

Finance Committee

HB 2070

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

Sponsors: *Representatives B. Chandler, Grant and Fromhold.*

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.*

Hearing Date: *3/2/01*

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:

| | |
|--------------------------------------|----------------------|
| <i>Manufacturing and wholesaling</i> | <i>0.484 percent</i> |
| <i>Processing of fresh produce</i> | <i>0.138 percent</i> |
| <i>Services</i> | <i>1.5 percent</i> |

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 or 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.