

# HOUSE BILL REPORT

## ESHB 2352

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### As Passed Legislature

**Title:** An act relating to the excise taxation of persons engaged in farming and farming services.

**Brief Description:** Providing excise tax relief for certain farm services.

**Sponsors:** By House Committee on Finance (originally sponsored by Representatives Grant, Linville, Simpson and Bailey).

#### Brief History:

##### Committee Activity:

Finance: 3/12/07 [DPS].

##### Floor Activity:

Passed House: 3/13/07, 90-5.

Senate Amended.

Passed Senate: 4/6/07, 42-5.

House Concurred.

Passed House: 4/16/07, 90-2.

Passed Legislature.

#### Brief Summary of Engrossed Substitute Bill

- Exempts custom farming services, farm management services, contract labor services, and farm animal services from the business and occupation (B&O) tax if the activities are performed for a farmer by another farmer.
- Exempts the hauling of agricultural products or farm machinery from the public utility tax if performed by a related party.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Hunter, Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

**Minority Report:** Do not pass. Signed by 1 member: Representative Hasegawa, Vice Chair.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

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

**Background:**

The business and occupation (B&O) tax is assessed on the gross proceeds of a business and the tax rate depends on which category the business activity is placed. The B&O tax does not apply to agricultural products sold at wholesale by farmers. Currently, custom farming activities fall under the catch-all "service and other activities" category and are subject to a 1.5 percent tax rate. Motor transportation services are subject to the public utility tax and are assessed at a 1.926 percent rate.

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**Summary of Engrossed Substitute Bill:**

Custom farming services, such as custom plowing, cultivation, planting, and harvesting performed for farmers is exempt from the B&O tax if performed by a farmer that produces at least \$10,000 of agricultural products..

Farm management services, contract labor services, and services for farm animals, if performed by a person related to the farmer or the custom farm operator, are exempt from the B&O tax. However, the tax exemption is not allowed for farm management services, contract labor services, and animal services on transactions between two corporations that are controlled by the same group.

Persons hauling agricultural products or farm machinery are exempt from the public utility tax if the service is provided to a farmer or a person performing custom farming service, but only if the hauling is done by a related person.

The exemptions expire December 31, 2020.

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**Appropriation:** None.

**Fiscal Note:** Requested on March 9, 2007.

**Effective Date:** The bill takes effect August 1, 2007.

**Staff Summary of Public Testimony:**

(In support) Farm equipment is expensive and often specialized for specific crops. A farmer that rotates to another crop may not have the equipment needed to harvest or process that crop. If a farmer hires another farmer with the equipment to provide these services then the B&O tax is triggered according to the Department of Revenue. This interpretation penalizes young farmers that are just getting started and cannot afford expensive equipment. Families organize their farms into separate entities due to federal regulations. As the younger generation starts out they often hire other family members to provide farming services. The B&O tax does not apply to farmers.

(Opposed) None.

**Persons Testifying:** Patrick Connor, Washington Farm Bureau.

**Persons Signed In To Testify But Not Testifying:** None.