

# SENATE BILL REPORT

## SB 5561

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As Reported by Senate Committee On:  
Agriculture, Water & Rural Economic Development, February 12, 2013  
Ways & Means, March 1, 2013

**Title:** An act relating to the business and occupation taxation of dairy products.

**Brief Description:** Concerning the business and occupation taxation of dairy products.

**Sponsors:** Senators Hatfield, Schoesler, Harper, Honeyford and Shin.

**Brief History:**

**Committee Activity:** Agriculture, Water & Rural Economic Development: 2/12/13 [DP-WM].  
Ways & Means: 2/26/13, 3/01/13 [DPS].

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### SENATE COMMITTEE ON AGRICULTURE, WATER & RURAL ECONOMIC DEVELOPMENT

**Majority Report:** Do pass and be referred to Committee on Ways & Means.

Signed by Senators Hatfield, Chair; Honeyford, Ranking Member; Brown, Eide, Hobbs, Schoesler and Shin.

**Staff:** Diane Smith (786-7410)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5561 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Baumgartner, Vice Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Nelson, Assistant Ranking Member; Bailey, Becker, Braun, Conway, Dammeier, Fraser, Hatfield, Hewitt, Keiser, Kohl-Welles, Murray, Padden, Parlette, Ranker, Rivers, Schoesler and Tom.

**Staff:** Juliana Roe (786-7438)

**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. Revenues are deposited in the

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State General Fund. A business may have more than one B&O tax rate, depending on the type of activities conducted. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.8 percent for professional and personal services, and activities not classified elsewhere.

Until July 1, 2015, a B&O tax exemption is provided for dairy product manufacturing and for wholesale sales to purchasers who transport the goods outside of the state in the ordinary course of business. When the B&O tax exemption expires on July 1, 2015, dairy products will again be subject to a B&O tax rate of 0.138 percent.

**Summary of Bill (Recommended Substitute):** An additional type of sale of dairy products is temporarily exempt from the B&O tax until July 1, 2015. These are sales of dairy products to purchasers who use the dairy products as an ingredient or component in the manufacturing of a dairy product. Once the exemption expires on July 1, 2015, a B&O tax rate of 0.138 percent will apply.

Dairy products are defined by reference to the Code of Federal Regulations and include byproducts such as whey and casein, and products comprised of not less than 70 percent dairy products by weight or volume.

**EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute):** A technical change was made to the definition of dairy products. There was also a technical change made to ensure that the bill goes into effect in 2013 rather than 2015.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill contains two effective dates. Please refer to the bill.

**Staff Summary of Public Testimony on Original Bill (Agriculture, Water & Rural Economic Development):** PRO: This bill gives Washington a tool to attract one of the three largest infant formula producers in the world. The definition in the bill may not be perfect but it intends to broaden the definition of milk products to include value-added products that use milk products in their manufacture.

**Persons Testifying (Agriculture, Water & Rural Economic Development):** PRO: Sharon Appelt, Darigold; Dan Coyne, NW Dairy Assn., Darigold.

**Staff Summary of Public Testimony on Original Bill (Ways & Means):** PRO: This is a good bill. Any technical corrections relating to the definition of dairy are well received.

This bill will allow Darigold to expand its markets to infant formula and nutritional drinks. The fiscal note is shocking. Milk that is exported out of state is already exempt under current law. This would provide an exemption for milk products to be further produced and

ultimately shipped out of state. The fiscal note should be zero and Darigold will work to get it to zero.

**Persons Testifying (Ways & Means):** PRO: Senator Hatfield, prime sponsor; Dan Coyne, Darigold.