

SENATE BILL REPORT

SB 5698

As Reported by Senate Committee On:
Agriculture, Water & Rural Economic Development, February 12, 2015

Title: An act relating to extending the expiration date of tax preferences for food processing.

Brief Description: Extending the expiration date of tax preferences for food processing.

Sponsors: Senators Hewitt, Hatfield, Schoesler and Warnick; by request of Office of Financial Management.

Brief History:

Committee Activity: Agriculture, Water & Rural Economic Development: 2/12/15 [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 Warnick, Chair; Dinsel, Vice Chair; Hatfield, Ranking Minority Member; Hobbs and Honeyford.

Staff: Bonnie Kim (786-7316)

Background: Business and Occupation (B&O) Tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Revenues are deposited in the state general fund. A business may have more than one B&O tax rate, depending on the types of activities conducted.

Tax Preferences. In 2005 the Legislature enacted a tax preference exempting fruit and vegetable businesses from B&O taxes on the value of products or the gross proceeds of sales derived from certain methods of manufacturing fruits or vegetables and from selling at wholesale those manufactured fruits or vegetables to purchasers who transport goods out of the state in the ordinary course of business. In 2006 the Legislature enacted a similar tax exemption for seafood product businesses and a similar tax deduction for dairy products. These tax preferences are set to expire on July 1, 2015, at which time the products will become subject to a tax equal to the value of the products manufactured or the gross proceeds derived from such sales, multiplied by the rate of 0.138 percent.

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.

Summary of Bill: Tax Preference Statement. The Legislature's public policy objective is to create and retain jobs and to continue providing tax relief to the food processing industry.

B&O Tax Exemptions. The following exemptions are extended to 2025:

- manufacturing fruits or vegetables by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables;
- selling at wholesale manufactured fruits or vegetables to purchasers who transport in the ordinary course of business the goods out of this state;
- manufacturing seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing by that person; and
- selling manufactured seafood products to purchasers who transport in the ordinary course of business the goods out of this state.

B&O Tax Deductions. Deductions are extended to 2025 for the value of products or the gross proceeds of sales derived from the following:

- manufacturing dairy products; and
- selling manufactured dairy products to purchasers who either transport in the ordinary course of business the goods out of this state or to purchasers who use such dairy products as an ingredient or component in the manufacturing of a dairy product.

B&O Tax Assessment. The following provisions assessing a tax equal to the value of the products manufactured or the gross proceeds derived from such sales, multiplied by the rate of 0.138 percent, and currently set to begin July 1, 2015, are delayed to begin on July 1, 2025:

- seafood products presently exempt;
- dairy products presently eligible for deduction; and
- fruit or vegetable products presently exempt.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2015.

Staff Summary of Public Testimony: PRO: Agriculture is a critical industry in our state. The food processing industry is symbiotic with the agriculture industry. The tax preferences will help ensure industry and jobs stay in the state. We use the savings from the tax preference to create more jobs and invest in our community. We have a lot of competition for international milk product sales, particularly with companies from New Zealand. We are a small family-owned winery and this tax preference helps us compete with California and European wineries. We are a small dairy farm and our success depends on the success of our food processor. Food processing is Washington's third-largest manufacturing sector. Our business has a very low margin but a bright spot has been this tax exemption allowing us to remain competitive for out-of-state and international sales. We honor our responsibility to pay B&O tax on products sold within Washington and appreciate the tax preference for products sold out of state. The maritime industry is growing by 6.4 percent per year and a

large driver of that is the fish and seafood processing industry. The fish and seafood products are growing in the global market and this tax preference allows Washington to remain competitive for new businesses.

Persons Testifying: PRO: Paul Berendt, WA Beef; Michelle Schilter, Sunton Farms; Sharon Appelt, Darigold; Bud Hover, WA State Dept. of Agriculture; Gaye McNutt, Cadence Winery, WA Wine Institute; Virgil Roehl, Twin City Foods; Ian Tolleson, NW Food Processors Assn.; Holli Johnson, Pacific Seafood Co.; Steve Sewell, WA State Dept of Commerce.