Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1899

Brief Description: Extending the expiration date for the tax deduction for certain businesses impacted by the ban on American beef products.

Sponsors: Representatives Grant, Walsh, Linville, Hailey, Newhouse and Dunn.

Brief Summary of Bill

- Extends the business and occupation tax deduction for the slaughtering, breaking, processing, and wholesaling of perishable beef products for firms that slaughter cattle until December 31, 2012.

Hearing Date: 2/23/07

Staff: Rick Peterson (786-7150).

Background:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Although there are several different rates, the most common rates are 0.471 percent for retailing, 0.484 percent for wholesaling, and 1.5 percent for service activity. Businesses that are involved in more than one kind of business activity are required to segregate their income and report under the appropriate tax classification based on the nature of the specific activity.

The slaughtering, breaking, processing, and wholesaling of perishable meat products is taxable at a rate of 0.138 percent when the product is sold at wholesale only and not at retail.

On December 23, 2003, a Washington cow that had been imported from Canada tested positive for Bovine Spongiform Encephalopathy (BSE). On December 24, 2003, Japan, Mexico, the Republic of Korea, and many other nations banned imports of U.S. beef. Before these bans, over 80 percent of U.S. beef exports went to Japan, Mexico, and the Republic of Korea.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

In 2004, the Legislature adopted a B&O tax deduction for the slaughtering, breaking, processing, and wholesaling of perishable beef products for firms that slaughter cattle. The bill allowed the deduction until Japan, Mexico, and the Republic of Korea lift import bans on beef and beef products from the United States. In 2005, the Legislature placed an end date of December 31, 2007, on the deduction.

In 2006, the Legislature adopted EHB1069 which created a process to review tax preference. All preferences will be scheduled for review over a 10 year period. In addition, tax preferences scheduled for termination are scheduled in time for the Legislature to consider the review. A preliminary performance review of this deduction was made available by the Joint Legislative Audit and Review Committee on February 21, 2007. Findings of the preliminary performance review include:

Public Policy Objectives and Beneficiaries.

- The beneficiaries of the tax deduction were six beef processors in 2004 and 2005 and five beef processors in 2006. This tax deduction has contributed to the achievement of public policy objectives by providing temporary relief to beef processors when they slaughter their own cattle and sell their beef at wholesale.
- The Legislature did not require the beneficiaries to be exporters to foreign markets. Not all beef processors that claimed the tax deduction were registered by USDA exporters.
- Since one of the public policy objectives was to provide temporary relief to beef processors, continuing the beef processors' tax deduction beyond 2007 would not be consistent with this objective of the tax deduction.
- Businesses with beef slaughtering and processing activities are the companies claiming the tax deduction and there was no evidence of unintended benefits provided to businesses not targeted by the Legislature.
- JLARC was not able to quantify the impact of the tax deduction on business practices in Washington's beef industry for the time period in which the tax preference was in place.
- Trends in other economic indicators, like Washington commercial red meat production and U.S. wholesale prices for beef and Washington cattle prices, have increased back to the pre-foreign import beef ban levels.

Economic and Revenue Impacts.

- The past revenue impact from this tax deduction for beef processors was -$1.1 million for three quarters in 2004, -$1.6 million for all of 2005 and -$0.54 million for two quarters in 2006. The future revenue impact of this deduction is -$1.1 million each year.
- There will be very minimal negative statewide economic impact from having this tax preference eliminated in 2008 since the total tax loss from this tax preference is so small compared to Washington's Total General Fund state cash receipts of $27.4 billion in the 2005-07 Biennium.

Other States.

- No other U.S. states have enacted legislation to compensate beef processors for loss in revenue from import bans on beef.

The recommendation of the preliminary report is:

The Legislature should retain the current law expiration date of December 31, 2007, which means the tax preference will terminate at the end of 2007.

Summary of Bill:

The B&O tax deduction for the slaughtering, breaking, processing, and wholesaling of perishable beef products for firms that slaughter cattle ends December 31, 2012.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.