

# FINAL BILL REPORT

## EHB 3159

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### PARTIAL VETO

C 354 L 06

Synopsis as Enacted

**Brief Description:** Modifying the excise taxation of food products.

**Sponsors:** By Representatives Linville, Newhouse, Grant, Kessler, Orcutt, Chandler, Dunn and Kristiansen.

**House Committee on Finance**

**Senate Committee on Ways & Means**

#### **Background:**

Washington's major business tax is the Business and Occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The B&O tax rate depends on the activities conducted. The most common rates are 0.471 percent for retailing activities, 0.484 percent for wholesaling and manufacturing, and 1.5 percent for services. There is a lower rate of 0.138 percent for dairy product manufacturing and seafood product manufacturing where the seafood products remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing process.

In the 2005 session the Legislature adopted tax incentives for the fruit and vegetable manufacturing industry. A B&O tax exemption was provided for the canning, preserving, freezing, processing, or dehydrating fresh fruits and vegetables, and for selling at wholesale fresh fruits and vegetables canned, preserved, frozen, processed, or dehydrated by the seller and sold to purchasers who transport the goods out of this state in the ordinary course of business.

A new sales and use tax deferral program was created for fruit and vegetable product cold storage warehousing and related research and development businesses. This program starts July 1, 2007, and expires July 1, 2012.

Firms using the B&O exemption and the sales tax deferral are required to complete an annual survey and provide information on the amount of B&O tax exempt; sales and use tax deferred; number of jobs and the percent of full-time, part-time and temporary jobs; wages by salary band; and number of jobs with employer-provided health and retirement benefits. The survey is due each year by March 31.

In addition, starting July 1, 2007, fresh and/or frozen perishable fruit or vegetable cold storage warehouses of at least 25,000 square feet are added to the warehouse tax remittance program. The remittance is 100 percent of the state sales tax on construction of the warehouse and purchases of material-handling and racking equipment. The taxpayer must initially pay

all applicable taxes and then apply for reimbursement to the Department of Revenue (Department).

Several firms are located in Washington that store, inspect, test, and label canned salmon that was canned outside of Washington. These firms store, in warehouses, the canned salmon owned by the out-of-state salmon-canning companies. When receiving appropriate instructions from the owner, the labeler will select a particular batch and inspect, weigh, and vacuum test the cans. The labeler will then label all cans that have passed inspection and package the cans in boxes to be shipped to customers of the salmon-canning companies.

In September 2005, the Department issued an Excise Tax Advisory (ETA) concerning firms that store, inspect, test, and label canned salmon owned by others. The ETA provides that the activity of inspecting, testing, and labeling of canned salmon falls under the general service classification of the B&O tax and is subject to a 1.5 percent rate; the storage of the cans is subject to the warehousing rate of 0.484 percent. Before the issuance of the ETA, at least two taxpayers had been reporting the activities other than warehousing under the processing for hire classification at a 0.484 percent rate. The ETA also clarified that the firms conducting the testing activities were eligible for the exemption from sales and use taxes on machinery and equipment used directly to inspect and test the cans. Finally, the ETA provided that retail sales and use taxes were due on sales of labels and packaging materials to the labelers.

### **Summary:**

Tax exemptions adopted for fruit and vegetable product manufacturing and cold storage warehousing in 2005 are extended to seafood and dairy manufacturing and cold storage warehousing of seafood and dairy products.

The B&O tax exemption is extended to seafood product and dairy product manufacturing. The exemption applies only to seafood products which remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing process. This exemption also applies to the selling of product to purchasers who transport the goods out of this state. These new exemptions, plus the fresh fruits and vegetables exemption, are ended July 1, 2012, and a tax rate of 0.138 percent is established for these activities.

The sales and use tax deferral program for fruit and vegetable processing, cold storage warehousing, and related research and development businesses is expanded to include seafood and dairy product manufacturing.

Firms using the B&O exemption and the sales tax deferral are required to complete an annual survey and provide information on the amount of B&O tax exempt; sales and use tax deferred; number of jobs and the percent of full-time, part-time and temporary jobs; wages by salary band; and number of jobs with employer-provided health and retirement benefits. The survey is due each year by March 31.

The Department may extend the March 31 filing deadline for surveys by firms using the B&O exemption and the sales tax deferral if the failure to file is the result of circumstances beyond

the control of the taxpayer. These firms must electronically file their forms with the Department.

Cold storage warehouses of at least 25,000 square feet that are used to store dairy and seafood products are added to the warehouse tax remittance program. The remittance is 100 percent of the state sales tax on construction of the warehouse and purchases of material-handling and racking equipment. The warehouse sales tax remittance program for cold storage warehouses used to store fruit or vegetables, dairy products, and seafood products is ended on July 1, 2012.

Firms who inspect, test, label, and store canned salmon owned by others are subject to B&O tax at a 0.484 percent rate. These firms are also exempt from paying retail sales and use taxes on materials used to label canned salmon and on materials used to package canned salmon.

**Votes on Final Passage:**

House	90	5	
Senate	42	3	(Senate amended)
House	97	1	(House concurred)

**Effective:** July 1, 2006

**Partial Veto Summary:** The retail sales and use tax exemption for materials used to label canned salmon and on materials used to package canned salmon is vetoed.