

HOUSE BILL REPORT

HB 1339

As Reported by House Committee On:
Finance

Title: An act relating to providing equity in the taxation of farmers.

Brief Description: Providing equity in the taxation of farmers.

Sponsors: Representatives Linville (co-prime sponsor), Ericksen (co-prime sponsor), Barlean and Van Luven; by request of Department of Revenue.

Brief History:

Committee Activity:

Finance: 2/6/01, 2/20/01 [DPS].

Brief Summary of Substitute Bill

- Provisions for farmers in the Business and Occupation tax chapter are clarified to eliminate an overlap with provisions for extractors and manufacturers.
- Taxable status and exempt status for farmers are clarified.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos, Van Luven and Veloria.

Staff: Mark Matteson (786-7145).

Background:

Definitions: Tax Exemptions for Farmers

An extractor is defined as a person who produces or takes natural resources from his/her own land for the ultimate purpose of sale. Extractors include persons that take, cultivate, or raise shellfish or other sea or inland water products. The definition excludes persons who cultivate or raise fish or who take plantation Christmas trees.

A farmer is any person who grows or produces any agricultural product for sale. The definition excludes persons who uses agricultural products in manufacturing.

Any farmer that sells agricultural products at wholesale is exempt from any business and occupation (B&O) tax. The exemption does not apply to persons selling agricultural products at retail.

Retail Sales and Use Tax Exemptions for Feed for Raising Fish

An exemption from the retail sales and use taxes is provided for feed purchased solely for raising fish on a person's property, for ultimate sale.

Definition of Agricultural Product and Retail Sales and Use Tax Exemptions for Livestock

An agricultural product is defined as any product of plant cultivation or animal husbandry. Animals intended to be pets are excluded from the definition.

Sales of purebred livestock for breeding purposes or of cattle and milk cows used on a farm are exempt from the retail sales tax. The use of purebred livestock for breeding purposes or of cattle and milk cows on the farm is exempt from the use tax.

Application of the Litter Tax and Exemption for Certain Farming Products

The litter tax is imposed on the value or gross proceeds of certain manufactured, wholesaled, or retailed products, including groceries, soft drinks, newspapers, and certain other items. The revenues are intended to be used toward the effective control of litter within the state.

For the purposes of the litter tax statute, the provisions of the B&O tax chapter apply, with the exception of those sections that impose a B&O tax and the section that provides an exemption from the B&O tax for farmers wholesales.

An exemption from the litter tax is provided for value or gross proceeds of sales of certain farm-raised products relating to animals, including animals, birds, insects, milk, eggs, wool, fur, meat, honey.

Summary of Substitute Bill:

Definitions: Tax Exemptions for Farmers

The definition of extractor is amended to exclude farmers, generally, as defined in the B&O tax statute. Specific references to persons who cultivate or raise shellfish, fish, or who take plantation Christmas trees are deleted.

The definition of farmer is clarified to include any person who grows, raises, or produces an agricultural product to be sold. The exclusion for persons who use agricultural

products as ingredients in a manufacturing process is deleted.

The exemption from the B&O tax for farmers is extended to farmers who grow, raise, or produce agricultural products owned by others (such as custom feed lot operations). Additionally, the exemption now excludes persons who sell manufactured items.

Retail Sales and Use Tax Exemptions for Feed for raising Fish

This exemption is repealed, as changes made to the definition of farmer make this separate provision unnecessary.

Definition of Agricultural Product and Retail Sales and Use Tax Exemptions for Livestock

The definition of agricultural product is clarified regarding the exclusion of pets, which is now referenced to the title 16 chapter regarding control of pet animals.

The sales and use tax exemption for livestock sales is clarified by referencing the definition of livestock in the title 16 chapter on animal health.

Application of the Litter Tax and Exemption for Certain Farming Products

Technical changes are made to the references in the litter tax to the B&O tax chapter. The exemption from the litter tax for farmers is clarified by referencing the definition in the B&O tax chapter.

Substitute Bill Compared to Original Bill:

The substitute bill omits a section in the original bill that repeals a now-redundant exemption from retail sales and use taxes provided for the purchase of fish feed to persons that raise or cultivate fish for sale.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: These clarifications are needed to ensure that berry growers do not inadvertently owe tax retroactively. Persons that grow berries or who raise agricultural products generally would have status as farmers, and persons that then freeze berries or who manufacture generally would have status as manufacturers. This bill is an attempt to make tax and exemption status more equitable for farmers.

Testimony Against: None.

Testified: Representative Linville, co-prime sponsor; Representative Erickson, co-prime sponsor; Tim Sekerak, Department of Revenue; Leslie Cushman, Department of Revenue; and Jim Zimmerman, Washington Fish Growers Association.