

SENATE BILL REPORT

SB 6665

As Reported By Senate Committee On:
Ways & Means, February 23, 2004

Title: An act relating to the excise taxation of fruit and vegetable processing and storage.

Brief Description: Modifying the excise taxation of fruit and vegetable processing and storage.

Sponsors: Senators Hewitt, Mulliken, Honeyford, Hale, Parlette, Rasmussen and Sheahan.

Brief History:

Committee Activity: Ways & Means: 2/5/04, 2/23/04 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6665 be substituted therefor, and the substitute bill do pass.

Signed by Senators Zarelli, Chair; Hewitt, Vice Chair; Parlette, Vice Chair; Carlson, Doumit, Hale, Honeyford, Johnson, Pflug, Prentice, Rasmussen, Roach, Sheahan, B. Sheldon and Winsley.

Staff: Terry Wilson (786-7433)

Background: The manufacturing of fresh fruits and vegetables is subject to the business and occupation (B&O) tax at 0.138 percent. Out-of-state sales of manufactured fresh fruits and vegetables are not subject to wholesaling or retailing B&O tax. In-state wholesale sales of manufactured fresh fruits and vegetables are subject to wholesaling B&O tax at a rate of 0.484 percent, except that in-state wholesale sales of fresh fruits and vegetables manufactured by the seller that are transported out-of-state in the ordinary course of business are taxed at 0.138 percent.

The rural county sales and use tax deferral program is available in counties with population densities of less than 100 per square mile, community empowerment zones, and counties containing a community empowerment zone. Manufacturing, research and development, and computer service businesses may defer sales and use taxes on buildings, machinery and equipment, and installation labor. The deferred taxes are forgiven if the investment project meets the program criteria for eight years after the project is complete. The manufacturing of fresh fruits and vegetables qualifies under this program. The program expires July 1, 2004.

A tax incentive exists for the construction of warehouses over 200,000 square feet, including cold storage warehouses. The taxpayer is entitled to a refund exemption equal to 50 percent of the state sales and use tax on machinery and equipment purchases and 100 percent of the state sales and use tax on construction costs. The taxpayer must initially pay all applicable taxes and then apply for reimbursement to the Department of Revenue.

Summary of Substitute Bill: A B&O tax exemption is provided for amounts received from the canning, preserving, freezing, processing, or dehydrating fresh fruits and vegetables and from selling at wholesale fresh fruits and vegetables canned, preserved, frozen, processed, or dehydrated by the seller and sold to purchasers who transport in the ordinary course of business the goods out of this state.

A new sales and use tax deferral program is authorized. Fruit and vegetable processing, cold storage warehousing, and related research and development businesses may defer sales and use taxes on buildings, machinery and equipment, and installation labor. The deferred taxes are forgiven if the investment project meets the program criteria for eight years after the project is complete. The program expires July 1, 2010.

Cold storage warehouses qualify for remittance of state tax if they are at least 25,000 square feet. The remittance on material-handling equipment and racking equipment for cold storage warehouses is increased to 100 percent.

Substitute Bill Compared to Original Bill: Technical amendments are made.

Appropriation: None.

Fiscal Note: Requested on January 28, 2004.

Effective Date: The bill takes effect on July 1, 2005.

Testimony For: The primary objective is to maintain a basic manufacturing industry and retain family wage jobs in distressed areas. Opportunities are scarce and unemployment is high in rural counties. The fruit and vegetable sector has been significantly distressed in the last six years. The impacts on a small community of closure of a plant are enormous. This is a very competitive business globally. Most sales are out of state and costs cannot be passed on.

Testimony Against: None.

Testified: PRO: Ken Yates, NW Food Processors Assn.; Art Symons, Symons Frozen Foods; Celeste Gazrek, National Frozen Foods; Rick Hole; Ocean Spray Cranberry, Inc.