

HOUSE BILL REPORT

2SSB 5850

As Reported By House Committee On:
Agriculture & Rural Development

Title: An act relating to clarifying definitions relating to farmers.

Brief Description: Clarifying definitions relating to farmers.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators M. Rasmussen, Loveland and Barr).

Brief History:

Reported by House Committee on:
Agriculture & Rural Development, March 30, 1993, DPA.

HOUSE COMMITTEE ON AGRICULTURE & RURAL DEVELOPMENT

Majority Report: Do pass as amended. Signed by 10 members: Representatives Rayburn, Chair; Kremen, Vice Chair; Chandler, Ranking Minority Member; Schoesler, Assistant Ranking Minority Member; Chappell; Foreman; Grant; Karahalios; Lisk; and Roland.

Staff: Kenneth Hirst (786-7105).

Background: State laws establishing and levying the state's retail sales and use taxes depend on the definition of "sale at retail" and "retail sales" found in the laws governing the state's business and occupation tax (B&O). Exempted from retail sales and use taxes are sales of feed, seed, seedlings, fertilizer, and spray materials to persons for the purpose of producing for sale any agricultural product. However, this exemption applies only when the production and sale are also exempt from taxation under a section of the B&O tax laws which provides a general exemption for agricultural activities.

The agricultural exemption from B&O taxation applies to wholesale sales of animals or agricultural crops by the producer. It does not apply to: any person selling such products at retail or using such products as ingredients in a manufacturing process; or a sale made by a person in connection with the person's business of operating a stockyard, slaughter house, or packing house. With regard to sales of feed, seed, fertilizer and spray materials, the

exemption does not, by rule, apply to persons who extract natural resources, such as oil or gravel, or to persons who harvest fish from other than the person's own rearing areas.

Summary of Amended Bill: General definitions of "farmer" and the "agricultural products" they produce are added to the state's B&O tax laws. Agricultural products are the products of plant cultivation or animal husbandry, other than animals intended to be pets. They include the substances obtained from animals. A farmer is a person who produces, for sale, agricultural products on his or her own lands. As is the case under current B&O tax law, a farmer expressly does not include a person: using such products as ingredients in a manufacturing process; producing the products for his or her own consumption; or dealing in livestock as an operator of a stockyard, slaughter house, or packing house.

These definitions are used in identifying the wholesale sales of agricultural products by farmers which are exempt from taxation under the B&O tax laws.

Sales of feed, seed, seedlings, fertilizer, and spray materials to such farmers are exempt from retail sales or use taxation for the production of such agricultural products whether the agricultural products are eventually sold by the farmer at wholesale or at retail.

Amended Bill Compared to Second Substitute Bill: The amendment restores in the definition of "farmer," as it is used for the exemption from retail sales and use taxation, the restriction of current law that the exemption does not apply to an association of persons engaged in any business activity with respect to which tax liability is imposed under the B&O tax laws. The amendment also clarifies that animals intended to be pets are not "agricultural products" and adds an emergency clause.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: The bill will clarify that the exemption from retail sales taxation provided by current law regarding the sale of inputs to farmers for the production of agricultural products applies even if those products are sold by the farmers at retail at farmers' markets, farm gates, or elsewhere.

Testimony Against: None.

Witnesses: (In favor) Senator M. Rasmussen; George Mastrodonato and Bill Roberts, Washington State Farm Bureau; and Chris Cheney.