

HOUSE BILL REPORT

2SSB 6542

As Reported by House Committee On:
Finance

Title: An act relating to the excise taxation of persons engaged in farming and farming services.

Brief Description: Exempting persons engaged in farming and certain farming services from business taxes.

Brief History:

Committee Activity:

Finance: 2/22/06, 2/27/06 [DPA].

**Brief Summary of Second Substitute Bill
(As Amended by House Committee)**

- Exempts custom farming services, farm management services, contract labor services, services with respect to animals that are agricultural products, and the hauling of agricultural products and farm machinery from tax if done by a relative of the farmer.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 8 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Ericks, Santos and Shabro.

Minority Report: Do not pass. Signed by 1 member: Representative Hasegawa.

Staff: Rick Peterson (786-7150).

Background:

The business and 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 (except utility activities) conducted within the state. There are generally no deductions for the costs of doing business. Revenue from the B&O tax go into the General Fund.

The B&O tax does not apply to a farmer who sells agricultural products at wholesale nor to a farmer who grows agricultural products owned by others.

The public utility tax applies to the gross income derived from the operation of public and privately owned utilities. The tax is in lieu of the B&O tax and applies to the general

categories of transportation and the supply of energy and water. Public and private entities who transport people or goods for hire are subject to the public utility tax.

Summary of Amended Bill:

Firms performing custom farming services are exempt from the B&O tax if services are provided by a relative of the farmer.

Custom farm services are activities related to the growing, raising, or producing agricultural products to be sold or consumed by the farmer. The activities must use farm machinery or equipment, farm implements, or draft animals together with an operator and be under the supervision of the farmer. Custom farm services does not include the custom application of fertilizers, chemicals, or biologicals unless the custom applicator is related to the person for whom the service is rendered. The exemption does not include veterinary services; farrier, boarding, training, or appraisal services; artificial insemination or stud services; agricultural consulting services; packing or processing of agricultural products; or pumping or other waste disposal services.

Firms performing farm management services, contract labor services, and services with respect to animals that are agricultural products are exempt from B&O tax if done by a relative of the farmer.

The hauling of agricultural products and farm machinery for a farmer by family members is exempt from public utility tax.

Amended Bill Compared to Second Substitute Bill:

The amendment limits the exemption for custom farming services to those performed by a person related to the farmer.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect on July 1, 2006.

Testimony For: The goal of the bill is to improve the viability of family farms and try to encourage young people to get into agriculture. Families may hold equipment in separate business entities and provide farming services to family members. Families organize into separate entities due to federal regulations. As the younger generation starts out they often hire other family members to provide farming services. The B&O tax does not apply to farmers. Wholesale agriculture activities should be exempt from the business and occupation tax.

Testimony Against: None.

Persons Testifying: Patrick Connor, Washington Farm Bureau.

Persons Signed In To Testify But Not Testifying: None.