

SENATE BILL REPORT

SB 5698

As of April 1, 2015

Title: An act relating to extending the expiration date of tax preferences for food processing.

Brief Description: Extending the expiration date of tax preferences for food processing.

Sponsors: Senators Hewitt, Hatfield, Schoesler and Warnick; by request of Office of Financial Management.

Brief History:

Committee Activity: Agriculture, Water & Rural Economic Development: 2/12/15 [DP-WM].

Ways & Means: 3/25/15.

SENATE COMMITTEE ON AGRICULTURE, WATER & RURAL ECONOMIC DEVELOPMENT

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

Signed by Senators Warnick, Chair; Dinsel, Vice Chair; Hatfield, Ranking Minority Member; Hobbs and Honeyford.

Staff: Bonnie Kim (786-7316)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Juliana Roe (786-7438)

Background: Manufacturers of fresh fruit or vegetables, seafood products, and dairy products are eligible for exemptions from the business and occupation (B&O) tax.

The B&O tax exemptions provide an exemption from the manufacturing B&O tax on the value of products sold by fresh fruit or vegetable, seafood product, or dairy product manufacturers; and, generally, an exemption from retailing and wholesaling B&O tax for those products manufactured and sold by the manufacturer to a customer who transports the product outside this state in the normal course of business.

These exemptions expire June 30, 2015. When they expire, the income is no longer exempt from B&O tax but will become subject to a reduced B&O tax rate of 0.138 percent for the

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manufacturing, retailing, and wholesaling activities. All businesses claiming the exemptions are required to electronically file an Annual Tax Incentive Survey by April 30 of the year following the year the exemption was claimed. The Annual Survey provides employment and wage information regarding firms claiming the exemptions and also provides the tax savings to individual firms from claiming the exemptions.

Summary of Bill: The B&O tax exemptions for food processors are extended from July 1, 2015, to July 1, 2025.

A tax preference performance statement is included. The stated public policy objectives of the bill are to create and retain jobs in the food processing industry and to provide tax relief.

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, 2015.

Staff Summary of Public Testimony (Agriculture, Water & Rural Economic Development): PRO: Agriculture is a critical industry in our state. The food processing industry is symbiotic with the agriculture industry. The tax preferences will help ensure industry and jobs stay in the state. We use the savings from the tax preference to create more jobs and invest in our community. We have a lot of competition for international milk product sales, particularly with companies from New Zealand. We are a small family-owned winery and this tax preference helps us compete with California and European wineries. We are a small dairy farm and our success depends on the success of our food processor. Food processing is Washington's third-largest manufacturing sector. Our business has a very low margin but a bright spot has been this tax exemption allowing us to remain competitive for out-of-state and international sales. We honor our responsibility to pay B&O tax on products sold within Washington and appreciate the tax preference for products sold out of state. The maritime industry is growing by 6.4 percent per year and a large driver of that is the fish and seafood processing industry. The fish and seafood products are growing in the global market and this tax preference allows Washington to remain competitive for new businesses.

Persons Testifying (Agriculture, Water & Rural Economic Development): PRO: Paul Berendt, WA Beef; Michelle Schilter, Sunton Farms; Sharon Appelt, Darigold; Bud Hover, WA State Dept. of Agriculture; Gaye McNutt, Cadence Winery, WA Wine Institute; Virgil Roehl, Twin City Foods; Ian Tolleson, NW Food Processors Assn.; Holli Johnson, Pacific Seafood Co.; Steve Sewell, WA State Dept. of Commerce.

Persons Signed in to Testify But Not Testifying: No one.

Staff Summary of Public Testimony (Ways & Means): PRO: The Washington wine industry is a strong part of our economy with an \$8.6 billion impact in Washington and \$14.9 billion impact across the U.S. economy. We are the second-largest wine producing state in the country and employ over 27,000 people with over \$1.1 billion in wages in the state. This

incentive has helped the industry grow exponentially. Many small wineries in the state must go into the national market to compete with other wineries. Their margins are thin and any help that they can get in the national market is appreciated.

Dairygold is owned by 450 farmers in the northwest. They export about 40 percent of their product overseas to China and southeast Asia. One of its biggest competitors is New Zealand, which is a powerhouse in the dairy business. The dairy industry provides economic vitality to Washington by bringing back sales dollars from exported product which ends up in the hands of farmers, their employees, vendors, cities, and municipalities. These agricultural jobs are often in rural communities that can use the help. In order to remain viable in the dairy industry, its product must be competitively priced. This can only be done with the extension of this exemption.

The Pacific Seafood Company operates 43 facilities, 11 of which are in Washington. They sell retail and wholesale products in and out of state. The incentive helps the company stay competitive with out of state companies and large fish processing boats.

The incentive program has done wonders to make Washington food processors more competitive with processors in other states that do not have a B&O tax. Food processors pay the full manufacturing B&O tax on product consumed in Washington. Only product moved out of state would be exempt from the tax. All other taxes are paid.

Persons Testifying (Ways & Means): PRO: Senator Hewitt, prime sponsor; Josh McDonald, WA Wine Institute; Gaye McNutt, Owner, Cadence Winery; Sharon Appelt, Darigold; Michelle Schilter, Sunton Farms, Dairy Farmer, Darigold; Dan Coyne, NW Food Processors Assn.; Holli Johnson, Pacific Seafood Co; John Lane, Office of Financial Management.

Persons Signed in to Testify But Not Testifying: PRO: Tom Davis, WA Farm Bureau.