

# HOUSE BILL REPORT

## HB 2929

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### As Reported by House Committee On:

Finance

**Title:** An act relating to suspending business and occupation taxation on certain businesses impacted by the ban on American beef products.

**Brief Description:** Suspending business and occupation taxation on certain businesses impacted by the ban on American beef products.

**Sponsors:** Representatives Schoesler, Grant, Chandler, Linville, Delvin, Cairnes, Sump, Mastin, Newhouse, Morris, Holmquist, Ericksen, McDonald, Clements, Conway, Condotta, Hinkle, Skinner, Armstrong, Kristiansen, Hatfield, Kirby, Sullivan, Pearson, Shabro and Hankins.

### Brief History:

#### Committee Activity:

Finance: 2/10/04 [DPS].

#### Brief Summary of Substitute Bill

- Exempts a portion of income from slaughtering, breaking, processing, and wholesaling of perishable beef products from B&O tax for firms that slaughter cattle.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

**Staff:** Rick Peterson (786-7150).

### 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. The tax is imposed on the gross

receipts from all business activities conducted within the state. Although there are several different rates, the most common rates are 0.471 percent for retailing, 0.484 percent for wholesaling, and 1.5 percent for service activity. Businesses that are involved in more than one kind of business activity are required to segregate their income and report under the appropriate tax classification based on the nature of the specific activity.

The slaughtering, breaking, processing, and wholesaling of perishable meat products is taxable at a rate of 0.138 percent when the product is sold at wholesale only and not at retail.

On December 23, 2003, a Washington cow that had been imported from Canada tested positive for Bovine Spongiform Encephalopathy (BSE). On December 24, 2003, Japan, Mexico, the Republic of Korea, and many other nations banned imports of U.S. beef. For the first 11 months of 2003 Japan, Mexico, and the Republic of Korea imported nearly 2 billion pounds of beef from the U.S. These three countries represent over 80 percent of U.S. beef exports.

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**Summary of Substitute Bill:**

A B&O tax deduction is available on slaughtering, breaking, processing, and wholesaling of perishable beef products for firms that slaughter cattle. The deduction is limited to the proportion of beef products exported from the United States during the 12 month period before December 2003. The deduction is available until Japan, Mexico, and the Republic of Korea lift import bans on beef and beef products from the United States.

**Substitute Bill Compared to Original Bill:**

The original bill suspends the B&O tax while the substitute allows a deduction from the B&O tax. The substitute bill limits the deduction to firms that slaughter cattle and further limits the deduction to the proportion of beef products exported from the United States.

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**Appropriation:** None.

**Fiscal Note:** Available. Requested on substitute on February 10, 2004.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect immediately.

**Testimony For:** The problems in the meat processing industry actually started last spring when a cow in Alberta was discovered with BSE. The subsequent ban on imports of cattle from Canada resulted in a 25 percent reduction in cattle available to Washington

packers. We are a net importer of cattle. These imports keep feedlots and facilities running that create a number of jobs in the Yakima Valley and Pasco area. Exports are about 10 to 12 percent of the market in the United States, but in Washington we are at 15 percent. Good jobs are tied to these exports. With BSE there are a lot of food safety issues. There will be increased costs to provide consumers an abundant assurance of food safety. In this state we need competition in the market place for the purchase of cattle. Many others in the agriculture economy are dependent on this activity. Feeders need the packers, and food processors need the feedlots. Farmers growing hay, and farmers and ranchers that produce the feeder cattle supply the feedlots. This exemption is targeted where it will do the most good. Production at the packers has slowed since last year. As the processors slow down the product backs up the pipeline and feedlots also slow down. Feedlots are family owned businesses and provide good jobs. Since December they have been selling at a loss. We are confident that the market will rebound but it will take time.

**Testimony Against:** None.

**Persons Testifying:** (In support) Representative Schoesler, prime sponsor; Mark Triplett, Tyson Fresh Meats; and Heather Hansen, Washington Cattle Feeders Association.

**Persons Signed In To Testify But Not Testifying:** None.