

# HOUSE BILL REPORT

## HB 3275

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to the taxation of grocery distribution cooperatives.

**Brief Description:** Revising the taxation of grocery distribution cooperatives.

**Sponsors:** Representatives Linville, Ericksen, Morris and McIntire.

**Brief History:**

**Committee Activity:**

Finance: 2/12/08 [DP].

**Brief Summary of Bill**

- Extends the state business and occupation tax deduction to grocery cooperatives that are sold.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 9 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

**Staff:** Don Taylor (786-7388).

**Background:**

Washington's principal tax on businesses is the state business and occupation (B&O) tax. The B&O tax applies to the gross receipts derived from engaging in business. Although the tax does not reflect the cost of doing business, there are a variety of exemptions, deductions, and other tax incentives permitted by law. Major tax rates are 0.484 percent for manufacturing and wholesaling; 0.471 percent for retailing; and 1.5 percent for services; several lower rates also apply to specific business activities. The B&O tax generates about 16 percent of all state tax collections; most of the receipts are deposited in the State General Fund.

A specialized deduction was adopted in 2001 for certain grocery cooperatives. This provided that member-owned associations were not subject to B&O tax on wholesale distributions

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(except for fresh meat products) from the association to its member grocery stores, as long as the cooperative retained title to the goods. The existing deduction requires that the cooperative must be found to be not engaged in making wholesale sales to its member stores by a court of record, and then changing its distribution practices so that it does make wholesale sales to its members. Any commission income retained by the association is subject to the 1.5 percent service tax rate.

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**Summary of Bill:**

The deduction for wholesale distributions to member grocery stores by grocery cooperatives is broadened to continue the same tax treatment if a cooperative that is eligible for the deduction is acquired by another grocery distribution cooperative.

In addition to an impact on the State General Fund due to the broadened B&O tax deduction, because a litter tax exemption is tied to the definition in the amended statute, there will be a corresponding impact on the waste reduction, recycling, and litter control account.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:**

(In support) The original tax treatment of wholesale sales between an eligible grocery cooperative and its member stores was adopted in 2001. This bill merely continues the same tax treatment for a successor to the original cooperative. There have been major changes in the grocery industry in recent years. There are now approximately 300 local grocers that receive goods via independent grocery associations. Two major cooperatives have combined into one larger network, and they need this tax treatment to be able to compete with the vertically integrated grocery businesses.

(Opposed) None.

**Persons Testifying:** Craig Cole, Brown and Cole Stores; and Larry Nakata, Town and Country Markets.

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