

HOUSE BILL REPORT

ESHB 2138

As Passed Legislature

Title: An act relating to rural economic development.

Brief Description: Promoting rural economic development.

Sponsors: By House Committee on Finance (originally sponsored by Representatives G. Chandler, Linville, Mulliken, Clements, Ericksen, Hatfield, Sump, Doumit, Morell, Grant, Pearson, Schoesler, Barlean, Buck, B. Chandler, Edwards and Jackley).

Brief History:

Committee Activity:

Finance: 3/8/01 [DPS].

Floor Activity:

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

First Special Session

Floor Activity:

Passed House: 5/1/01, 95-0.

Second Special Session

Floor Activity:

Passed House: 6/4/01, 88-0.

Passed Senate: 6/14/01, 45-2.

Passed Legislature.

Brief Summary of Engrossed Substitute Bill

- The business and occupation tax rate for manufacturers of dairy products is reduced from 0.484 percent to 0.138 percent.
- A retail sales and use tax exemption is provided for the purchase or use of propane and natural gas used to heat structures that house chickens to be sold as agricultural products, and for the purchase or use of bedding materials used to accumulate and facilitate the removal of chicken manure.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill 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:

Business and Occupation Taxes

Every person engaging in a business activity in Washington must pay a business and occupation (B&O) tax measured by the application of rates against the value of products, gross proceeds of sales, or gross income of the business. Persons engaged in business as manufacturers, pay a tax at a rate of 0.484 percent. Persons engaged in wholesale sales are assessed the tax at a rate of 0.484 percent. Revenues from the B&O tax are deposited in the state general fund.

Various manufacturers have been specifically exempted from the primary B&O manufacturer tax rate and have been assessed a lower B&O rate. Examples of manufacturers paying the lower rate of 0.138 percent include the manufacturers of flour, pearl barley, canola byproducts, sunflower oil, raw seafood, and preserved fruits and vegetables.

The producers of dairy products are assessed the primary manufacturer B&O tax at 0.484 percent.

Retail Sales and Use Taxes

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 that 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.

Retail sales and use taxes apply to items that are indirectly involved in the raising of poultry, such as fuel to regulate the temperature of chicken housing, or materials involved in the removal of manure.

Summary of Bill:

Dairy Product Manufacturer B&O Tax Rate

The rate of the B&O tax on manufacturing dairy products and dairy by-products such as whey and casein, or selling the same to a purchaser who transports the products out of state is reduced from the current 0.484 percent to 0.138 percent. The seller of dairy products must maintain a business record, as prescribed by the Department of Revenue, as proof of sale to a person who transports the dairy products out of state.

Retail Sales and Use Taxes on Certain Poultry Farming Inputs

A retail sales and use exemption is provided for the purchase or use of propane or natural gas used to heat structures that house chickens that are sold as agricultural products. In addition, the purchase or use of bedding materials that are used to accumulate and facilitate the removal of chicken manure are exempted from sales and use taxes. Bedding materials are defined as wood shavings, straw, sawdust, shredded paper, and other similar materials.

To receive an exemption provided under this bill, the buyer must present an exemption certificate. The seller is required to retain a copy on file.

Appropriation: None.

Fiscal Note: Requested on March 12, 2001.

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

Testimony For: None.

Testimony Against: None.

Testified: None.