

SENATE BILL REPORT

SHB 1791

As Reported By Senate Committee On:
Agriculture & Environment, April 1, 1997
Ways & Means, April 4, 1997

Title: An act relating to the taxation of activities conducted for an agricultural commodity commission or board.

Brief Description: Exempting activities conducted for an agricultural commodity commission or board from business and occupation tax.

Sponsors: House Committee on Agriculture & Ecology (originally sponsored by Representatives Mastin, Chandler, Linville, Grant, Clements, Mulliken, Koster, Boldt and Schoesler).

Brief History:

Committee Activity: Agriculture & Environment: 3/25/97, 4/1/97 [DPA-WM].
Ways & Means: 4/3/97 [DPA (AE)].

SENATE COMMITTEE ON AGRICULTURE & ENVIRONMENT

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.
Signed by Senators Morton, Chair; Swecker, Vice Chair; Newhouse, Oke and Rasmussen.

Staff: Richard Duggan (786-7414)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended by Committee on Agriculture & Environment.
Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Bauer, Fraser, Hochstatter, Kohl, Long, Loveland, McDonald, Rossi, Schow, Snyder, Spanel, Swecker, Thibaudeau and Winsley.

Staff: David Schumacher (786-7474)

Background: The Legislature has created a number of agricultural commodity commissions, and has provided procedures for the establishment of other agricultural commodity boards and commissions, to promote the agricultural products of this state. Many of these boards and commissions are authorized to contract with associations sharing their specific objectives for services necessary to the purposes for which they were formed.

The commissions and boards are funded primarily by fees and assessments paid by the commodity producers. Currently, those commissions and boards are treated as arms of state

government, so that the state's primary business tax, the business and occupation tax, is not imposed on the income they derive from member payments.

When these funds are paid out by the boards and commissions for services and products, that exemption does not follow. The tax is applied to the gross income of suppliers without regard to the source of the income.

The federal Internal Revenue Code recognizes a variety of nonprofit organizations, and gives special treatment to their income and to the income of their contributors. Included among them are religious, charitable, scientific, educational and similar organizations (Section 501(c)(3)); labor, agricultural and horticultural organizations (Section 501(c)(5)); business leagues and other trade organizations (Section 501(c)(6)); and farmers' cooperatives (Section 521). State law, however, does not make a distinction between profit-oriented businesses and nonprofit organizations in levying the business and occupation tax.

Summary of Amended Bill: Funds received from agricultural commodity boards or commissions by certain nonprofit organizations are exempt from the business and occupation tax. Eligible organizations are those which qualify for exemption from the federal income tax under specified sections of the Internal Revenue Code and share the same objectives as the commission or board from which the funds are received. The nonprofits specified include religious, charitable, scientific, educational and similar organizations, labor, agricultural and horticultural organizations, business leagues and other trade organizations, and farmers' cooperatives.

Amended Bill Compared to Substitute Bill: The list of federal income tax code exemptions for nonprofit organizations is extended to include known organizations providing services and supplies to the boards and commissions identified in a list revised to include many which are traditionally categorized as agricultural commodity boards and commissions, but are not designated as such in their enabling statutes.

Appropriation: None.

Fiscal Note: Requested on March 20, 1997.

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

Testimony For (Agriculture & Environment): Agricultural associations are extensions of state agencies, not separate private business entities, and should not be subject to business and occupation tax.

Testimony Against (Agriculture & Environment): Not all organizations providing services to agencies traditionally regarded as agricultural commodity commissions and boards are included in the exemption; omission of some organizations could be interpreted as mandate to tax.

Testified (Agriculture & Environment): Ray Shindler, Washington Association of Wheat Growers/Washington Wheat Commissions/Washington Asparagus Growers; Enid Layes, Washington State Horticultural Association; Debbie Becker, Washington Dairy Federation;

Bernard Gamache, Hop Growers of America; Victoria Chiechi-Hinze, Washington Wine Institute/Washington Wine Commission.

Testimony For (Ways & Means): These nonprofit agencies should not have to pay B&O tax when they are doing work for agricultural commodity commissions.

Testimony Against (Ways & Means): None.

Testified (Ways & Means): PRO: Enid Layes, Washington State Horticultural Association; Ray Shindler, Washington Wheat Commission.