

# SENATE BILL REPORT

## SB 5175

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As Reported By Senate Committee On:  
Agriculture & Environment, February 5, 1997  
Ways & Means, March 26, 1997

**Title:** An act relating to business and occupation tax on the handling of hay, alfalfa, and seed.

**Brief Description:** Revising the business and occupation tax on the handling of hay, alfalfa, and seed.

**Sponsors:** Senators Morton, Rasmussen, Hochstatter, Goings and Roach; by request of Department of Revenue.

**Brief History:**

**Committee Activity:** Agriculture & Environment: 1/28/97, 2/5/97 [DPS-WM].  
Ways & Means: 2/20/97, 3/26/97 [DPS (AE)].

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### SENATE COMMITTEE ON AGRICULTURE & ENVIRONMENT

**Majority Report:** That Substitute Senate Bill No. 5175 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Morton, Chair; Swecker, Vice Chair; Fraser, McAuliffe, Newhouse, Oke and Rasmussen.

**Staff:** Vic Moon (786-7469)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5175 as recommended by Committee on Agriculture & Environment be substituted therefor, and the substitute bill do pass.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Bauer, Fraser, Hochstatter, Long, Loveland, Rossi, Sheldon, Snyder, Spanel, Swecker, Thibaudeau and Zarelli.

**Staff:** David Schumacher (786-7474)

**Background:** The primary business and occupation (B&O) tax rate on manufacturing and wholesale sales is 0.484 percent. For manufacturing, the rate is applied to the value of the products manufactured. For wholesale sales, the rate is applied to the gross proceeds of the sale. When a grower bales hay, the Department of Revenue considers this action to be part of the harvesting process. The department also considers the cubing of hay as part of the harvesting process when it is performed on the grower's land. A grower who sells hay at wholesale which was grown and cubed on his or her own land is exempt from the B&O tax.

If the cubing of hay is performed away from the grower's land, it is considered by the department to be a manufacturing activity and the business and occupation tax applies. The sale of hay that is cubed away from the grower's property is not exempt from the B&O tax because the hay is considered to be part of the manufacturing process. The harvesting process is considered to have ended once the hay leaves the grower's property.

There are a number of exceptions to the primary tax rate contained in statute under the law authorizing the business and occupation taxes. The B&O tax rate for wholesale sales of wheat, oats, dry peas, dry beans, lentils, triticale, corn, rye and barley is established at the rate of 0.011 percent. This lower rate does not apply to wholesale sales of seed conditioned for use for planting or for sale at wholesale.

**Summary of Substitute Bill:** Cubing hay or alfalfa is not considered a manufacturing activity. The tax imposed on every person in the state engaged in the business of selling cubed hay or alfalfa seed conditioned for use in planting is equal to the gross proceeds derived from such sales multiplied by 0.011 percent.

**Substitute Bill Compared to Original Bill:** The tax rate on in-state sales of cubed hay or alfalfa is reduced to 0.011 percent.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect July 1, 1997.

**Testimony For:** Domestic and foreign competition is endangering the hay and alfalfa cubing industry. A lower tax rate for off-farm cubing will match the on-farm rate and provide more equity.

**Testimony Against:** None.

**Testified:** PRO: Jim Hedrick, Dept. of Revenue; Matt Ely, Washington Hay Cubers Assn.