

# SENATE BILL REPORT

## ESHB 2352

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As Reported By Senate Committee On:  
Agriculture & Rural Economic Development, March 26, 2007  
Ways & Means, April 2, 2007

**Title:** An act relating to the excise taxation of persons engaged in farming and farming services.

**Brief Description:** Providing excise tax relief for certain farm services.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Grant, Linville, Simpson and Bailey).

**Brief History:** Passed House: 3/13/07, 90-5.

**Committee Activity:** Agriculture & Rural Economic Development: 3/22/07, 3/26/07 [DPA-WM].

Ways & Means: 4/02/07 [DPA, w/oRec].

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### SENATE COMMITTEE ON AGRICULTURE & RURAL ECONOMIC DEVELOPMENT

**Majority Report:** Do pass as amended and be referred to Committee on Ways & Means.

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

**Staff:** Bob Lee (786-7404)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass as amended.

Signed by Senators Prentice, Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Hatfield, Hobbs, Honeyford, Keiser, Oemig, Parlette, Rasmussen, Roach, Rockefeller and Schoesler.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Fairley.

**Staff:** Dianne Criswell (786-7433)

**Background:** The business and occupation (B&O) tax is assessed on the gross proceeds of a business and the tax rate depends on which category the business activity is placed. The B&O tax does not apply to agricultural products sold at wholesale by farmers. Currently, custom farming activities fall under the catch-all "service and other activities" category and are

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subject to a 1.5 percent tax rate. Motor transportation services are subject to the public utility tax and are assessed at a 1.926 percent rate.

**Summary of Engrossed Substitute Bill:** Custom farming services, such as custom plowing, cultivation, planting, and harvesting performed for farmers, are exempt from the B&O tax if performed by another farmer whose principal place of business is within 50 miles of the farmer receiving the custom farm service. Custom application of fertilizers and chemicals do not qualify for the exemption.

Farm management services, contract labor services, and services for farm animals, if performed by a person related to the farmer or the custom farm operator, are exempt for the B&O tax.

Persons hauling agricultural products or farm machinery are exempt from the public utility tax if the service is provided to a farmer or a person performing custom farming service, but only if the hauling is done by a related person.

The term "related" has the same meaning as provided in the federal Internal Revenue Code. The exemptions expire December 31, 2020.

**EFFECT OF CHANGES MADE BY RECOMMENDED STRIKING AMENDMENT(S) AS PASSED COMMITTEE (Agriculture & Rural Economic Development):** To address an administrative issue, the restriction that the farmer that plows, plants, cultivates or harvests for another farmer be located within 50 miles of each other in the version passed by the House is replaced with a requirement that to be an eligible farmer, he or she must produce at least \$10,000 in gross income from the sale of agricultural products. The striking amendment establishes an effective date of August 1, 2007, and retains the December 31, 2020, expiration date.

**EFFECT OF CHANGES MADE BY RECOMMENDED STRIKING AMENDMENT(S) AS PASSED COMMITTEE (Ways & Means):** Makes a technical correction to the striker adopted by the Agricultural & Rural Economic Development Committee. That amendment removed the 50 mile requirement for custom farming and added a definition of "eligible farmer." Deletes subsection (3) from the definition of "related" in the internal revenue code section 267(b).

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony (Agriculture & Rural Economic Development):**  
PRO: Because of the high cost of farm machinery, farmers will occasionally do farm work for each other or for family members and the B&O tax should not be assessed in these cases. Family members with accounting or other farm management skills will often provide farm management services for other family members of a family farm, or will haul agricultural products for other family members. The bill has been significantly narrowed to reduce the fiscal impact.

**Persons Testifying (Agriculture & Rural Economic Development):** PRO: Representative Grant, prime sponsor; Heather Hansen, Washington Association of Wheat Growers; Patrick Connor, Farm Bureau.

**Staff Summary of Public Testimony (Ways & Means):** PRO: Neighbors and family who are farmers help one another out by providing one another services and equipment. The committee striking amendment is an improvement to the bill.

**Persons Testifying (Ways & Means):** PRO: Patrick Connor, Washington Farm Bureau.