

HOUSE BILL REPORT

HB 2424

As Passed House:

January 11, 2006

Title: An act relating to excise tax exemptions for users of farm fuel.

Brief Description: Providing sales and use tax exemptions for users of farm fuel.

Sponsors: By Representatives Grant, Kessler, Williams, Morrell, Condotta, Clibborn, Linville, Cox, Hunt, Buck, Conway, Haigh, Sump, P. Sullivan, Walsh, Springer, Buri, Haler, Newhouse, Ericksen, Morris, Ericks, Kretz, Strow, B. Sullivan, Dunn, Upthegrove, Ormsby, McDermott, Holmquist and Takko.

Brief History:

Committee Activity:

Finance: 1/10/06 [DP].

Floor Activity:

Passed House: 1/11/06, 96-1.

Brief Summary of Bill

- Exempts farmers from sales and use tax on diesel fuel used for non-highway farming activities.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

Staff: Rick Peterson (786-7150).

Background:

Sales tax is imposed on the retail sales of most items of tangible personal property and some services. The use tax is imposed on the privilege of using tangible personal property or services in instances where the sales tax does not apply. Sales and use taxes are levied by the state, counties, and cities, and total rates vary from 7 to 8.9 percent.

Motor vehicle fuel (gasoline) and special fuel (primarily diesel) are exempt from sales and use tax when the motor vehicle and special fuel taxes apply. Special fuel used for off-road business purposes is exempt from the special fuel tax and so becomes subject to the retail sales and use tax.

Federal law requires diesel fuel used for off-road business purposes to be dyed. Diesel fuel that is exempt from highway fuel taxes is often called "red dyed fuel."

Summary of Bill:

Diesel fuel used by farmers for non-highway farm activities is exempt from sales and use tax. The exemption also covers diesel fuel used for soil preparation services, crop cultivation services, and crop harvesting services. The exemption does not cover fuel used for home heating.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: (In support) Diesel prices went from \$1.50 a gallon to over \$3.00 a gallon. The sales tax on fuel went up with the price of fuel. This has hurt farmers. These high fuel prices hit at harvest and planting time - the time when farmers use the most fuel. The bill will provide significant help to farms. Ninety-seven percent of farms are family farms. The sales tax has become very expensive. The bill will provide sales tax savings of \$2,000 to \$3,000 for many farmers. The exemption for sales tax will help farmers continue using conservation oriented tillage practices. The exemption will also help those farmers that purchase crops from the farmers that grow the crops, such as, dairy farmers that purchase feed. Only three states apply sales tax to farmers' use of fuel. Farmers cannot raise their prices to recover higher costs of production. The market determines the price. This is the first time since The Great Depression that the per gallon price of fuel is more than the price of a bushel of wheat.

(Neutral) The Department of Revenue agrees that the bill exempts fuel used in farming activities.

(With concerns) The annual impact on local governments is \$1 million. Options for reducing this impact should be considered.

Testimony Against: None

Persons Testifying: (In support) Representative Grant, prime sponsor; Representative Buri; John Stuhlmiller, Washington Farm Bureau; Jeff Emtmann and Heather Hansen, Washington Association of Wheat Growers; Ron Wesen; David Fenn; Terry Willis, Olympic View Dairy, LLC; and Robert Hayes, Cowlitz Prairie Dairy.

(Neutral) Gil Brewer, Department of Revenue.

(With concerns) Julie Sexton, Washington Association of Counties.

Persons Signed In To Testify But Not Testifying: None