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## Finance Committee

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### HB 1936

**Brief Description:** Concerning tax incentives for farmers.

**Sponsors:** Representatives Shavers, Ramel and Timmons.

**Brief Summary of Bill**

- Creates a business and occupation tax credit for 25 percent of expenditures for farming inputs purchased by a farmer who receives a conservation grant or is a participant in a state or federal conservation program.

**Hearing Date:** 1/23/24

**Staff:** Kristina King (786-7190).

**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.

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Farming most commonly falls under the retailing, manufacturing, wholesaling, and service and other activities B&O categories. There are B&O exemptions for revenue from agricultural fairs; custom farming services; amounts received for buying certain grains and legumes; farmers that sell any agricultural product at wholesale; or to any farmer who grows, raises, or produces agricultural products owned by others, such as custom feed operations. The wholesaling exemption does not apply to any person selling agricultural products at retail or to any person selling manufactured substances or articles.

#### 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. Currently, 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.

#### State and Federal Conservation Grants and Programs.

There are various state conservation grants and programs that provide funding and other resources for Washington farmers, including the natural resources investments and the sustainable farms and fields programs at the Washington State Conservation Commission and the resilient food structure infrastructure program at the Washington Department of Agriculture. Additionally, there are various federal conservation programs, including the US Department of Agriculture agricultural management assistance, conservation reserve, and regional conservation partnership programs.

#### **Summary of Bill:**

Beginning January 1, 2025, a B&O tax credit is created equal to 25 percent of expenditures for farming inputs including new equipment, infrastructure, seed, seedlings, spores, animal feed, and amendments purchased by a farmer that meets one of the following criteria:

- The farmer is a recipient of a conservation grant either directly from the Washington Conservation Commission or indirectly through a conservation district or other public entity.
- The farmer is a participant in a state conservation program through the Washington Conservation Commission or a state conservation district.
- The farmer is a participant in a federal conservation program through the US Department of Agriculture Natural Resources Conservation Service.

The credit is exempted from TPPS requirements, including a JLARC review and the 10-year automatic expiration.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.