

Special Notice

Intended audience: Buyers and sellers of carbon credits, offset credits, and allowances.

Jan. 16, 2024

Revised Jan. 26, 2024

Note: The department is aware of legislation ([HB 2199](#)) pending in the 2024 session, that proposes to exempt amounts earned for credits or allowances under Chapter 70A.65 RCW from both business and occupation (B&O) and public utility tax (PUT). If HB 2199 is enacted, it would change the instructions provided in this special notice. However, even if HB 2199 is enacted, the department is constitutionally prohibited from granting a refund of taxes paid **before** the new legislation takes effect. We encourage you to contact our Taxpayer Information & Education team to [request a ruling](#) before you report any amounts earned for credits or allowances prior to the new legislation taking effect.

Carbon cap and trade programs

Effective Jan. 1, 2023, there are two new programs related to reducing carbon dioxide and other greenhouse gas emissions.

- E3SHB 1091 relates to reducing greenhouse gas emissions by reducing the carbon intensity of transportation fuels.
- E2SSB 5126 relates to the Washington climate commitment act and reducing greenhouse gas emissions.

How does this impact me?

Income earned from selling, transferring, trading, or retirement of carbon credits, carbon offsets, and allowances is taxable under the Service and Other Activities business and occupation (B&O) tax classification.

Are there any deductions?

Yes, amounts earned from the generation, purchase, sale, transfer, or retirement of transportation fuel carbon credits are exempt from B&O tax and may be deducted. You will use the “other”

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deduction with the description “transportation fuel carbon credits”.

More information

[Chapter 70A.535 RCW](#) Transportation fuel - Clean fuels program

[Chapter 70A.65 RCW](#) Greenhouse gas emissions - Cap and invest program

[RCW 82.04.775](#) Amounts received under chapter 70A.535 RCW

[Engrossed Third Substitute House Bill 1091](#)

[Engrossed Second Substitute Senate Bill 5126](#)

Questions?

For questions about the carbon cap and trade programs, credits, or allowances please contact the [Department of Ecology](#).

For questions about the taxability of the credits, please call 360-705-6705.