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**Finance Committee**

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**2SSB 6542**

**Brief Description:** Exempting farming services from business and occupation tax.

**Sponsors:** Senators Mulliken, Rasmussen, Schoesler, Sheldon, Morton, Shin, Delvin and Honeyford.

**Brief Summary of Bill**

- Exempts custom farming services from the business and occupation tax.
- Exempts farm management services, contract labor services, services with respect to animals that are agricultural products, and the hauling of agricultural products and farm machinery from tax if done by a relative of the farmer.

**Hearing Date:**

**Staff:** Rick Peterson (786-7150).

**Background:**

The business and occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities (except utility activities) conducted within the state. There are generally no deductions for the costs of doing business. Revenue from the B&O tax go into the General Fund.

The B&O tax does not apply to a farmer who sells agricultural products at wholesale nor to a farmer who grows agricultural products owned by others.

The public utility tax applies to the gross income derived from the operation of public and privately owned utilities. The tax is in lieu of the B&O tax and applies to the general categories of transportation and the supply of energy and water. Public and private entities who transport people or goods for hire are subject to the public utility tax.

**Summary of Bill:**

Firms performing custom farming services are exempt from the B&O tax.

Custom farm services are activities related to the growing, raising, or producing agricultural products to be sold or consumed by the farmer. The activities must use farm machinery or equipment, farm implements, or draft animals together with an operator and be under the supervision of the farmer. Custom farm services does not include the custom application of

fertilizers, chemicals, or biologicals unless the custom applicator is related to the person for whom the service is rendered. The exemption does not include veterinary services; farrier, boarding, training, or appraisal services; artificial insemination or stud services; agricultural consulting services; packing or processing of agricultural products; or pumping or other waste disposal services.

Firms performing farm management services, contract labor services, and services with respect to animals that are agricultural products are exempt from B&O tax if done by a relative of the farmer.

The hauling of agricultural products and farm machinery for a farmer by family members is exempt from public utility tax.

**Appropriation:** None.

**Fiscal Note:** Available.

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