland holding to a real estate investment trust. In December, Obsidian Finance Group LLC and The Campbell Group LLC made an unsolicited offer to purchase the company; as of mid-April, Longview's Board of Directors was considering the proposal.)

Washington is among a minority of states that do not have an income tax. Instead, it relies primarily on sales and property taxes, as well as on the B&O tax, a real-



In Washington state, a bill recently signed into law will reduce taxes on forestland owners, timber harvesters, and wood products and paper manufacturers by nearly \$56.5 million over the next 5 years.

estate excise tax, and other taxes. In place of a property tax on timberland, the state assesses a 5 percent excise tax on the stumpage value of timber when it is harvested.

The B&O tax is calculated on gross business income. There are no deductions for labor, materials, or other costs of doing business. Through fiscal year 2006, the B&O tax rate on forest products companies is 0.484 percent; the new law sets the rate at 0.4235 percent in 2007 and at 0.2904 percent thereafter.

SB 6874 also creates a new Forest and Fish Support Account and imposes a surcharge on forest products companies' gross income of 0.052 percent to fund the account. The state may collect a maximum of \$8 million per year, after which the surcharge is suspended. Funds in the account are to be used for implementing the goals of a habitat conservation plan for all private forest land in Washington, which is intended to protect fish habitat and water quality.

Since 2004, Washington has extended similar B&O tax reductions to high-technology and aerospace companies, aluminum smelters, and firms engaged in rural development. The measures have saved aircraft manufacturer Boeing an estimated \$3.2 billion.

Ed Orcutt, a consulting forester based in Kalama, who also is a Republican state congressman from southwest Washington, was a cosponsor of the House version

of the bill. He said that the tax relief will help save “family-wage” jobs throughout the state. Washington pulp and paper industry jobs pay an average annual wage of about \$60,000, he said, while jobs in the high-tech sector pay \$50,000.

The forest products sector represents the third largest industry in Washington, behind aerospace and agriculture.

“There are a couple of reasons to give businesses tax breaks. One is to encourage businesses to expand or relocate to your area, and the other is to protect industries from dying,” he said. “We need to help forest products businesses be competitive in a global marketplace. There are some very heavy competitive pressures on these companies, especially in pulp and paper, and rising energy costs have also hit them hard,” Orcutt said.

Nonetheless, Orcutt wonders about the long-term viability of forest products manufacturing in Washington in the face of increasing competition.

“We’re always going to have a timber industry in this state, because of the quality of the timber-growing ground that we have here,” he said. “And there will be opportunities for exports, although that market has tightened over the last few years. But the big question is, To what extent will we have the ability to manufacture those products in the US and here in Washington?”