

# SENATE BILL REPORT

## SHB 2275

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As Reported by Senate Committee On:  
Agriculture & Rural Economic Development, March 24, 2009

**Title:** An act relating to a sales and use tax exemption for the nonhighway use of propane by farmers.

**Brief Description:** Providing a sales and use tax exemption for the nonhighway use of propane by farmers.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Kretz, Springer, Shea, Sullivan, Blake, Jacks, Warnick, Short, Hinkle, Schmick, Armstrong, Parker and McCune).

**Brief History:** Passed House: 3/09/09, 92-4.

**Committee Activity:** Agriculture & Rural Economic Development: 3/19/09, 3/24/09 [DP-WM].

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### SENATE COMMITTEE ON AGRICULTURE & RURAL ECONOMIC DEVELOPMENT

**Majority Report:** Do pass and be referred to Committee on Ways & Means.

Signed by Senators Hatfield, Chair; Ranker, Vice Chair; Schoesler, Ranking Minority Member; Becker, Haugen, Morton and Shin.

**Staff:** Bob Lee (786-7404)

**Background:** Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. If retail sales taxes were not collected when the property or services were acquired by the user, then use taxes apply to the value of most tangible personal property and some services when used in this state. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. The state tax is deposited into the State General Fund. Depending on the location, local tax rates vary from 0.5 percent to 2.4 percent. The average local tax rate is 2 percent, for an average combined state and local tax rate of 8.5 percent.

Propane and natural gas sold to farmers to heat structures used to house chickens was exempted from sales and use tax in 2001.

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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.*

Diesel and aircraft fuel used by farmers for nonhighway farm activities was exempted from sales and use tax in 2006. The exemption also covers diesel and aircraft fuel used for soil preparation services, crop cultivation services, and crop harvesting services. The exemption does not apply to fuel used for space or water heating for human habitation nor other types of on-farm propane fuel use.

**Summary of Bill:** Propane fuel used by farmers for nonhighway farm use is exempt from the sales and use tax. The exemption does not cover fuel used for space or water heating for human habitation.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Effective Date:** August 1, 2009.

**Staff Summary of Public Testimony:** PRO: There are a number of fuels used by farmers that are exempt from sales tax and this bill provides an equivalent exemption for propane. Propane is a cleaner burning fuel and is used in orchards for frost prevention including fuel for wind machines and heaters. It can cost \$4,300 per year for a ten acre orchard. The fiscal note overestimates the amount of propane used in Washington State as the midwest consumes a disproportionate amount of propane to dry corn. Also, the estimated price of propane in the fiscal note is too high for high volume users who buy larger quantities of propane.

**Persons Testifying:** PRO: Representative Kretz, prime sponsor; Mel Sorensen, Northwest Propane Gas Association; Ben Buchholz, Washington State Council of Farmer Cooperatives; Jim Halstrom, Washington State Horticultural Association; Chris Cheney, Washington Dairy Federation and Hop Growers of Washington.