

HOUSE BILL REPORT

EHB 1886

As Passed House:

April 17, 2001

Title: An act relating to tax rate modifications for animal health products.

Brief Description: Reducing the tax on health products for animals.

Sponsors: By Representatives Linville, G. Chandler, Grant, Doumit, B. Chandler and Hatfield.

Brief History:

Committee Activity:

Finance: 2/22/01, 3/8/01 [DP].

Floor Activity:

Passed House: 4/17/01, 96-1.

Brief Summary of Engrossed Bill

- The sale or use of animal pharmaceuticals is exempted from retail sales and use taxes for farmers and persons involved in certain habitat development or conservation activities.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 10 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos, Van Luven and Veloria.

Staff: Mark Matteson (786-7145).

Background:

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods and certain services. The tax is imposed at a 6.5 percent rate by the state. Cities and counties may impose a local tax at a rate up to a maximum of 3.1 percent; currently, local rates imposed range from 0.5 percent to 2.3 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state which were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

All items and services in the retail tax base are taxed unless specifically exempted in statute. An exemption is provided to certain persons for sales or use of feed, seed, fertilizer, agents for enhanced pollination, spray materials, and chemical sprays used to prevent mold or fungus. The exemption is available to farmers for the purpose of growing or raising an agricultural product for sale or who are under contract with a nonprofit entity or the Department of Fish and Wildlife to improve wildlife habitat. The exemption is also available to persons who are participating in one of several federal conservation or habitat development programs.

Animal pharmaceuticals are subject to retail sales and use taxes, even if purchased by farmers.

Summary of Engrossed Bill:

The exemption from retail sales and use taxes provided to farmers and persons involved in certain habitat and conservation programs for certain agricultural input purchases is extended to include sales of animal pharmaceuticals approved by either the United States (U.S.) Food and Drug Administration or the U.S. Department of Agriculture.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on August 1, 2001.

Testimony For: Health products are a very expensive farming input. Dairy farmers are under a lot of pressure, and there are competitive issues with farmers in other states. It is important that we keep Washington agricultural industries viable.

Health products for animals are very important to producing good quality products. Exports to a number of countries are required to meet certain standards.

Dairy farmers cannot control the price of their products. With 8,000 employees and 5,500 related jobs, this is an important industry. The costs in taxes per farm are \$2,800 annually, which places Washington farmers at a competitive disadvantage.

California exempted animal pharmaceuticals from sales taxes two years ago, and

Washington has not followed suit. The fiscal impact is really less than the fiscal note indicates. Surveys of Washington farmers indicate that the cost of such products is about \$4 per head, and so the actual impact should be about \$1 million annually. Much of the tax is not being collected anyway, since a lot of pharmaceutical products are purchased by mail order. This bill would encourage local purchases of pharmaceutical products.

Any additional savings would be reinvested in the dairy business.

Testimony Against: None.

Testified: Representative Linville, prime sponsor; Chris Cheney, Washington Dairy Federation; Linda Johnson, Washington Farm Bureau; Fred Colvin; Ron Wesen, Washington Dairy Federation; and Chuck Hayes, Washington Dairy Federation.