

HOUSE BILL REPORT

HB 1328

As Reported By House Committee On: Agriculture & Ecology

Title: An act relating to business and occupation tax on the handling of hay, alfalfa, and seed.

Brief Description: Revising the business and occupation tax on the handling of hay, alfalfa, and seed.

Sponsors: Representatives Schoesler, Chandler, Sheahan, Mulliken, Bush, McMorris and Mastin; by request of Department of Revenue.

Brief History:

Committee Activity:

Agriculture & Ecology: 2/5/97, 2/12/97 [DPS].

HOUSE COMMITTEE ON AGRICULTURE & ECOLOGY

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Chandler, Chairman; Parlette, Vice Chairman; Schoesler, Vice Chairman; Linville, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; Cooper; Delvin; Koster; Mastin; Regala and Sump.

Staff: Kenneth Hirst (786-7105).

Background: B&O Tax Rates. The base Business and Occupation (B&O) tax rate on manufacturing is equal to the value of the products manufactured multiplied by 0.484 percent. However, for manufacturing a number of agricultural commodities into products, the base B&O tax rate is less than the standard manufacturing rate. For example, the base rate for manufacturing wheat into flour and canola into canola oil is 0.011 percent.

The base B&O tax rate on the business of making sales at wholesale is equal to the gross proceeds of the sales multiplied by 0.484 percent. However, for wholesale sales of a number of agricultural commodities purchased for sale at wholesale, the base B&O tax rate is equal to the gross proceeds of the sales multiplied by 0.011 percent. The B&O tax statutes do not apply to farmers who sell agricultural products at wholesale. Such a farmer must be engaged in growing or producing an agricultural

product on the farmer's own lands or on the lands in which the farmer has a present right of possession. This exemption does not apply to using agricultural products in a manufacturing process.

Taxes paid under these base B&O tax rates for manufacturing or sales at wholesale are increased by an additional tax that is equal to the base tax multiplied by 4.5 percent. This additional tax expires June 30, 1997.

Retail Sales Tax. A sales tax is levied by the state on retail sales. Among the exemptions from this tax provided by statute is an exemption for sales to a manufacturer or processor for hire of machinery and equipment used directly in a manufacturing operation. The exemption also applies to sales of, or charges made, for labor and services for installing, repairing, cleaning, altering, or improving such machinery or equipment. Although the retail sales tax statutes define this and other aspects of an operation that is eligible for the tax exemption, they do not define the term to manufacture.— The term is defined in the B&O tax statutes; the definition in the B&O tax statutes may apply to the use of the term in the retail sales tax statutes. It is the position of the Department of Revenue that the B&O tax definition of the term does apply to the retail tax exemption. That is, an operation that is exempted from the term to manufacture— for the B&O manufacturing tax does not qualify as a manufacturing operation for the retail sales tax exemption for purchases of manufacturing equipment and services.

Summary of Substitute Bill: The definition of the term to manufacture— provided by the B&O tax statutes is amended. The term does not apply to, and therefore the B&O tax for manufacturing does not apply to, cubing hay or alfalfa.

The B&O tax rate for persons engaged in the business of making sales at wholesale of seed conditioned for use in planting or such sales of cubed hay or alfalfa is equal to the gross proceeds derived from the sales multiplied by 0.011 percent.

Substitute Bill Compared to Original Bill: Added to the original bill is the reduction in the B&O tax for wholesale sales of cubed hay or alfalfa.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect July 1, 1997.

Testimony For: The bill makes the B&O taxes for these activities consistent with B&O tax policy for other agricultural activities.

Testimony Against: None.

Testified: Jim Hedrick, Department of Revenue (in favor).