

# SENATE BILL REPORT

## SB 6844

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As Reported By Senate Committee On:  
Ways & Means, February 27, 2008

**Title:** An act relating to the taxation of grocery distribution cooperatives.

**Brief Description:** Revising the taxation of grocery distribution cooperatives.

**Sponsors:** Senators Spanel, Brandland and Rasmussen.

**Brief History:**

**Committee Activity:** Ways & Means: 2/4/08, 2/27/08 [DP].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

**Staff:** Dianne Criswell (786-7433)

**Background:** The business & 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 conducted within the state. In general, there are no deductions for the costs of doing business. The principal rates are 0.484 percent for manufacturing and wholesaling, 0.471 percent for retailing, and 1.5 percent for services and all other activities.

In 2001 the Legislature allowed a deduction for qualified grocery distribution cooperatives. The cost of goods sold by the cooperative to customer-owners may be deducted from the gross proceeds of sales. A qualified grocery distribution cooperative is eligible for this deduction if: (1) it sells groceries to customer-owners who have at least a 50 percent controlling interest in the cooperative; and (2) it has been determined by a court not to be wholesaling and subsequently changed its form of business to make sales at wholesale. Any commission income is subject to tax under the B&O service classification.

**Summary of Bill:** A grocery distribution cooperative that has acquired substantially all of the assets of a qualified grocery distribution cooperative qualifies for the deduction.

**Appropriation:** None.

**Fiscal Note:** Available.

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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.*

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: Co-operatives help strengthen the purchasing power of independent grocery stores. Large chain stores do not pay B&O tax on these wholesale sales. The 2001 bill addressed this difference and provided consistent tax treatment for grocery distribution co-operatives. The industry in Washington has changed since then. However, Unified Grocers has the same customers, the same goods, and the same trucks that received this tax treatment under the 2001 bill. This is a very competitive business with low profit margins. Without extending this tax treatment, we will have to pay significantly higher taxes. It is difficult to absorb the cost of higher taxes, and also difficult to pass the cost on to the consumers. Many family businesses are served by this cooperative. Please continue the history tax treatment of grocery store co-operatives.

**Persons Testifying:** PRO: Craig Cole, Brown & Cole Stores; Larry Nakata, Town & Country Markets; Terry Halverson, Metropolitan Market.