
Finance Committee

SB 6704

Brief Description: Modifying the excise taxation of the manufacturing, selling, and processing of certain food products.

Sponsors: Senators Rasmussen, Prentice, Doumit, Schoesler, Honeyford, Brandland, Sheldon, Morton and Mulliken.

Brief Summary of Bill

- Extends the Business and Occupation tax exemption, sales and use tax deferral on manufacturing facilities, and warehouse tax remittance adopted for fruit and vegetable products in 2005 to dairy and egg products.

Hearing Date: 2/22/06

Staff: Rick Peterson (786-7150).

Background:

Washington's major business tax is the Business and Occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The B&O tax rate depends on the activities conducted. The most common rates are 0.471 percent for retailing activities, 0.484 percent for wholesaling and manufacturing, and 1.5 percent for services. There is a lower rate of 0.138 percent for dairy product manufacturing.

In the 2005 session, the Legislature adopted tax incentives for the fruit and vegetable manufacturing industry. A B&O tax exemption was provided for the canning, preserving, freezing, processing, or dehydrating fresh fruits and vegetables, and for selling at wholesale fresh fruits and vegetables canned, preserved, frozen, processed, or dehydrated by the seller and sold to purchasers who transport in the ordinary course of business the goods out of this state.

A new sales and use tax deferral program was created for fruit and vegetable product cold storage warehousing, and related research and development businesses. This program starts July 1, 2007 and expires July 1, 2012.

Firms using the B&O exemption and the sales tax deferral are required to complete an annual survey and provide information on the amount of B&O tax exempt, sales and use tax deferred, number of jobs and the percent of full-time, part-time and temporary jobs; wages by salary band;

and number of jobs with employer provided health and retirement benefits. The survey is due each year by March 31.

In addition, starting July 1, 2007, fresh and/or frozen perishable fruit or vegetable cold storage warehouses of at least 25,000 square feet are added to the warehouse tax remittance program. The remittance is 100 percent of the state sales tax on construction of the warehouse and purchases of material-handling and racking equipment. The taxpayer must initially pay all applicable taxes and then apply for reimbursement to the Department of Revenue (Department).

Summary of Bill:

A B&O tax exemption is provided for dairy product manufacturing. This exemption also applies to the selling of product to purchasers who transport the goods out of this state. This new exemption plus the fresh fruits and vegetables exemption are ended July 1, 2012, and a tax rate of 0.138 percent is established for these activities.

The sales and use tax deferral program for fruit and vegetable processing, cold storage warehousing, and related research and development businesses is expanded to include dairy product manufacturing and egg handling.

Firms using the B&O exemption and the sales tax deferral are required to complete an annual survey and provide information on the amount of B&O tax exempt, sales and use tax deferred, number of jobs and the percent of full-time, part-time and temporary jobs; wages by salary band; and number of jobs with employer provided health and retirement benefits. The survey is due each year by March 31.

The Department may extend the March 31 filing deadline for surveys by firms using the B&O exemption and the sales tax deferral if the failure to file is the result of circumstances beyond the control of the taxpayer. These firms must electronically file their forms with the Department.

Cold storage warehouses of at least 25,000 square feet that are used to store dairy or egg products are added to the warehouse tax remittance program. The remittance is 100 percent of the state sales tax on construction of the warehouse and purchases of material-handling and racking equipment. The warehouse sales tax remittance program for cold storage warehouses used to store fruit or vegetables, dairy products, and egg products is ended on July 1, 2012.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2006, except sections 5 through 8 and 10, related to the sales and use tax deferral program, and the warehouse sales tax remittance, which takes effect July 1, 2007; and sections 11 and 12, which reinstates prior law related to the warehouse sales tax remittance program after a scheduled expiration, which takes effect July 1, 2012.