

SENATE BILL REPORT

ESHB 2138

As Reported By Senate Committee On:
Ways & Means, June 7, 2001

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 (co-prime sponsor), Linville (co-prime sponsor), Mulliken, Clements, Ericksen, Hatfield, Sump, Doumit, Morell, Grant, Pearson, Schoesler, Barlean, Buck, B. Chandler, Edwards and Jackley).

Brief History:

Committee Activity: Ways & Means: 5/22/01, 6/7/01 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Brown, Chair; Constantine, Vice Chair; Hewitt, Honeyford, Long, Parlette, Rasmussen, Rossi, Sheahan, B. Sheldon, Snyder, Thibaudeau, Winsley and Zarelli.

Staff: Terry Wilson (786-7433)

Background: The business and occupation (B&O) tax 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	0.484%
Retailing	0.471%
Services	1.5%

Some manufacturers of agricultural products are subject to a B&O rate of 0.138 percent instead of 0.484 percent. 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.

The sales tax is paid on each retail sale of most articles of tangible personal property and certain services. The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms.

Sales of feed, seed, seedlings, fertilizer, pollination agents, and spray materials to farmers are exempt from sales and use taxes. Sales of other items are taxable.

Summary of Bill: 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.

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 exempt from sales and use taxes. Bedding materials are defined as wood shavings, straw, sawdust, shredded paper, and other similar materials.

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

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This levels the playing field. It is an equity issue and a competition issue. The cost of production is growing and the returns are diminishing. The dairy industry is the only agricultural processor that is not subject to the lower B&O tax rate. California, the leading producer west of the Mississippi, removed the sales tax on propane and bedding two years ago. Georgia, the leading producer in the nation, removed the sales tax on propane and bedding three years ago.

Testimony Against: None.

Testified: PRO: Linda Johnson, WA Farm Bureau; Chris Cheney, WA State Dairy Federation, WA Fryer Comm.; Sue Broderick, WA Fryer Comm.; Mike Kaiser, farmer; Dan Coyne, West Farm Foods, NW Dairy Assn; Toni McKinter, WA State Grange.