

HOUSE BILL REPORT

2SSB 5663

As Reported by House Committee On:
Economic Development, Agriculture & Trade
Finance

Title: An act relating to repealing and narrowing tax incentives for machinery and equipment used to reduce agricultural burning of cereal grains and grass grown for seed for air quality purposes.

Brief Description: Changing the tax exemptions for machinery and equipment used to reduce agricultural burning.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Rasmussen, Schoesler, Doumit, Honeyford, Parlette, Jacobsen and Mulliken).

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 3/30/05 [DPA];
Finance: 4/4/05 [DPA(EDAT)].

**Brief Summary of Second Substitute Bill
(As Amended by House Committee)**

- Exempts from the sales and use tax sales to qualified farmers in qualified counties of specified machinery, equipment, labor and services used to reduce agricultural field burning.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: Do pass as amended. Signed by 21 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Kristiansen, Ranking Minority Member; Blake, Buri, Chase, Clibborn, Dunn, Grant, Haler, Holmquist, Kenney, Kilmer, Kretz, McCoy, Morrell, Newhouse, Quall, Strow, P. Sullivan and Wallace.

Staff: Meg Van Schoorl (786-7105).

Background:

The burning of residues in the production of field and turf grass grown for seed was phased out between 1996 and 1998 pursuant to rules adopted in 1995 by the Department of Ecology (DOE). A reduction in the burning of cereal grain stubble is subject to a memorandum of

understanding between the DOE and cereal grain growers that requires a 50 percent reduction in emissions between 2000 and 2007.

In 2000, the Legislature established tax incentives to encourage the use of alternatives to field burning for cereal grains and field and turf grass grown for seed. The exemptions are available to farmers and others engaged in activities that make it possible to reduce field burning or the resulting air emissions, including manufacturers or marketers of straw and straw-based products.

The incentives include:

- exemption from sales and use taxes for machinery and equipment, and for services in constructing and repairing buildings. The machinery, equipment, or structures must be used more than half of the time in activities related to reduction of field burning;
- exemption from personal property taxes for the machinery and equipment that is exempt from the sales and use tax; and
- credit against the business and occupation (B&O) tax equal to 50 percent of the construction, machinery or equipment costs for those eligible to take the sales and use tax exemptions.

The sales and use tax exemptions and the B&O tax credit expire on January 1, 2006. The personal property tax exemption expires on January 1, 2007.

Summary of Amended Bill:

The tax incentives provided by the 2000 Legislature to encourage alternatives to the field burning of cereal grains and field and turf grass grown for seed are narrowed and refined.

The existing sales and use tax exemptions, B&O tax credits, and personal property tax exemption are each repealed.

Sales of the following specified machinery and equipment to qualified farmers are exempt from the sales and use tax: no-till drills, minimum-till drills, chisels, plows, sprayers, discs, cultivators, harrows, mowers, swathers, power rakes, balers, bale handlers, shredders, transplanter, tractors 250 horsepower and over designed to pull conservation equipment on steep hills and highly erodible lands, and combine components limited to straw choppers, chaff spreaders, and stripper headers. In addition, labor and services used in the construction of hay sheds for qualified farmers or tangible personal property that becomes an ingredient or component of hay sheds during construction are also exempt from the sales and use tax. The sales and use tax exemptions expire on January 1, 2011.

To qualify for the incentives, a farmer must have more than 50 percent of his or her tillable acres in cereal grains and/or field and turf grass grown for seed, and be located in a qualified county. A qualified county is one where cereal grain production exceeds 15,000 acres.

No applications are required for the tax exemption. However, the seller of qualified equipment must obtain an exemption certificate from the buyer, and the person taking the exemption must keep records that will verify eligibility. The Department of Revenue may request copies of Farm Service Agency or crop insurance records for verification of eligibility, but these are considered taxpayer information and are not disclosable.

Amended Bill Compared to Second Substitute Bill:

For a county to qualify for the purpose of the incentives, the amount of cereal grain produced from non-irrigated acreage does not have to exceed the amount of cereal grain produced from irrigated acreage. The only qualification that a county must meet is cereal grain production in excess of 15,000 acres.

Appropriation: None.

Fiscal Note: Requested on March 21, 2005.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: This sales tax exemption will help growers.

(With concerns) We support the bill and do not want to affect the 14 counties that qualify as it stands. However, there are six farmers in Skagit and Snohomish County that we would like to include through an amendment if possible.

Testimony Against: None.

Persons Testifying: (In support) Senator Rasmussen, prime sponsor.

(With concerns) Dan Fazio, Washington State Farm Bureau.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended by Committee on Economic Development, Agriculture & Trade. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Conway, Ericksen, Hasegawa and Santos.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Economic Development, Agriculture & Trade:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: The bill improves air quality by extending a sales tax exemption for farm equipment used to reduce field burning. The exemption is more clear and concise than the current exemption. The property tax exemption is not extended which results in more revenue to local government. The fiscal impact of this proposal is reduced due to the restriction to farmers that are not irrigating.

Testimony Against: None

Persons Testifying: Heather Hansen, Washington Association of Wheat Growers.

Persons Signed In To Testify But Not Testifying: None.