

SENATE BILL REPORT

SB 6542

As Reported By Senate Committee On:
Agriculture & Rural Economic Development, January 31, 2006
Ways & Means, February 16, 2006

Title: An act relating to exempting farming services from business and occupation tax.

Brief Description: Exempting farming services from business and occupation tax.

Sponsors: Senators Mulliken, Rasmussen, Schoesler, Sheldon, Morton, Shin, Delvin and Honeyford.

Brief History:

Committee Activity: Agriculture & Rural Economic Development: 1/26/06, 1/31/06[DPS-WM].
Ways & Means: 2/7/06, 2/16/06 [DP2S].

SENATE COMMITTEE ON AGRICULTURE & RURAL ECONOMIC DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 6542 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Rasmussen, Chair; Shin, Vice Chair; Schoesler, Ranking Minority Member; Delvin, Jacobsen, Morton and Sheldon.

Staff: Bob Lee (786-7404)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 6542 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Parlette, Pridemore, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Thibaudeau.

Staff: Terry Wilson (786-7772)

Background: The business and occupation (B&O) tax does not apply to a farmer that sells agricultural products at wholesale nor to a farmer who grows agricultural products owned by others.

Summary of Second Substitute Bill: Business and occupation tax exemptions are provided for persons performing custom farming services; persons performing farm management services, contract labor services, & services with respect to animals that are agricultural products if done by a relative of the farmer; and persons who participate in federal conservation programs.

Custom farm services are defined as the performance of specific farming operations through the use of any farm machinery or equipment, farm implement, or draft animal, together with an operator, but does not include the custom application of fertilizers, chemicals, or biologicals unless the custom applicator is related to the person for whom the service is rendered.

A public utility tax exemption is provided for the hauling of agricultural products and farm machinery for a farmer by family members.

Second Substitute Bill Compared to Substitute Bill: Technical amendments are made by the second substitute bill.

Substitute Bill Compared to Original Bill: The original bill exempted services but did not state what the specific services provided to farmers were to be exempt. The substitute bill provides greater definition as what services provided to a farmer in producing a crop are exempt from the B&O tax. The hauling of agricultural products and farm machinery for a farmer by a family member is exempt from the public utility tax.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Testimony For (Agriculture & Rural Economic Development): Farming operations rely on the rotation of crops to maintain fertility and to manage pests. Agriculture has become highly specialized and technologically advanced. To raise all of the crops in the rotation requires expensive and specialized farm equipment for each crop. In the Columbia Basin where acreage limitations exist, farmers rely on custom farm operators and on trading work with each other to spread the cost of expensive equipment over more acreage. Ownership of farms may involve family members who perform work for the farm entity. The current business and occupation tax treatment of agriculture assumes the farm operations are simpler than exist in the current system which leads to issues relating to interpretation of statutes. Some farmlands are enrolled into conservation or riparian habitat enhancement programs which involve preparing the soil and planting of the vegetation, but does not produce a crop for sale. The hauling of agricultural products that are done by persons related to each other provide its own example of how equipment costs are being spread over more acres to reduce the per acre and per ton costs.

Testimony Against (Agriculture & Rural Economic Development): None.

Testimony Other (Agriculture & Rural Economic Development): The Department of Revenue doesn't have a position on the bill but wants the language in the tax code to be clear as to which services are included and which are not.

Who Testified (Agriculture & Rural Economic Development): PRO: Chris Hesse, LeMaster & Daniel; Aaron Golladay, Stokrose Farms; Patrick Connor, Washington Farm Bureau.

OTHER: Gil Brewer, Department of Revenue.

Testimony For (Ways & Means): This is a fairness issue for agricultural services. It should not matter how you structure your business. This recognizes that agriculture is agriculture and that family members doing services should not be subject to tax. The tax is not being collected and the fiscal note is too high. It is an important bill affecting a small but important segment of the community. Washington is one of four states that tax this.

Testimony Against (Ways & Means): None.

Who Testified (Ways & Means): PRO: Senator Mulliken, prime sponsor; Patrick Connor, WA Farm Bureau; Aaron Golluday, Stokroge Farm.