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This Week in State Tax (TWIST)



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Washington: Sustainable aviation fuel credit reaches production capacity milestone; becomes effective in 2027.

Washington Governor Bob Ferguson recently announced that the state had reached the threshold of producing 20 million gallons of sustainable aviation fuel (SAF) annually. Per legislation enacted in 2023, reaching the threshold activates implementation of a Business and Occupation (B&O) tax credit for the production of SAF. The credit is structured as a tiered incentive tied directly to emissions performance. Producers earn a credit of $1 per gallon for SAF that achieves at least a 50 percent reduction in lifecycle greenhouse gas emissions relative to conventional jet fuel, with the credit increasing by 2 cents for each additional one percent reduction in greenhouse gas emissions, not to exceed $2 per gallon of SAF. To qualify, production must occur in a county with less than 650,000 population or the claimant must be a designated SAF blender located in the state. In addition, a claimant must be certified as not operating on a historic cemetery or tribal burial ground; it must also file an "annual tax performance report" providing a range of information about the taxpayer, its business, and its use of various tax preferences with the Department of Revenue. Unused credit amounts may be carried forward for only one calendar year and are not refundable.

A similar B&O credit is available for the use of SAF, provided the SAF is used on flights departing Washington; the credit for the use of SAF is available for use against the Public Utility Tax as well as the B&O tax. The credit for the use of SAF cannot be claimed in combination with the B&O credit taken for SAF production for the same fuel. Finally, the manufacture and wholesaling of SAF will be subject to a preferential B&O tax rate of .275 percent for a ten-year period.

SAF producers may also be eligible for the Internal Revenue Code section 45Z clean transportation fuel producer tax credit, and may generate other benefits through non-tax programs such as the Environmental Protection Agency Renewable Fuel Standards program.

Contact Michele Baisler with questions about Washington's sustainable aviation fuel tax credit or 2023 ESSB 5447 establishing the credits. You may also contact Rachel Smith with questions regarding federal incentives for SAF.

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