

HOUSE BILL REPORT

HB 1026

As Reported By House Committee On: Agriculture & Ecology

Title: An act relating to business and occupation tax on the cubing of hay or alfalfa for sale at wholesale.

Brief Description: Revising business and occupation tax on the cubing of hay or alfalfa for sale at wholesale.

Sponsors: Representatives Schoesler, Chandler, Sheahan, Sterk, Mastin, McMorris, Honeyford, Boldt, Mulliken, Bush, Smith, Mielke and Grant.

Brief History:

Committee Activity:

Agriculture & Ecology: 1/16/97, 1/27/97 [DPS].

HOUSE COMMITTEE ON AGRICULTURE & ECOLOGY

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Chandler, Chairman; Schoesler, Vice Chairman; Parlette, Vice Chairman; Linville, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; Cooper; Delvin; Koster; Mastin; Regala and Sump.

Staff: Kenneth Hirst (786-7105).

Background:

B & O Tax Rates.

The base Business and Occupation (B&O) tax rate on the business of manufacturing is equal to the value of the products manufactured multiplied by 0.484 percent. However, for manufacturing a number of agricultural commodities into products, the base B&O tax rate is less than the standard manufacturing rate. For example, the base rate for manufacturing wheat into flour and canola into canola oil is 0.011 percent.

The base B&O tax rate on the business of making sales at wholesale is equal to the gross proceeds of the sales multiplied by 0.484 percent. However, for wholesale

sales of a number of agricultural commodities purchased for sale at wholesale, the base B&O tax rate is equal to the gross proceeds of the sales multiplied by 0.011 percent. The B&O tax laws do not apply to farmers who sell agricultural products at wholesale. The exemption applies to a farmer engaged in growing or producing an agricultural product on the farmer's own lands or on the lands in which the farmer has a present right of possession. It does not apply to using agricultural products in a manufacturing process.

Taxes paid under these base B&O tax rates for manufacturing or sales at wholesale are increased by an additional tax that is equal to the base tax multiplied by 4.5 percent. This additional tax expires June 30, 1997.

Retail Sales Tax.

A sales tax is levied by the state on retail sales. Among the exemptions from this tax provided by statute is an exemption for sales to a manufacturer or processor for hire of machinery and equipment used directly in a manufacturing operation. The exemption also applies to sales of or charges made for labor and services for installing, repairing, cleaning, altering, or improving such machinery or equipment. Although the retail sales tax statutes define this and other aspects of an operation that is eligible for the tax exemption, they do not define the term to manufacture.— The definition in the B&O tax statutes may apply to the use of the term in this retail sales tax exemption.

Summary of Substitute Bill: The definition of the term to manufacture— provided by the B&O tax statutes is amended. The term does not apply and, therefore, the B&O tax for manufacturing does not apply to cubing hay or alfalfa.

The B&O tax rate for persons engaged in the business of making sales at wholesale of cubed alfalfa or hay is equal to the gross income derived from the sales multiplied by 0.011 percent.

Substitute Bill Compared to Original Bill: The original bill exempts from the B&O manufacturing tax the activity of adding preservatives to hay or alfalfa for cubing; the substitute bill exempts from this B&O tax cubing hay or alfalfa whether preservatives are or are not added.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: (1) The market for hay cubing and sales is very tight; the number of cubing businesses in this state has dropped from 25 to 10 or less in recent years. The bill will assist cubers compete with others doing the same operations in Oregon and British Columbia. (2) The Department of Revenue's position is that retail sales of equipment for an activity that is exempted from the definition of to manufacture— in the B&O tax statutes do not qualify for the retail sales tax exemption for purchases of manufacturing equipment. Hay cubers favor getting relief from the B&O manufacturing tax over qualifying for a sales tax exemption for purchases of cubing equipment.

Testimony Against: None.

Testified: Representative Schoesler, prime sponsor; and Matthew Ely, NW Hay Cubers' Association (in favor). Jim Hendrix, Department of Revenue (responded to a question).