

HOUSE BILL REPORT

HB 1936

As Reported by House Committee On:
Finance

Title: An act relating to tax incentives for farmers.

Brief Description: Concerning tax incentives for farmers.

Sponsors: Representatives Shavers, Ramel and Timmons.

Brief History:

Committee Activity:

Finance: 1/23/24, 2/1/24 [DPS].

Brief Summary of Substitute Bill

- Creates a business and occupation tax credit for 25 percent of expenditures for farming inputs purchased by a farmer who receives a conservation grant or is a participant in a state or federal conservation program.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Ramel, Santos, Springer, Walen and Wylie.

Minority Report: Without recommendation. Signed by 1 member: Representative Chopp.

Staff: Kristina King (786-7190).

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.

Farming most commonly falls under the retailing, manufacturing, wholesaling, and service and other activities B&O categories. There are B&O tax exemptions for revenue from agricultural fairs, custom farming services, amounts received for buying certain grains and legumes, farmers that sell any agricultural product at wholesale, or to any farmer who grows, raises, or produces agricultural products owned by others, such as custom feed operations. The wholesaling exemption does not apply to any person selling agricultural products at retail or to any person selling manufactured substances or articles.

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.

State and Federal Conservation Grants and Programs.

There are various state conservation grants and programs that provide funding and other resources for Washington farmers, including the natural resources investments and the sustainable farms and fields programs at the Washington State Conservation Commission and the resilient food structure infrastructure program at the Washington Department of Agriculture. Additionally, there are various federal conservation programs, including the United States Department of Agriculture agricultural management assistance, conservation reserve, and regional conservation partnership programs.

Summary of Substitute Bill:

Beginning January 1, 2025, a B&O tax credit is created equal to 25 percent of expenditures for farming inputs including new equipment, infrastructure, seed, seedlings, spores, animal feed, and amendments purchased by a farmer that meets one of the following criteria:

- The farmer is a recipient of a conservation grant either directly from the Washington Conservation Commission or indirectly through a conservation district or other public entity.
- The farmer is a participant in a state conservation program through the Washington Conservation Commission or a state conservation district.
- The farmer is a participant in a federal conservation program through the United States Department of Agriculture Natural Resources Conservation Service.

The credit is exempted from TPPS requirements, including a JLARC review and the 10-year automatic expiration.

Substitute Bill Compared to Original Bill:

Compared to the original bill, the substitute bill:

- limits the eligible programs to state programs and funding for qualifying farmer participation; and
- adds tax preference performance requirements and a review from the JLARC with the policy objective to provide a tax incentive for farmers in order to attract more farmers to participate in conservation programs in Washington.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Washington should be committed to fostering strong partnerships with farmers and increasing the state's environmental health through providing aid to farmers who use sustainable conservation practices. Conservation agriculture should not start with mandates or requirements. It should instead begin with incentives that not only conserve and protect our water and resources, but also encourage robust farming communities. State and federal conservation programs that are included under this bill address a wide range of environmental initiatives, including drinking water protection, soil erosion reduction, and preservation of forests and wetlands. The agricultural community plays a vital role that is often forgotten in legislation that attempts to combat climate change. It is important to remember that globally, agriculture is responsible for about one-third of greenhouse gas emissions. Sustainable agricultural practices can help sequester carbon, decrease emissions,

increase the vitality of our soil, and provide food for communities. Farmers can be key in contributing solutions to reduce the effects of climate change. This bill is a small start to begin supporting the farming community and pursuing smart environmental objectives at the same time.

(Opposed) None.

Persons Testifying: Representative Clyde Shavers, prime sponsor.

Persons Signed In To Testify But Not Testifying: None.