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Jan. 15, 2013

California's new 1 percent lumber tax has cost lumberyards and hardware stores thousands of dollars and turned business as usual on its head, raising the ire of retailers and contractors struggling to bounce back from the housing slump.

The state's new tax on wood purchases started appearing on receipts less than two weeks ago, but long before Jan. 1 the lumber tax posed a headache for retailers who say they can't make sense of the new law because it is full of contradictions, hidden costs and ambiguities. But Assembly Bill 1492 goes further than taxing a two-by-four — it's largely a victory for timber companies, which will no longer have to pay for timber harvesting permits by passing the cost on to customers.

The tax applies to lumber and products that are at least 10 percent wood, although the rules are murky and lumberyards have varied interpretations of what should and should not be taxed. Some haven't even started charging because they lack the technology.

"The state doesn't seem to care how challenging this would be for us," said Rick Roberts, owner of Sunnyvale Lumber.

"I was a little surprised that they picked on this industry — a tiny, little business like us, that hasn't made a profit in four years."

The state passed the bill last year in a last-minute rush that allowed for little public comment; with a two-thirds majority to pass the law, there was no need to put it to voters, and most customers and contractors didn't

know about the tax until Jan. 1.

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Ensure how to read the law, some store owners have decided to make their own rules. Brian Ettlin, general manager of Economy Lumber in Oakland, said he's calling around to ask other stores for advice.

"Everybody is going, 'Wait a minute, what are we going to tax here?' "

Ettlin said he's trying to answer that question without much help from the Board of Equalization, the state agency that collects the tax. The board hasn't offered as much guidance as store owners would like.

"It's hugely unorganized," said George Runner, a board member representing District 2. "I don't believe we know what is being taxed."

If retailers overcharge customers, they risk losing business — an unaffordable consequence for lumberyards that are just starting to recover after the collapse of the housing market and construction industry. But if they don't tax enough, store owners say they'll end up paying the state out of their own pockets.

Bay Area stores said they expect to collect anywhere from \$80 to \$120,000 in additional taxes per year — but it all depends how much the housing industry picks up.

The tax is projected to affect about 200,000 contractors and stores and raise about \$35 million to replenish the dry coffers of the state Department of Fish and Wildlife, Department of Conservation, Department of Forestry and Fire Protection and the State Water Resources Control Board, which all have a hand in regulating timber harvesting plans.

But to collect the tax, stores first had to upgrade their computer systems. The tax comes on top of the quarter-percent sales tax increase voters approved with Proposition 30, and appears on a separate line on the customer's receipt. The West

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The state will reimburse retailers \$250 for the computer upgrades, an offer stores have scoffed at. The Board of Equalization has requested \$995,000 from the state to cover the cost of collecting the tax and wants to hire four new employees.

Runner opposed the request and said the board shouldn't get reimbursed if stores are not: "It's not what the legislation intended."

But AB 1492 was also a score for the logging companies. It will eliminate the fee companies had to pay for harvesting permits — which can run about \$5,000 — by passing the bill to consumers through the new tax. Contractors who started projects before Jan. 1 won't be able to pass on the cost, but customers building new homes can expect a higher bill.

Shifting some of the cost to the consumer levels the playing field with out-of-state timber companies that don't pay the same fees, said Mark Pawlicki, spokesman for Sierra Pacific Industries. The law will save the state's largest lumber producer about \$250,000 a year.

Pawlicki said about 70 percent of the wood sold in California comes from out of state, and industry leaders hope eliminating the permit fee will give local companies an advantage.

But already his theory may be unraveling. In protest of the new law and the timber industry's lobbying that helped it pass, Eric Almquist, who owns Almquist Lumber in Arcata, said he stopped buying from Sierra Pacific — formerly a primary vendor.

"I am just so upset about this thing," he said. "They thought they were going to sneak this thing by. I have to vote with my feet."

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