

HOUSE BILL REPORT

HB 1573

As Passed House:
March 16, 2023

Title: An act relating to extending tax preferences for dairy, fruit and vegetable, and seafood processors.

Brief Description: Extending tax preferences for dairy, fruit and vegetable, and seafood processors.

Sponsors: Representatives Rule, Corry, Timmons, Leavitt, Walen, Shavers, Lekanoff, Chapman, Dye, Springer, Reeves, Barnard, Eslick and Sandlin.

Brief History:

Committee Activity:

Finance: 2/9/23, 2/21/23 [DP].

Floor Activity:

Passed House: 3/16/23, 77-19.

Brief Summary of Bill

- Extends the expiration date of business and occupation tax preferences for dairy, fruit and vegetable, and seafood processors from July 1, 2025, to July 1, 2035.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 12 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Stokesbary, Walen and Wylie.

Staff: Tracey Taylor (786-7152).

Background:

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

Business and Occupation Tax.

Washington's major business tax is the 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. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent (businesses with taxable income of less than \$1 million) or 1.75 percent (businesses with taxable income of \$1 million or more) for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability.

Tax Preferences for Manufacturers of Fresh Fruit or Vegetables, Seafood Products, and Dairy Products.

Manufacturers of fresh fruit or vegetables, seafood products, and dairy products are eligible for exemptions from the B&O tax.

The B&O tax exemptions provide an exemption from the manufacturing B&O tax on the value of products sold by fresh fruit and vegetable, seafood product, or dairy product manufacturers; and, generally, an exemption from the retailing and wholesaling B&O tax for those products manufactured and sold by the manufacturer to a customer who transports the product outside this state in the normal course of business.

These exemptions expire July 1, 2025. When they expire, the business's income is no longer exempt from the B&O tax but will become subject to a reduced B&O tax rate of 0.138 percent for manufacturing, retailing, and wholesaling activities.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Joint Legislative Audit and Review Committee 2022 Tax Preference Performance Report.

In 2022 JLARC reviewed the B&O tax preferences for the dairy, fruit and vegetable, and

seafood processing industries. The JLARC found that the B&O tax preferences were providing tax relief for all three industries, but concluded that only dairy and fruits and vegetables were able to create and retain jobs.

The JLARC recommended that the Legislature:

- continue the B&O tax preferences for dairy processors;
- allow the B&O tax preference for dairy products used as an ingredient or component to expire;
- continue and clarify the B&O tax preferences for fruit and vegetable processors; and
- review and clarify the B&O tax preferences for seafood processors.

Summary of Bill:

The B&O tax exemptions for food processors are extended from July 1, 2025, to July 1, 2035. However, the tax exemption for dairy products sold as an ingredient or component to manufacture other dairy products is not extended and will expire on July 1, 2025.

A TPPS is included. The stated public policy objectives of the bill are to create and retain jobs in the food processing industry and to provide tax relief.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The JLARC conducted a review of these tax preferences and recommended the continuation of the preferences contained in this bill. For the wine industry, which is currently flat, this means opening and supporting new markets world wide by allowing Washington growers and producers to compete with other producers. Moreover, these tax preferences level the playing field across the food manufacturing industry and rewards the hard work of Washingtonians.

The growth and health of the industry is extremely trade exposed; therefore, the B&O tax preference has a positive impact. Washington's dairy producers employ 60,000 workers alone and produce 11 billion pounds of milk annually. Exports to Asia are important to Washington's dairy producers and these tax preferences allow Washington to compete with other dairy exporters, including those from New Zealand.

In addition, dairy manufacturers, fruit and vegetable processors, and seafood processors are out performing other manufacturers in job growth and wages. Not only are they investing

in our workers, but they are also investing in facilities across the state. By extending the preference now, we will provide stability in functioning markets.

(Opposed) None.

Persons Testifying: Representative Alicia Rule, prime sponsor; Craig Smith, Food Northwest; Beau Hickman, Figgins Family Wine Estates; Ryan Pennington, Ste Michelle Wine Estates; and David Ward and Jeremy Visser, Darigold.

Persons Signed In To Testify But Not Testifying: None.