
Finance Committee

HB 1757

Brief Description: Providing a sales and use tax remittance to qualified farmers.

Sponsors: Representatives Corry, Springer, Chapman, Dent and Schmidt.

Brief Summary of Bill

- Provides a sales and use tax exemption in the form of a remittance to eligible farmers who paid business and occupation tax on activities that would have been exempt if the custom farming exemption had not lapsed.

Hearing Date: 2/20/23

Staff: Tracey Taylor (786-7152).

Background:

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 or 1.75 percent for services and for activities not classified elsewhere, depending on the size of the business. Several preferential rates also apply to specific business activities.

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.

Tax Preferences.

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.

Custom Farming and Hauling Farm Products Tax Preferences.

In 2007 the Legislature enacted two tax preferences for farms: a B&O tax exemption for farmers who provide custom farming services to other farmers; and a public utility tax exemption for those who haul farm machinery, equipment, or agricultural products for a related farmer or person performing customer farming services. Both preferences expired December 31, 2020. The Legislature permanently reauthorized the tax preferences beginning July 1, 2022.

Summary of Bill:

An eligible farmer may claim a sales and use tax exemption on goods and services purchased. The exemption is in the form of a remittance and the eligible farmer must pay all applicable sales and use taxes on items that are considered goods and services. The amount of the exemption is equal to the amount of B&O taxes paid on custom farming activities between December 31, 2020 and July 1, 2022. The exemption may be carried forward until the eligible farmer receives a remittance that totals an amount equal to the taxes paid that would not have been owed had the B&O exemption not expired.

An "eligible farmer" has the same meaning as in the B&O tax exemption for the custom farming statute.

This act is exempt from the TPPS, JLARC review and automatic 10-year expiration.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on August 1, 2023.