HOUSE BILL REPORT
HB 1523

As Reported by House Committee On:
Economic Development, Agriculture & Trade
Finance

Title: An act relating to extending a sales and use tax exemption to the construction of facilities to be used for the conditioning of vegetable seeds.

Brief Description: Extending a sales and use tax exemption to the construction of new facilities to be used for the conditioning of vegetable seeds.

Sponsors: Representatives Quall, Morris, Pettigrew, Kilmer, Talcott, Pearson, Linville and Kristiansen.

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 2/15/05, 2/22/05 [DP];
Finance: 1/27/06, 2/1/06 [DPS].

Brief Summary of Substitute Bill

- Exempts from retail sales and use tax the construction or renovation of a building or acquisition of new machinery or equipment that is used for conditioning of vegetable seeds in a rural county or distressed area.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: Do pass. Signed by 22 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Kristiansen, Ranking Minority Member; Blake, Buri, Chase, Clibborn, Condotta, Dunn, Grant, Haler, Holmquist, Kenney, Kilmer, Kretz, McCoy, Morrell, Newhouse, Quall, Strow, P. Sullivan and Wallace.

Staff: Meg Van Schoorl (786-7105).

Background:

Retail sales and use tax

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. Sales tax is paid by the purchaser and collected by the seller. The use tax is imposed on items used in the state that were not subject to the retail sales tax and includes purchases made in other states and from sellers who do not collect Washington sales tax. The retail sales and use tax is imposed at a 6.5 percent rate by the state. In addition, state law allows for 17 different local option sales and use taxes for purposes including but not limited to transportation, criminal justice, public safety, public facilities, zoos, and sports stadiums. As of December 2004, local rates ranged from 0.5 percent to 2.4 percent.

Rural county/distressed area sales and use tax deferral program

The rural county and distressed area tax deferral as originally enacted in 1985 provided a deferral of sales and use taxes due on plant construction and expansion or on acquisition of equipment by firms that engaged in manufacturing, research and development, or computer programming activities in counties with high rates of unemployment. In 1999, the program was changed so that the incentive became available in any "rural county," defined as a county with a population density of less than 100 people per square mile, and in counties with community empowerment zones. In 2004, the program was again revised so that the incentive also became available in counties smaller than 225 square miles.

Under the original deferment, the sales/use tax liability was deferred for three years, followed by a five-year graduated repayment. Since 1994, the repayment requirement has been waived provided program requirements are maintained, thereby making the program an outright exemption. The statute is currently scheduled to expire on July 1, 2010.

To receive the deferral, a firm must apply to the Department of Revenue (Department) prior to the initiation of construction or acquisition of equipment. The application must contain information regarding the project location, costs, employment, wages and schedules.

Under the program, a person that owns property and leases to another may receive deferral of taxes on qualifying expenditures, if the owner under a written contract agrees to pass the economic benefit of the deferral onto the lessee by reducing the amount of the lease payments.

Recipients of a deferral are required to submit a report to the Department by the end of the year in which the project is put into operation, and for each of the seven following years. The report must contain information that allows the Department to determine whether the recipient is meeting the eligibility requirements of the program. If the Department finds that an investment project is not eligible for the tax deferral, the deferred taxes outstanding for the project are immediately due.

The Department is required to study the sales and use tax deferral program and report back to the Legislature by December 1, 2009 on the effects of the program on job creation, company growth, introduction of new products, diversification of the state's economy, and other outcome measures.

Thirty-two counties are eligible as rural counties under the program and four additional counties are eligible because they contain community empowerment zones. According to the Department, in recent years, the number of projects approved has ranged from a low of 20 per year to a high of 168, and annual taxpayer savings has ranged from a low of $2.5 million to a high of $16 million.

Summary of Bill:

The bill expands the definition of "manufacturing" to include the conditioning of vegetable seed.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: It is appropriate to give the seed industry opportunities for research and development through granting of this exemption. The industry is thriving in Washington, especially in the Skagit Valley. Alf Christiansen Seed has been producing vegetable seed in Washington since 1926. The company employs 50 full-time staff and 200-300 seasonally for an annual payroll of $3.6 million. The company spends $5 million in contract payments annually to support 65 growers. They purchase hundreds of thousands of dollars in products from other companies, and provide a stable tax base. Contract growers are in Skagit, Snohomish, Island, Whatcom, Lewis, Yakima, Grant and Adams counties. Virtually all of the seed produced by Alf Christiansen is sold outside our state, bringing in new revenues. Conditioned seed is the marketable product resulting from vegetable genetic research and development efforts. Research and development qualifies under the existing exemption but seed conditioning does not. The farmgate value of agriculture in Skagit County is $260 million per year. The indirect impact of the industry is $500 million per year, $600 million if agricultural tourism is included. Seed production is important to the Skagit County economy, and the money saved through the exemption will be important to the company. Vegetable seed production is an important and historic industry. Alf Christiansen could locate elsewhere but has chosen to remain in Washington. The sales and use tax exemption is a one time loss of revenues, but the $8.6 million in annual economic value is ongoing.

Testimony Against: None.

Persons Testifying: Representative Quall, prime sponsor; Jeanne Crannell, Alf Christiansen Seed Company; Don Wick, Economic Development Assocaition of Skagit County; and Bob Rose, Skagitonians to Preserve Farmland.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

Staff: Bob Longman (786-7139).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Economic Development, Agriculture & Trade:

The substitute bill disqualifies an investment project for tax relief if the project processes genetically modified seed. The substitute bill removes the emergency clause and provides an effective date of July 1, 2006.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2006.

Testimony For: (In support) Skagit is a depressed county with a high unemployment rate. This bill will help add jobs, as well as enough new tax revenue to offset the fiscal note. This bill levels the playing field compared to other states which either provide similar tax incentives or don't have a sales tax at all. Tax relief under this bill will cause some negative tax revenue over the short run, but will generate economic growth over the long run.

(Concerns) The committee should not adopt a proposal to exempt seed conditioning facilities from only the state sales tax. This "split base" approach where state sales taxes are exempt while local sales tax are still due would be expensive to administer and presents tax policy concerns.

Testimony Against: None.

Persons Testifying: (In support) Representative Quall, prime sponsor; Jeanne Crannell, Alf Christain Seed; and Patrick Connor, Washington Farm Bureau.

(Neutral with concerns) Gil Brewer, Department of Revenue.

Persons Signed In To Testify But Not Testifying: None.