Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Economic Development, Agriculture & Trade Committee

HB 1664

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

Sponsors: Representatives Grant, Buri, Linville, Walsh and Schindler.

Brief Summary of Bill

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

Hearing Date: 2/18/05

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 to take place between 2000 and 2007.

The 2000 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:

- an exemption from sales and use taxes for machinery and equipment, and for services in constructing and repairing buildings when the machinery, equipment, or structures are used more than half of the time in activities related to reduction of field burning;
- an exemption from personal property taxes for the machinery and equipment that is exempt from the sales and use tax; and

- a business and occupation (B&O) tax credit equal to 50 percent of the construction, machinery or equipment costs for those persons eligible to take the sales and use tax exemptions.

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

Summary of 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.

A "qualified farmer" is a farmer as defined in 82.04.213 who has more than 50 percent of his or her tillable acres in cereal grains and/or field and turf grass grown for seed in qualified counties.

A "qualified county" is a county where cereal grain production exceeds 15,000 acres and cereal grain production from non-irrigated acreage exceeds cereal grain production from irrigated acreage.

Sales of specified machinery and equipment to qualified farmers are exempt from the sales and use tax. 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.

A new type of equipment based on new technology can also be exempted from the sales and use tax if either the DOE or the Department of Agriculture recommends it and the Department of Revenue (DOR) places it in rule.

No applications are required for the tax exemption. However, the person taking the exemption must keep records that will verify eligibility. The DOR 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.

The sales and use tax exemptions each expire on January 1, 2011.

The existing sales and use tax exemptions related to field burning in Chapter 82.08.840 RCW and Chapter 82.12.840 RCW are each repealed.

The existing B&O tax credit related to field burning in Chapter 82.04.4459 RCW is repealed.

The existing personal property tax exemption related to field burning in Chapter 84.36.580 RCW is repealed.

Appropriation: None.

Fiscal Note: Available.

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