

HOUSE BILL REPORT

HB 1664

As Reported by House Committee On:
Economic Development, Agriculture & Trade

Title: An act relating to repealing and narrowing tax incentives for machinery and equipment used to reduce agricultural burning of cereal grains and grass grown for seed for air quality purposes.

Brief Description: Changing the tax exemptions for machinery and equipment used to reduce agricultural burning.

Sponsors: Representatives Grant, Buri, Linville, Walsh and Schindler.

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 2/18/05, 3/1/05 [DPS].

Brief Summary of Substitute Bill

- Exempts from the sales and use tax sales to qualified farmers of specified machinery, equipment, labor and services used to reduce agricultural field burning.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 23 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Kristiansen, Ranking Minority Member; Skinner, Assistant Ranking Minority Member; Blake, Buri, Chase, Clibborn, Condotta, Dunn, Grant, Haler, Holmquist, Kenney, Kilmer, Kretz, McCoy, Morrell, Newhouse, Quall, Strow, P. Sullivan and Wallace.

Staff: Meg Van Schoorl (786-7105).

Background:

The burning of residues in the production of field and turf grass grown for seed was phased out between 1996 and 1998 pursuant to rules adopted in 1995 by the Department of Ecology (DOE). A reduction in the burning of cereal grain stubble is subject to a memorandum of understanding between the DOE and cereal grain growers that requires a 50 percent reduction in emissions to take place between 2000 and 2007.

The 2000 Legislature established tax incentives to encourage the use of alternatives to field burning for cereal grains and field and turf grass grown for seed. The exemptions are

available to farmers and others engaged in activities that make it possible to reduce field burning or the resulting air emissions, including manufacturers or marketers of straw and straw-based products.

The incentives include:

- an exemption from sales and use taxes for machinery and equipment, and for services in constructing and repairing buildings when the machinery, equipment, or structures are used more than half of the time in activities related to reduction of field burning;
- an exemption from personal property taxes for the machinery and equipment that is exempt from the sales and use tax; and
- a business and occupation (B&O) tax credit equal to 50 percent of the construction, machinery or equipment costs for those persons eligible to take the sales and use tax exemptions.

The sales and use tax exemptions and the B&O tax credit are scheduled to expire on January 1, 2006. The personal property tax exemption is scheduled to expire on January 1, 2007.

Summary of Substitute Bill:

The tax incentives provided by the 2000 Legislature to encourage alternatives to the field burning of cereal grains and field and turf grass grown for seed are narrowed and refined.

A "qualified farmer" is a farmer as defined in Chapter 82.04.213 RCW who has more than 50 percent of his or her tillable acres in cereal grains and/or field and turf grass grown for seed in qualified counties.

A "qualified county" is a county where cereal grain production exceeds 15,000 acres and cereal grain production from non-irrigated acreage exceeds cereal grain production from irrigated acreage.

Sales of specified machinery and equipment to qualified farmers are exempt from the sales and use tax. Labor and services used in the construction of hay sheds for qualified farmers or tangible personal property that becomes an ingredient or component of hay sheds during construction are also exempt from the sales and use tax.

No applications are required for the tax exemption. However, the person taking the exemption must keep records that will verify eligibility. The Department of Revenue may request copies of farm service agency or crop insurance records for verification of eligibility, but these are considered taxpayer information and are not disclosable.

The sales and use tax exemptions each expire on January 1, 2011.

The existing sales and use tax exemptions related to field burning in Chapter 82.08.840 RCW and Chapter 82.12.840 RCW are each repealed.

The existing B&O tax credit related to field burning in Chapter 82.04.4459 RCW is repealed.

The existing personal property tax exemption related to field burning in Chapter 84.36.580 RCW is repealed.

Substitute Bill Compared to Original Bill:

Sales to qualified farmers of minimum-till drills, chisels, plows and transplanters are exempted from the sales and use tax. It is not an option for the Department of Revenue to exempt from sales and use tax by rule new types of equipment based on new technology if recommended by the Department of Ecology or the Department of Agriculture.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: This is a very important bill to the turfgrass seed industry. The Department of Ecology (DOE) eliminated open field burning on blue grass in 1996. Since then we have had tax exemptions on equipment and machinery used to reduce agricultural burning, but they are set to expire. This bill will extend some of them but it narrows down the scope of exemptions by listing specific equipment that is eligible. In eliminating the burning, the industry has helped the environment by improving air quality. To comply with no burning has cost the industry \$6.5 million. The industry is protecting public health; tax exemptions are the public's way to support no burning. Washington and Hawaii are the only two states that have any sales tax on farm machinery. The wheat growers are in favor of this bill. We have a Memorandum of Understanding with the DOE that is requiring a 50 percent reduction in field burning by 2006. We have done well, down from 229,000 acres to 134,000 acres, but have had to change our farm practices to accomplish it. We have had to purchase more equipment and make more trips over the field. If we have to reduce to zero acres burned, it will mean a lot more equipment to purchase, and more costs. We need this tax relief.

Testimony Against: None.

Persons Testifying: Art Schultheis and David Baumann, Washington State Turfgrass Seed Commission; and Jeff Emtman, Washington Association of Wheat Growers.

Persons Signed In To Testify But Not Testifying: None.