

HOUSE BILL REPORT

HB 2070

As Reported by House Committee On:

Finance

Title: An act relating to tax exemptions and credits for structures and equipment used to reduce agricultural burning.

Brief Description: Modifying tax relief provisions for the reduction of agricultural burning.

Sponsors: Representatives B. Chandler, Grant and Fromhold.

Brief History:

Committee Activity:

Finance: 3/2/01, 3/8/01 [DP].

Brief Summary of Bill

- Tax exemptions and credits provided as incentives to reduce field burning of grains and grass are extended to the gathering and processing of orchard trimmings and other agricultural debris.
- The provision to expire exemptions and credits for the reduction of field burning is removed.

HOUSE COMMITTEE ON FINANCE

Majority Report: 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:

Retail Sales and Use Taxes:

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods and certain services. The tax is imposed at a 6.5 percent rate by the state. Cities and counties may impose a local tax at

a rate up to a maximum of 3.1 percent; currently, local rates imposed range from 0.5 percent to 2.3 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

Business and Occupation Tax:

The business and occupation (B&O) tax is Washington State's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited to the state general fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. Examples of some of the B&O tax rates that apply to Washington businesses include:

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|-------------------------------|-------|---------|
| Manufacturing and wholesaling | 0.484 | percent |
| Processing of fresh produce | 0.138 | percent |
| Services | 1.5 | percent |

Property Taxes:

All real and personal property in this state is subject to property tax each year based on its value unless a specific exemption is provided by law. Taxable property includes both real property and personal property. Real property is land and the buildings, structures, or improvements that are affixed to the land. Personal property includes all other property.

Encouraging Alternatives to Field Burning:

In the 2000 session, the Legislature enacted E2SHB 1987 (Chapter 40, Laws of 2000) that provided several tax preferences for the purpose of encouraging alternatives to the field burning of cereal grains and field and turf grass grown as seed. The legislation provides an exemption from retail sales and use taxes for the purchase or use of eligible machinery and equipment or associated services. Eligible machinery includes machinery that is used to gather or process straw or straw-based products in order to reduce the burning of cereal grains and field and turf grass grown for seed. Eligible machinery also includes machinery that can decrease air emissions associated with field burning. Personal property purchased or used under the retail sales and use tax exemption provided by the act is exempt from property taxation. In addition, the act provides a credit against the B&O tax equal to 50 percent of the cost of the machinery and/or services for which a retail sales and use tax exemption is taken. The exemptions and credit expires in 2006 and 2007.

No exemption is provided for gathering or processing orchard trimmings and takeouts or other agricultural debris that might otherwise be disposed by burning.

Summary of Bill:

Tax exemptions and tax credit are provided for the gathering and processing of orchard trimmings and takeouts and other agricultural debris in lieu of burning. The exemptions and credit represent an extension of the tax preferences provided to encourage alternatives to the field burning of cereal grains and field and turf grass grown as seed.

The eligible uses for machinery, equipment, or structures that are exempt from the retail sales and use taxes under the field burning alternatives act passed in the 2000 session are expanded. Expanded uses include gathering, transporting, chipping, grinding, composting, and incorporating orchard trimmings and takeouts, and other debris, in lieu of burning. Fifty percent of the expenditures on the machinery and equipment and associated services purchased using the sales and use tax exemption may be credited against the B&O tax. The personal property purchased or used under the sales and use tax exemption is exempt from property taxes.

The provision is removed that expires the exemptions and credits to encourage alternatives to agricultural field burning.

Appropriation: None.

Fiscal Note: Requested on February 16, 2001.

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

Testimony For: There is an economic depression that is engulfing all of rural Washington. 15 to 20 percent of orchard trees will be removed this year, representing 16,000 to 20,000 acres. This is because people do not have the money to continue farming.

It is important that orchard and other agricultural debris not sit in the field and serve as breeding ground for pests. Pest control is expensive. Without this bill, debris will accumulate and pests will become intolerable.

The Yakima Regional Clean Air Authority has worked diligently to seek alternatives to burning. There is a natural conflict because of the need to burn debris to remove it and because of air quality concerns, and there is a interest in maintaining a viable agricultural economy. We expect to issue up to 200 permits before the end of the year.

A chipper is one of many tools that can be used to process debris, but it costs \$20,000. Other equipment is also expensive. This bill would defray some of the costs.

This bill will help orchardists to become more competitive and at the same time be better neighbors.

(Concerns) Section 4 of the bill removes the expiration date from the current statutes. Assessors will not have had time to evaluate the impact. However, the impacts may well exceed those that were anticipated before the passage of the 2000 law. We ask that the expiration date not be removed, and that the machinery associated with this proposal not be included in the property tax exemption. The counties that are affected are at their statutory maximum rate right now and so would lose revenue.

Testimony Against: None.

Testified: Representative Chandler, prime sponsor; Les Ornelas, Yakima Regional Clean Air Authority; and Josh Baldi, Washington Environmental Council.

(With Concerns) Fred Saeger, Washington Association of County Officials.