

# SENATE BILL REPORT

## ESSB 6665

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As Passed Senate, March 2, 2004

**Title:** An act relating to the excise taxation of fruit and vegetable processing and storage.

**Brief Description:** Modifying the excise taxation of fruit and vegetable processing and storage.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Hewitt, Mulliken, Honeyford, Hale, Parlette, Rasmussen and Sheahan).

**Brief History:**

**Committee Activity:** Ways & Means: 2/5/04, 2/23/04 [DPS].

Passed Senate: 3/2/04, 44-3.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 6665 be substituted therefor, and the substitute bill do pass.

Signed by Senators Zarelli, Chair; Hewitt, Vice Chair; Parlette, Vice Chair; Carlson, Doumit, Hale, Honeyford, Johnson, Pflug, Prentice, Rasmussen, Roach, Sheahan, B. Sheldon and Winsley.

**Staff:** Terry Wilson (786-7433)

**Background:** The manufacturing of fresh fruits and vegetables is subject to the business and occupation (B&O) tax at 0.138 percent. Out-of-state sales of manufactured fresh fruits and vegetables are not subject to wholesaling or retailing B&O tax. In-state wholesale sales of manufactured fresh fruits and vegetables are subject to wholesaling B&O tax at a rate of 0.484 percent, except that in-state wholesale sales of fresh fruits and vegetables manufactured by the seller that are transported out-of-state in the ordinary course of business are taxed at 0.138 percent.

The rural county sales and use tax deferral program is available in counties with population densities of less than 100 per square mile, community empowerment zones, and counties containing a community empowerment zone. Manufacturing, research and development, and computer service businesses may defer sales and use taxes on buildings, machinery and equipment, and installation labor. The deferred taxes are forgiven if the investment project meets the program criteria for eight years after the project is complete. The manufacturing of fresh fruits and vegetables qualifies under this program. The program expires July 1, 2004.

A tax incentive exists for the construction of warehouses over 200,000 square feet, including cold storage warehouses. The taxpayer is entitled to a refund exemption equal to 50 percent of the state sales and use tax on machinery and equipment purchases and 100 percent of the state sales and use tax on construction costs. The taxpayer must initially pay all applicable taxes and then apply for reimbursement to the Department of Revenue.

**Summary of Bill:** A B&O tax exemption is provided for amounts received from the canning, preserving, freezing, processing, or dehydrating fresh fruits and vegetables and from selling at wholesale fresh fruits and vegetables canned, preserved, frozen, processed, or dehydrated by the seller and sold to purchasers who transport in the ordinary course of business the goods out of this state.

A new sales and use tax deferral program is authorized. Fruit and vegetable processing, cold storage warehousing, and related research and development businesses may defer sales and use taxes on buildings, machinery and equipment, and installation labor. The deferred taxes are forgiven if the investment project meets the program criteria for eight years after the project is complete. The program expires July 1, 2010.

Cold storage warehouses qualify for remittance of state tax if they are at least 25,000 square feet. The remittance on material-handling equipment and racking equipment for cold storage warehouses is increased to 100 percent.

Persons claiming the B&O tax exemption, sales and use tax deferral, or state sales and use tax remittance provided by this bill are required to complete an annual survey and provide information on the amount of B&O tax exempt, sales and use tax deferred or refunded by remittance; number of jobs and the percent of full-time, part-time and temporary jobs; wages by salary band; and number of jobs with employer provided health and retirement benefits. The Department of Revenue may request additional information necessary to measure the results of the programs. Information reported in the survey is confidential except the amount sales tax deferred or remitted is not confidential. Businesses receiving less than \$10,000 in sales tax deferred or remitted may request that the amount be treated as confidential.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 2005.

**Testimony For:** The primary objective is to maintain a basic manufacturing industry and retain family wage jobs in distressed areas. Opportunities are scarce and unemployment is high in rural counties. The fruit and vegetable sector has been significantly distressed in the last six years. The impacts on a small community of closure of a plant are enormous. This is a very competitive business globally. Most sales are out of state and costs cannot be passed on.

**Testimony Against:** None.

**Testified:** PRO: Ken Yates, NW Food Processors Assn.; Art Symons, Symons Frozen Foods; Celeste Gazrek, National Frozen Foods; Rick Hole; Ocean Spray Cranberry, Inc.