

# FINAL BILL REPORT

## SHB 1339

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Synopsis as Enacted

**Brief Description:** Providing equity in the taxation of farmers.

**Sponsors:** By House Committee on Finance (originally sponsored by Representatives Linville, Ericksen, Barlean and Van Luven; by request of Department of Revenue).

**House Committee on Finance**

**Senate Committee on Agriculture & International Trade**

### **Background:**

There are a number of provisions in the excise tax statutes pertaining to farmers. These include definitions and exemptions within the business and occupation tax, exemptions within the retail sales and use taxes, and exemptions within the litter tax.

#### *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 use agricultural products in manufacturing.

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

#### *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, the provisions of the B&O tax statute apply, with the exception of those sections that impose B&O tax and the section that provides an exemption from the B&O tax for farmer's receipts from wholesales.

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

### **Summary:**

Provisions are clarified regarding farmers in the B&O tax, eliminating an overlap with provisions regarding extractors and manufacturers. In addition, the taxable status and exempt status of farmers within the sales, use, and litter taxes, are clarified.

#### *Definitions; Tax Exemptions for Farmers*

The definition of extractor is amended to exclude terms and provisions that are part of the definition of farmer within the B&O tax statute. Specific references to persons who cultivate or raise shellfish or fish, or who take plantation Christmas trees, are deleted.

The definition of farmer is modified 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 is broadened to exclude persons who sell manufactured items.

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

The definition of agricultural product, regarding the exclusion of pets, is modified to cross-reference the definition of pets in the statute concerning control of pet animals.

The sales and use tax exemption for livestock sales is modified to cross-reference the definition of livestock in the statute concerning animal health.

#### *Application of the Litter Tax and Exemption for Certain Farming Products*

Technical changes are made in the litter tax statute to references to the B&O tax statute. The exemption from the litter tax for certain agricultural products is modified by referencing the exemption for farmers under the B&O tax statute.

**Votes on Final Passage:**

House 97 0

Senate 46 0

**Effective:** July 22, 2001