

SENATE BILL REPORT

SB 5561

As Reported by Senate Committee On:
Agriculture, Water & Rural Economic Development, February 12, 2013

Title: An act relating to the business and occupation taxation of dairy products.

Brief Description: Concerning the business and occupation taxation of dairy products.

Sponsors: Senators Hatfield, Schoesler, Harper, Honeyford and Shin.

Brief History:

Committee Activity: Agriculture, Water & Rural Economic Development: 2/12/13 [DP-WM].

SENATE COMMITTEE ON AGRICULTURE, WATER & RURAL ECONOMIC DEVELOPMENT

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

Signed by Senators Hatfield, Chair; Brown, Eide, Hobbs, Honeyford, Ranking Member; Schoesler and Shin.

Staff: Diane Smith (786-7410)

Background: The business & occupation (B&O) tax is levied for the privilege of doing business in Washington and is the second largest revenue source for the general fund. It is forecasted to be 22 percent of general fund revenues in the 2013-2015 biennium.

The tax is levied on the gross receipts of all business activities, except utility activities, conducted within the state. Unlike a corporate net income tax, there are no deductions for the costs of doing business.

Currently, there are several different B&O tax rates. The three principal rates are:

- manufacturing, wholesaling, and extracting at 0.484 percent;
- retailing at 0.471 percent; and
- services at 1.5 percent.

Until July 1, 2015, sales of dairy products manufactured in Washington and manufactured dairy products that are sold for transportation out of state, are exempt from B&O taxes. Dairy products are defined by reference to the Code of Federal Regulations and include

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

byproducts from the manufacturing of dairy products, such as whey and casein. Beginning July 1, 2015, the value of these dairy products or the gross proceeds from their sale become subject to B&O tax at the rate of 0.138 percent. This rate will also apply to sales of grains, sea foods, processed fruits and vegetables, biodiesel, wood biomass, dried peas, and the business of slaughtering.

All business and occupation tax revenues are deposited into the general fund.

Cities and towns may also levy a municipal business tax. The tax may be levied on the type of business, the number of employees, the amount of floor space used, or on gross receipts. The maximum rate for the municipal business tax on gross receipts is 0.2 percent.

Summary of Bill: An additional type of sales of dairy products is exempt from state B&O taxes until July 1, 2015. These are sales of dairy products to purchasers who use the dairy products as an ingredient or component in the manufacturing of a dairy product.

Beginning July 1, 2015, in addition to the current status of sales of manufactured dairy products to purchasers who transport the goods out of state, the tax rate of 0.138 percent applies to purchasers who use the dairy products as an ingredient or component in the manufacturing of a dairy products.

Products comprised of not less than 70 percent dairy products by weight or volume are added to the definition of dairy products, both before and after July 1, 2015.

Appropriation: None.

Fiscal Note: Requested on February 6, 2013.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains two effective dates. Please refer to the bill.

Staff Summary of Public Testimony: PRO: This bill gives Washington a tool to attract one of the three largest infant formula producers in the world. The definition in the bill may not be perfect but it intends to broaden the definition of milk products to include value-added products that use milk products in their manufacture.

Persons Testifying: PRO: Sharon Appelt, Darigold; Dan Coyne, NW Dairy Assn., Dairgold.