

HOUSE BILL REPORT

HB 1987

As Reported By House Committee On:
Agriculture and Ecology
Finance

Title: An act relating to tax exemptions and credits for structures and equipment used to reduce agricultural burning of cereal grains and field and turf grass grown for seed.

Brief Description: Authorizing tax exemptions and credits for structures and equipment used to reduce agricultural burning.

Sponsors: Representatives Schoesler, Grant and G. Chandler.

Brief History:

Committee Activity:

Agriculture and Ecology: 2/22/99, 2/25/99 [DPS];

Finance: 4/5/99 [DPA(FIN w/o Agriculture and Ecology)s].

Brief Summary of Substitute Bill

- Tax exemptions are created in order to encourage alternatives to field burning of cereal grains and field and turf grass grown for seed.

HOUSE COMMITTEE ON AGRICULTURE AND ECOLOGY

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 14 members: Representatives G. Chandler, Republican Co-Chair; Linville, Democratic Co-Chair; Cooper, Democratic Vice Chair; Koster, Republican Vice Chair; Anderson; B. Chandler; Delvin; Fortunato; Grant; Reardon; Schoesler; Stensen; Sump and Wood.

Staff: Bill Lynch (786-7092).

Background:

The Department of Ecology has phased out the ability of farmers to burn field and turf grass for seed in most instances because of concerns over the air emissions resulting from the burning. The department initially adopted a regulation which provided that without

regard to any previous burn history, each farmer in 1996 was limited to burning the greater of: two-thirds of the acres burned under a permit issued in 1995, or two-thirds of the acres in grass seed production on May 1, 1996. Beginning in 1997 and until approved alternatives become available, each farmer was limited to burning no more than one-third of the acres in grass seed production on May 1, 1996. In May 1998, burning was no longer authorized for field and turf grass seed unless an exemption applied because the department concluded that mechanical residue management constitutes a practical alternative to burning. This process is reasonably available throughout the state wherever baling can be used.

Burning is still allowed, however, for cereal grains as a method to get rid of the straw. A memorandum of understanding has been signed by the Washington Association of Wheat Growers and the Departments of Agriculture and Ecology to reduce emissions from agricultural burning by 50 percent over the next seven years. Tax incentives to encourage alternatives to this burning may result in further reductions in air emissions from burning cereal grains and field and turf grass grown for seed.

Summary of Substitute Bill:

The retail sales tax does not apply to sales of machinery and equipment, or to services rendered in constructing structures, installing, constructing, repairing, cleaning, decorating, altering, or improving structures or eligible machinery or equipment, or to sales of personal property that is a component or ingredient of eligible structures, machinery or equipment, that meets the criteria for reducing agricultural burning of cereal grains and field and turf grass grown for seed.

The use tax does not apply in respect to the use of machinery and equipment, or personal property that becomes a component or ingredient of eligible machinery and equipment that meets the criteria for reducing agricultural burning of cereal grains and field and turf grass grown for seed.

The retail sales and use tax exemptions apply if the machinery, equipment, or structure is used primarily for gathering, densifying, processing, handling, storing, transporting, or incorporating straw or straw-based products that results in less field burning of cereal grains and field and turf grass grown for seed; or decreasing air emissions resulting from field burning of cereal grains and turf grass grown for seed.

In order to claim the retail sales and use tax exemptions, the person taking the exemption must keep records necessary for the Department of Revenue to verify eligibility. The Department of Agriculture and the Department of Ecology must consult with the Department of Revenue regarding the information necessary for administration of these exemptions. In order to claim the retail sales tax exemption, the buyer must provide the

seller with an exemption certificate in a form and manner prescribed by the Department of Revenue. The seller must keep a copy of the certificate in the seller's files.

All personal property which is exempt from the retail sales and use taxes because it meets the criteria for reducing agricultural burning of cereal grains and field and turf grass grown for seed is also exempt from property taxes.

A person who is eligible for the retail sales or use tax exemption for purchasing eligible machinery and equipment or constructing eligible structures, may take a credit against the business and occupation tax equal to 50 percent of the amount of costs expended for which an exemption was taken. An applicant is not eligible for tax credits in excess of the amount of tax that would otherwise be due, and approved credits may not be carried over to subsequent years or be exchanged for refunds. No application is necessary to obtain the business and occupation tax credit, but the person taking the credit must keep records necessary for the Department of Revenue to verify eligibility. No business and occupation tax credit may be claimed for expenditures that occurred before the effective date of this legislation.

Substitute Bill Compared to Original Bill: Machinery, equipment, or structures must be used exclusively, rather than primarily for the eligible activity. The category of "otherwise contributing to the reductions of burning" is deleted as an eligible activity. The Departments of Agriculture and Ecology consult with the Department of Revenue regarding the administration of the tax exemption.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: (Original bill) This will help encourage alternative measures to burning and will reduce emissions. This could help start some new business because equipment is expensive and it is hard to get loans.

Testimony Against: (Original bill) This word exclusively should be substituted for primarily. The Departments of Agriculture and Ecology should be in consulting mode with the Department of Revenue. The broad eligibility category should be dropped.

Testified: (In support) Art Schultheis, Washington Association of Wheat Growers.

(In support with amendments) Stu Trefry, Department of Ecology.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Agriculture & Ecology. Signed by 12 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Carrell, Republican Vice Chair; Reardon, Democratic Vice Chair; Cairnes; Conway; Cox; Dickerson; Pennington; Santos; Van Luven and Veloria.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee on Finance Compared to Recommendation of Committee on Agriculture and Ecology: The sales and use tax exemption and the B&O tax credit are ended on January 1, 2005. The personal property tax exemption applies to property taxes collected in 2000 through 2005 only. Technical changes are made to conform the use tax exemption to the sales tax exemption.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: Virtually all burning of grass seed stubble has been eliminated. Wheat growers have entered into an agreement to reduce burning by 50 percent. There is a lot of straw material now piling up. Government should not profit from the need to purchase new equipment to handle the straw that is no longer burned.

Testimony Against: None.

Testified: Representative Schoesler, prime sponsor; and Ray Shindler, Washington Association of Wheat Growers.