BROKERED NATURAL GAS USE TAX
RCWs 82.12.022 and 82.14.230

Tax Base
Natural or manufactured gas that is consumed within the state, if the supplier was not subject to the state public utility tax. The tax is paid by the in-state user and is measured by the value of the gas when delivered to the customer. It excludes costs of transportation if such costs were subject to the public utility tax; otherwise the tax includes charges for transportation of the gas to the customer.

Tax Rate

State: 3.852 percent (the rate must be the same as the gas distribution rate under the state public utility tax).

Cities: maximum of 6 percent (the rate must be the same as the city applies to natural gas businesses under the municipal utility tax).

Levied by

State   -   RCW 82.12.022

Cities   -   RCW 82.14.230

Administration
Department of Revenue for the state tax. Cities contract with the Department for collection of the local utility taxes. Both state and local taxes are reported on an addendum to the Combined Excise Tax Return.

Recent Collections ($000)   STATE TAX

Fiscal Year	Collections	% Change	% of All State Taxes
2009	$46,730	13.5%	0.3%
2008	41,154	15.9	0.2
2007	35,506	(11.6)	0.2
2006	40,158	35.0	0.3
2005	29,745	23.0	0.2
2004	24,178	0.8	0.2
2003	23,977	(7.1)	0.2
2002	25,811	(15.8)	0.2
2001	30,669	106.7	0.3
2000	14,835	14.4	0.1

Recent Collections ($000)   CITY TAXES (currently 51 cities)

Fiscal Year	Collections	% Change
2009	$12,967	14.3%
2008	11,345	10.2
2007	10,293	(5.1)
2006	10,845	27.4
2005	8,510	28.7
2004	6,614	(10.3)
2003	7,370	60.1
2002	4,604	(31.7)
2001	6,737	63.2
2000	4,128	25.4

Distribution of Receipts   State tax   -   general fund

City tax   -   used for general purposes

Exemptions, Deductions and Credits

- natural gas that is subject to state or municipal utility tax is exempt from use tax.
- credit is provided for any taxes similar to the state or local public utility taxes or state or local "use" taxes paid in other states on the same natural/manufactured gas.
- deferral of the tax is allowed for direct service industries (DSIs) that purchase electric power from the Bonneville Power Administration if they construct and operate gas fired generating facilities. If the firm maintains previous employment levels, the deferred tax need not be repaid.
- natural or manufactured gas used in aluminum smelters, until January 1, 2012.

History

The state and municipal taxes on brokered natural or manufactured gas were adopted by the Legislature in 1989; the effective date of the taxes was July 1, 1990.

Discussion/Major Issues

The need for these taxes was a result of federal deregulation of the natural gas industry. Increasingly, large industrial and institutional users of gas have been able to make purchases of gas from sellers in other states through brokers; this enables large purchasers to take advantage of differentials on the spot market for natural gas. Although the gas may be delivered through the pipeline of a local gas company, the transaction is considered to take

place out of state. Some utilities had been reporting retail sales tax on such sales and some purchasers had reported use tax, but there was confusion about the tax liability of such transactions until the Legislature enacted the 1989 statute.

There are currently 274 taxpayers that report use tax on natural/manufactured gas. The Department currently administers the municipal use tax on natural/manufactured gas for 46 cities, although not every one of them receives revenues each year depending upon when the taxable transactions occur.