

SENATE BILL REPORT

SB 6393

As of April 25, 2006

Title: An act relating to excise tax exemptions for fuel used by farmers.

Brief Description: Providing excise tax exemptions for fuel used by farmers.

Sponsors: Senators Rasmussen, Schoesler, Shin, Swecker, Morton, Haugen, Doumit, Sheldon, Mulliken, Delvin, Deccio, Kastama, Honeyford, McAuliffe and Benton.

Brief History:

Committee Activity: Agriculture & Rural Economic Development: 1/16/06.

SENATE COMMITTEE ON AGRICULTURE & RURAL ECONOMIC DEVELOPMENT

Staff: Bob Lee (786-7404)

Background: Generally, diesel is used either for highway use or non-highway use. Diesel used for highway use is subject to state and federal taxes to fund highway projects. The current federal tax for highway use of diesel is 24.4 cents per gallon and the state tax is 31 cents per gallon.

The federal government established the red-dyed diesel program as an enforcement mechanism to assure that fuel exempt from the federal tax is not being used for highway purposes. The State of Washington also implements the red-dyed diesel program.

The advantage of red-dyed diesel is that neither the federal nor the state highway fuel taxes are included at the time of sale. Thus no refund process is required.

The red-dyed diesel program is enforced through testing and laboratory analysis. The State Patrol takes samples from diesel powered road vehicles to detect the presence of red-dyed diesel. Fuel storage tanks may also be tested. A penalty of \$1000 and \$10 per gallon is assessed for violations.

Diesel used for non-highway uses is subject to the sales and use tax rather than the highway fuel tax. The sales tax averages 8.2 percent statewide and consists of a 6.5 percent state and 1.7 percent local sales tax. The sales tax is collected at the final point of sale. As the cost of fuel changes, the tax per gallon of fuel also changes.

Clear diesel may also be used for on-farm purposes. The federal and state tax for highway use are included when the fuel is sold. To claim a refund of the state tax for highway use, the person must file a claim within 13 months of usage. Refunds are processed by the Department of Licensing. The 31 cent state fuel tax is refunded minus the amount of the 8.2 percent sales tax.

Summary of Bill: Red-dyed diesel used by a farmer in the process of producing agricultural products is exempt from the sales and use tax.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: This act takes effect on July 1, 2006.

Testimony For: For the first time in history, a gallon of diesel costs more than a bushel of wheat. The drop in wheat prices combined with the doubling of fuel prices is causing farm loans not to be renewed and farm auctions to occur. From 2003 to 2005, even though the dairy reduced its fuel consumption by 12 percent, its fuel bill increased by 210 percent. A doubling of the fuel prices resulted in a doubling of the sales tax.

Testimony Against: Counties have been impacted by a number of measures that have reduced their taxing base. This bill will further reduce Whitman County's revenue by between \$75,000 and \$100,000. A way to support local agriculture but keep local governments whole should be looked at, such as a flat per gallon tax to replace the local sales tax.

Who Testified: PRO: Tim Boyd, Washington State Potato Commission; Jack Field, Washington State Cattlemen's Association; John Stuhlmiller, Washington Farm Bureau; Jim Zimmerman, Washington Fish Growers Association.

CON: Bob Lothspeigh, Whitman County Treasurer; Julie Sexton, Washington State Association of Counties.

OTHER: Gil Brewer, Department of Revenue.