
Finance Committee

HB 1881

Brief Description: Making the custom farming and hauling farm products tax exemptions permanent.

Sponsors: Representatives Ybarra, Dent, Orcutt, Klippert and Van Werven.

Brief Summary of Bill

- Makes the custom farming services business and occupation tax exemption permanent.
- Makes the hauling farm products for relatives public utility tax exemption permanent.

Hearing Date: 2/26/19

Staff: Richelle Geiger (786-7139).

Background:

Business and Occupation Tax.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability. Currently, producers of custom farming services and farm management services are exempt from B&O tax if the provider performing the services is the owner or lessor of the land, or related to the owner or the lessor. "Custom farming services"

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and "farm management services" do not include any services related to the growing, raising, or producing of marijuana. The exemption expires December 31, 2020.

Public Utility Tax.

The gross income derived from the operation of publicly and privately owned utilities is subject to the public utility tax (PUT), unless otherwise exempt. The tax is imposed in lieu of the B&O tax and is applied only on sales to consumers. Other income of the utility, such as retail sale of tangible personal property, is subject to the B&O tax. There are six different PUT rates, depending on the specific utility activity. The rates are:

- 3.852 percent on telegraph companies, distribution of natural gas, and the collection of sewage;
- 3.8734 percent on the generation or distribution of electrical power;
- 0.642 percent on urban transportation and watercraft vessels under 65 feet in length;
- 1.926 percent on motor transportation, railroads, railroad car companies, and all other public service businesses;
- 5.029 percent on the distribution of water; and
- 1.3696 percent on log transportation.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability. Currently, income associated with hauling agricultural products in situations in which the hauler is related to the farmer who produced the crop or animal is exempt from the PUT. The exemption does not apply to the hauling of any substances or manufactured goods from agricultural products. The exemption expires December 31, 2020.

Tax Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

The custom farming services and farm management services B&O tax exemption is made permanent. Additionally, the agricultural hauling the PUT credit is made permanent.

The bill contains language that exempts the legislation from the TPPS and expiration date requirements for new tax preferences.

Appropriation: None.

Fiscal Note: Requested on February 21, 2019.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.