

FINAL BILL REPORT

HB 1573

C 422 L 23
Synopsis as Enacted

Brief Description: Extending tax preferences for dairy, fruit and vegetable, and seafood processors.

Sponsors: Representatives Rule, Corry, Timmons, Leavitt, Walen, Shavers, Lekanoff, Chapman, Dye, Springer, Reeves, Barnard, Eslick and Sandlin.

House Committee on Finance
Senate Committee on Ways & Means

Background:

Business and Occupation Tax.

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. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent (businesses with taxable income of less than \$1 million) or 1.75 percent (businesses with taxable income of \$1 million or more) for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability.

Tax Preferences for Manufacturers of Fresh Fruit or Vegetables, Seafood Products, and Dairy Products.

Manufacturers of fresh fruit or vegetables, seafood products, and dairy products are eligible for exemptions from the B&O tax.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

The B&O tax exemptions provide an exemption from the manufacturing B&O tax on the value of products sold by fresh fruit and vegetable, seafood product, or dairy product manufacturers; and, generally, an exemption from the retailing and wholesaling B&O tax for those products manufactured and sold by the manufacturer to a customer who transports the product outside this state in the normal course of business.

These exemptions expire July 1, 2025. When they expire, the business's income is no longer exempt from the B&O tax but will become subject to a reduced B&O tax rate of 0.138 percent for manufacturing, retailing, and wholesaling activities.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Joint Legislative Audit and Review Committee 2022 Tax Preference Performance Report.

In 2022 JLARC reviewed the B&O tax preferences for the dairy, fruit and vegetable, and seafood processing industries. The JLARC found that the B&O tax preferences were providing tax relief for all three industries however, JLARC concluded that only dairy and fruits and vegetables were able to create and retain jobs.

The JLARC recommended that the Legislature:

- continue the B&O tax preferences for dairy processors;
- allow the B&O tax preference for dairy products used as an ingredient or component to expire;
- continue and clarify the B&O tax preferences for fruit and vegetable processors; and
- review and clarify the B&O tax preferences for seafood processors.

Summary:

The B&O tax exemptions for food processors are extended from July 1, 2025, to July 1, 2035. However, the tax exemption for dairy products sold as an ingredient or component to manufacture other dairy products is not extended and will expire on July 1, 2025.

A TPPS is included. The stated public policy objectives of the bill are to create and retain jobs in the food processing industry and to provide tax relief. Taxpayers claiming the B&O tax exemption must submit an annual tax preference report to the Department of Revenue.

Votes on Final Passage:

House	77	19
Senate	44	4

Effective: July 23, 2023