

SENATE BILL REPORT

2SSB 5663

As Passed Senate, March 15, 2005

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: Agriculture & Rural Economic Development: 2/17/05 [DPS-WM].

Ways & Means: 2/28/05, 3/1/05 [DP2S].

Passed Senate: 3/15/05, 46-0.

SENATE COMMITTEE ON AGRICULTURE & RURAL ECONOMIC DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 5663 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Rasmussen, Chair; Shin, Vice Chair; Schoesler, Ranking Minority Member; Delvin, Jacobsen, Morton and Sheldon.

Staff: Bob Lee (786-7404)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5663 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Brandland, Hewitt, Parlette, Pflug, Pridemore, Rasmussen, Roach, Rockefeller, Schoesler and Thibaudeau.

Staff: Dean Carlson (786-7305)

Background: The burning of residues in the production of field and turf grass seed was phased out between 1996 and 1998 pursuant to rules adopted in 1995 by the Department of Ecology. A reduction in the burning of cereal grain stubble is subject to a memorandum of understanding between the Department of Ecology and cereal grain growers that requires that a 50 percent reduction in emissions to take place between 2000 and 2007.

In 2000, the legislature established tax incentives to encourage implementation of alternatives to field burning for cereal grains and fields, and turn grasses grown for seed. An exemption from sales and use taxes is provided for machinery and equipment, and for services in constructing and repairing of buildings. To be eligible, the machinery, equipment, or

structures must be used more than half the time in activities related to reduction of field burning. The machinery and equipment exempt from the sales and use tax is also exempt from personal property taxes.

The person taking the exemption must keep records for the Department of Revenue to verify eligibility. The exemption is available when the buyer provides the seller with an exemption certificate in a form and manner prescribed by the department. The seller is to retain a copy of the certificate for the seller's files.

These exemptions are scheduled to expire on January 1, 2006.

Summary of Bill: The existing sales and use tax exemption described above would be replaced by new provisions which would continue in effect until January 1, 2011. The exemption from personal property taxes and the credit from business and occupation taxes expire in 2006 as previously scheduled.

To qualify for the exemption, the farmer must have more than 50 percent of his or her tillable acres in cereal grains, or field and turf grasses grown for seed production, and be located in a qualified county. To be a qualified county, the county must have at least fifteen thousand acres of cereal grain production, and the amount that is produced from non-irrigated acreage must exceed the production from irrigated acreage.

Sales of the specified machinery and equipment to qualified farmers is exempt from the sales and use tax. Labor and services rendered in respect to constructing hay sheds for qualified farmers or to sales of tangible personal property to qualified farmers that becomes an ingredient or component of hay sheds is exempt from the sales and use tax.

Specified machinery and equipment includes no-till and minimum-till drills, sprayers, plows, chisels, discs, cultivators, harrows, mowers, swathers, power rakes, balers, bale handlers, shredders, transplanters, and tractors over two hundred fifty horsepower designed to pull conservation equipment on steep slopes and highly erodible lands.

No application is necessary for the tax exemption but records are necessary for the Department of Revenue to verify eligibility. These records are to be deemed taxpayer information and thus exempt from public disclosure. The seller of qualified equipment must obtain an exemption certificate from the buyer.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Testimony For: (Agriculture & Rural Economic Development) The ban imposed in 1996 on burning of bluegrass fields placed a heavy financial burden on growers. The legislature recognized this burden and enacted a sales tax exemption on farm machinery that helped growers deal with the residue left after harvest that in the past had been burned. The cost of production increased from about 35 cents per pound to about 55 cents per pound and yields have dropped. The sales tax exemption on farm machinery is a small amount compared to the

devastating effect that the burn ban has had. Washington is the only state that has a ban on burning bluegrass. Neighboring states still allow bluegrass fields to be burned.

The memorandum of understanding to reduce emissions from cereal grain stubble burning by 50 percent in seven years has created a need to remove a lot of excess straw. Some of the most productive wheat land in the world is found in southeastern Washington and the straw is too thick to seed through. Burning is the easiest and most economical way to remove excess straw, and to control some diseases and weeds. Special equipment to deal with the thick straw is heavy, expensive and takes a larger tractor than most farmers would ordinarily have. This sales tax exemption helps growers make the transition.

Testimony Against (Agriculture & Rural Economic Development): None.

Who Testified: (Agriculture & Rural Economic Development) PRO: Art Schultheis and David Baumann, Washington State Turfgrass Seed Commission; Jeff Emtman and Heather Hansen, Washington Association of Wheat Growers.

Testimony For (Ways & Means): Growers have been very successful at reducing burning. Burning remains a tool but there are burn bans. This makes it easier for growers to purchase equipment instead of burning. This continues only two out of the four exemptions. This is a significantly narrower exemption than in the past. Cereal grain burning has been reduced by 50 percent, but this has greatly increased the cost of production. You have to get rid of the residue somehow and doing it without burning is a significantly more expensive.

Testimony Against (Ways & Means): None.

Who Testified (Ways & Means): PRO: Heather Hansen, Washington Wheat Growers Association; Marshal Taylor, Department of Ecology.

House Amendment(s): The Senate version contains a provision that allows this tax incentive only in counties in which the cereal grain production from non-irrigated acreage exceeds that from irrigated areas. The House amendment removes this restriction.

Passed House: 94-2.