

SENATE BILL REPORT

2EHB 1757

As Passed Senate, March 6, 2024

Title: An act relating to providing a sales and use tax remittance to qualified farmers.

Brief Description: Providing a sales and use tax remittance to qualified farmers.

Sponsors: Representatives Corry, Springer, Chapman, Dent and Schmidt.

Brief History: Passed House: 1/11/24, 96-1.

Committee Activity: Ways & Means: 2/24/24, 2/26/24 [DP, DNP, w/oRec].

Floor Activity: Passed Senate: 3/6/24, 45-1.

Brief Summary of Bill

- Provides a sales and use tax exemption in the form of a remittance of up to \$10,000 on goods and services purchased by an eligible farmer.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Robinson, Chair; Mullet, Vice Chair, Capital; Nguyen, Vice Chair, Operating; Wilson, L., Ranking Member, Operating; Gildon, Assistant Ranking Member, Operating; Schoesler, Ranking Member, Capital; Rivers, Assistant Ranking Member, Capital; Billig, Boehnke, Braun, Conway, Dhingra, Hunt, Muzzall, Randall, Saldaña, Torres, Van De Wege and Wagoner.

Minority Report: Do not pass.

Signed by Senator Hasegawa.

Minority Report: That it be referred without recommendation.

Signed by Senators Keiser, Pedersen and Wellman.

Staff: Alia Kennedy (786-7405)

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.

Background: Retail Sales and Use Tax. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. Some other local government entities and special purpose districts also impose sales and use taxes for specific purposes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

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 or 1.75 percent for services and for activities not classified elsewhere, depending on the size of the business. Several preferential rates also apply to specific business activities.

Public Utility Tax. The public utilities tax (PUT) is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of energy, natural gas, and water. The tax is in lieu of the B&O tax. There are different rates, depending on the specific utility activity. Railroads, railroad car companies, motor transportation, and all other public service businesses are taxed at 1.926 percent. Most of the funds are distributed into the State General Fund. A portion provides financial assistance to local governments for maintenance of public works facilities.

Custom Farming and Hauling Farm Products Tax Preferences. In 2007 the Legislature enacted two tax preferences for farms: a B&O tax exemption for farmers who provide custom farming services and farm management services to other farmers; and a public utility tax exemption for those who haul farm machinery, equipment, or agricultural products for a related farmer or person performing custom farming services. Both preferences expired December 31, 2020. The Legislature permanently reauthorized the tax preferences beginning July 1, 2022.

Tax Preferences. 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 ten years unless an alternative expiration date is provided.

Summary of Bill: An eligible farmer may claim a sales and use tax exemption on goods and services purchased. The exemption is in the form of a remittance of up to \$10,000 and the eligible farmer must pay all applicable sales and use taxes on items that are considered goods and services. The remittance must be claimed before January 1, 2030.

An eligible farmer has the same meaning as in the B&O tax exemption for the custom farming statute.

This act is exempt from the TPPS, JLARC review and automatic ten-year expiration.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on July 1, 2024.

Staff Summary of Public Testimony: None.

Persons Testifying: No one.

Persons Signed In To Testify But Not Testifying: No one.