

HOUSE BILL REPORT

HB 2295

As Passed House:

May 18, 1999

Title: An act relating to stating the intent of the legislature that the activities of growing or packing agricultural products is not a manufacturing activity.

Brief Description: Providing that growing or packing agricultural products is not a manufacturing activity for tax purposes.

Sponsors: Representatives B. Chandler, Clements, G. Chandler, Sump, McMorris and Mulliken.

Brief History:

Floor Activity:

Passed House: 5/18/99, 97-0.

Brief Summary of Bill

- Excludes farming and the packing of agricultural products from the definition of manufacturing for excise tax purposes.

Staff: Rick Peterson (786-7150).

Background:

The business and occupation tax (B&O) is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. Currently, there are six different B&O tax rates. The three principal rates are:

Manufacturing, wholesaling, & extracting	0.484 percent
Retailing	0.471 percent
Services	1.5 percent

When a product is manufactured in Washington, the manufacturing tax applies on sales to out-of-state customers and, generally, the wholesaling tax applies on sales to in-state customers.

Sales by farmers of agricultural products at wholesale and the packing of agricultural products for farmers are exempt from B&O tax. "Farmer" is defined to exclude a person using agricultural products as ingredients in a manufacturing process. Businesses that wash, sort, and pack fresh perishable horticultural products for farmers are exempt from B&O tax.

There are several tax incentives for manufacturers in distressed areas, including deferral/exemption of sales and use taxes on buildings, machinery and equipment, and installation labor, and B&O tax credits for job creation and job training.

These programs have not been applied to packing agricultural products. However, a recent court of appeals case held that this activity is manufacturing and eligible for the distressed area sales tax deferral/exemption program.

Under the B&O tax, a person who does not own a product being manufactured is a processor for hire, and the owner of the product is considered the manufacturer. If packing agricultural products is manufacturing, then the grower could be considered a manufacturer using the products as an ingredient in a manufacturing process. The person packing the products could be considered a processor for hire. Both could be subject to B&O tax.

Summary of Bill:

Farming and the packing of agricultural products are excluded from the definition of manufacturing for excise tax purposes. Thus, businesses packing agricultural products are no longer eligible for the distressed area tax incentive programs. The growing and packing of agricultural products are not subject to the B&O tax. These changes apply both retroactively and prospectively.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: Please see testimony for similar SB 6058 as reported by Finance Committee.

Testimony Against: Please see testimony for similar SB 6058 as reported by Finance Committee.

Testified: Please see testimony for similar SB 6058 as reported by Finance Committee.