

HOUSE BILL REPORT

SHB 2457

As Passed Legislature

Title: An act relating to excise tax relief for farm machinery and equipment.

Brief Description: Authorizing sales and use tax exemptions for replacement parts for farm machinery and equipment.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Grant, Williams, Blake, Clibborn, Linville, Cox, Buck, Haigh, Sump, Newhouse, Walsh, Buri, Haler, Morrell, Morris, Ericks, Strow, O'Brien and Holmquist).

Brief History:

Committee Activity:

Finance: 1/10/06, 2/6/06 [DPS].

Floor Activity:

Passed House: 2/13/06, 86-10.

Senate Amended.

Passed Senate: 3/3/06, 40-4.

House Concurred.

Passed House: 3/4/06, 95-0.

Passed Legislature.

Brief Summary of Substitute Bill

- Exempts farmers with gross sales of agricultural products of \$10,000 or more from sales and use tax on replacement parts for farm machinery and equipment.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives McIntire, Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Santos and Shabro.

Minority Report: Do not pass. Signed by 2 members: Representatives Hunter, Vice Chair and Hasegawa.

Staff: Rick Peterson (786-7150).

Background:

Sales tax is imposed on the retail sales of most items of tangible personal property and some services, including repair services. The use tax is imposed on items used in the state that were not subject to the retail sales tax and includes purchases made in other states and from sellers who do not collect Washington sales tax.

The state sales and use tax rate is 6.5 percent. In addition, cities, counties, and transit districts may impose local option sales and use taxes for general purposes as well as a variety of specific purposes. As of December 2005, local rates ranged from 0.5 percent to 2.4 percent.

Summary of Substitute Bill:

Farmers with gross sales of agricultural products of \$10,000 or more are exempt from sales and use tax on the purchase of replacement parts for farm machinery and equipment. The exemption covers machinery and equipment designed for the purpose of growing, raising, or producing agricultural products. Farmers must apply with the Department of Revenue for an exemption certificate. The certificate must be renewed every five years. The exemption includes farm tractors and farm implements but not other farm vehicles. Aircraft, hand tools, hand-powered tools, and equipment with a useful life of less than one year are not included.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2006.

Testimony For: (In support) Farm prices are not keeping pace with increased farming costs. When margins are tight farmers must make equipment last longer by repairing it and they will buy used equipment. The sales tax exemption for used equipment and repairs will provide significant help to farms. Ninety-seven percent of farms are family farms. Farmers cannot raise their prices to recover higher costs of production. The market determines the price.

(With concerns) This sales tax exemption will reduce revenue to local governments. Options for reducing this impact should be considered. The definition of farm machinery and equipment should require it be used exclusively or primarily for a farm purpose. The bill should not be limited to the purchase of used machinery and equipment. Sometimes it makes more sense to buy new equipment for an operation where reliability is critical.

Testimony Against: None.

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

(With concerns) Gil Brewer, Department of Revenue.

Persons Signed In To Testify But Not Testifying: None.