

# FINAL BILL REPORT

## ESHB 2138

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Synopsis as Enacted

**Brief Description:** Promoting rural economic development.

**Sponsors:** By House Committee on Finance (originally sponsored by Representatives G. Chandler, Linville, Mulliken, Clements, Ericksen, Hatfield, Sump, Doumit, Morell, Grant, Pearson, Schoesler, Barlean, Buck, B. Chandler, Edwards and Jackley).

**House Committee on Finance**  
**Senate Committee on Ways & Means**

### **Background:**

Major state taxes that affect economic development include the business and occupation tax and the retail sales and use taxes.

#### *Business and Occupation Taxes*

Every person engaging in a business activity in Washington must pay a business and occupation (B&O) tax measured by the application of rates against the value of products, gross proceeds of sales, or gross income of the business. Persons engaged in business as manufacturers pay a tax at a rate of 0.484 percent. Persons engaged in wholesale sales are assessed the tax at a rate of 0.484 percent. Revenues from the B&O tax are deposited in the state general fund.

Various manufacturers have been specifically exempted from the primary B&O manufacturer tax rate and have been subjected to a lower B&O rate. Examples of manufacturers paying the lower rate of 0.138 percent include manufacturers of flour, pearl barley, canola byproducts, sunflower oil, raw seafood, and preserved fruits and vegetables.

The producers of dairy products are subject to the primary manufacturer B&O tax at 0.484 percent.

#### *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. Local governments may impose local sales and use taxes for a variety of purposes. Local rates vary 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, including items purchased in other states and items purchased 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.

All items and services in the retail tax base are taxed unless specifically exempted in statute. An exemption is provided to certain persons for sales or use of feed, seed, fertilizer, agents for enhanced pollination, spray materials, and chemical sprays used to prevent mold or fungus. The exemption is available to farmers for the purpose of growing or raising an agricultural product for sale or who are under contract with a nonprofit entity or the Department of Fish and Wildlife to improve wildlife habitat. The exemption is also available to persons who are participating in one of several federal conservation or habitat development programs.

Retail sales and use taxes apply to items that are indirectly involved in the raising of poultry, such as fuel to regulate the temperature of chicken housing, or materials involved in the removal of manure.

### **Summary:**

Limited exemptions from the B&O tax and from retail sales and use taxes are provided to support rural economic development.

#### *Dairy Product Manufacturer B&O Tax Rate*

The rate of the B&O tax on persons who manufacture dairy products and dairy by-products such as whey and casein is reduced from the current 0.484 percent to 0.138 percent. The reduced rate also applies to persons who sell dairy products and by-products to someone who transports the products out-of-state. In the latter case, the seller must maintain a business record, as prescribed by the Department of Revenue, as proof of sale.

#### *Retail Sales and Use Taxes on Certain Poultry Farming Inputs*

A retail sales and use exemption is provided for the purchase or use of propane or natural gas used to heat structures that house chickens that are sold as agricultural products. In addition, the purchase or use of bedding materials that are used to accumulate and facilitate the removal of chicken manure is exempted from sales and use taxes. Bedding materials are defined as wood shavings, straw, sawdust, shredded paper, and other similar materials.

To receive the exemption, the buyer must present an exemption certificate. The seller is

required to retain a copy on file.

**Votes on Final Passage:**

House 96 1

First Special Session

House 95 0

Second Special Session

House 88 0

Senate 45 2

**Effective:** September 20, 2001