

# SENATE BILL REPORT

## SB 5277

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As Reported by Senate Committee On:  
Agriculture, Water, Natural Resources & Parks, January 26, 2023

**Title:** An act relating to extending tax preferences for dairy, fruit and vegetable, and seafood processors.

**Brief Description:** Extending tax preferences for dairy, fruit and vegetable, and seafood processors.

**Sponsors:** Senators Wilson, L., Dozier, Lovelett, Lovick, Muzzall, Shewmake, Torres, Wagoner and Warnick.

**Brief History:**

**Committee Activity:** Agriculture, Water, Natural Resources & Parks: 1/23/23, 1/26/23 [DP-WM, w/oRec].

**Brief Summary of Bill**

- Extends the expiration date of business and occupation tax preferences for dairy, fruit and vegetable, and seafood processors from July 1, 2025, to July 1, 2035.

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### SENATE COMMITTEE ON AGRICULTURE, WATER, NATURAL RESOURCES & PARKS

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

Signed by Senators Van De Wege, Chair; Salomon, Vice Chair; Muzzall, Ranking Member; Rolfes, Shewmake, Short, Wagoner and Warnick.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Stanford.

**Staff:** Delika Steele (786-7486)

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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 part of the legislation nor does it constitute a statement of legislative intent.*

**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 July 1, 2025. 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 manufacturing, retailing, and wholesaling activities.

The Joint Legislative Audit and Review Committee (JLARC) is required to conduct performance audits, program evaluations, sunset reviews, and other analyses including issuing recommendations to improve performance. In 2022, JLARC reviewed the B&O tax preferences for the dairy, fruit & vegetable, and seafood processing industries. JLARC found that the B&O tax preferences were providing tax relief for all three industries, but concluded that only dairy and fruits and vegetables were able to create and retain jobs.

JLARC recommended that the Legislature continue the B&O tax preferences for dairy processors, allow the B&O tax preference for dairy products used as an ingredient or component to expire, continue and clarify the B&O tax preferences for fruit and vegetable processors, and review and clarify the B&O tax preferences for seafood processors.

**Summary of Bill:** The B&O tax exemptions for food processors are extended from July 1, 2025, to July 1, 2035. The tax exemption for dairy products sold as an ingredient or component to manufacture other dairy products is not extended and expires on 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:** Requested on January 12, 2023.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

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

**Staff Summary of Public Testimony:** PRO: Extending the exemption will continue to level the playing field for dairy, fruit and vegetable, and seafood processors against a highly competitive global market. Exemptions have played an important role in the growth and

wealth of these industries. The objectives underlying these exemptions have been met and exceeded, particularly by the fruit and vegetable processors. The exemption has been very beneficial for wine companies and the long term growth of Washington wine needs support to extend beyond Washington both nationally and internationally.

The seafood industry has underperformed in part because of the disproportionate impact of COVID-19. However, there will be efforts made to make sure that this doesn't happen in the future.

**Persons Testifying:** PRO: Senator Lynda Wilson, Prime Sponsor; Craig Smith, Food Northwest; Beau Hickman, Figgins Family Wine Estates; Ryan Pennington, Ste Michelle Wine Estates; Jeremy Visser, Northwest Dairymen's Association.

**Persons Signed In To Testify But Not Testifying:** No one.