

HOUSE BILL REPORT

HB 2275

As Reported by House Committee On:
Finance

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: Representatives Kretz, Springer, Shea, Sullivan, Blake, Jacks, Warnick, Short, Hinkle, Schmick, Armstrong, Parker and McCune.

Brief History:

Committee Activity:

Finance: 2/27/09, 3/2/09 [DPS].

Brief Summary of Substitute Bill

- Provides a sales and use tax exemption for the non-highway use of propane by farmers.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Condotta, Conway, Ericks, Santos and Springer.

Staff: Joseph Archuleta (786-7192)

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

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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 are exempt from sales and use tax.

Diesel and aircraft fuel used by farmers for non-highway farm activities is exempt from sales and use tax. The exemption also covers diesel and aircraft fuel used for soil preparation services, crop cultivation services, and crop harvesting services. The exemption does not cover fuel used for home heating. The exemption does not include propane fuel.

Summary of Substitute Bill:

Propane fuel used by farmers for non-highway farm activities is exempt from the sales and use tax. The exemption does not cover fuel used for home heating.

Substitute Bill Compared to Original Bill:

The substitute bill adds an expiration date of July 1, 2019 for the sales and use tax exemption.

Appropriation: None.

Fiscal Note: Requested February 25, 2009.

Effective Date of Substitute Bill: The bill takes effect August 1, 2009.

Staff Summary of Public Testimony:

(In support) There have been several exemptions passed by the Legislature with regard to fuels used by farmers. It seems that propane has been overlooked in the use of farming operations. This bill would make propane use consistent with the other types of fuels for non-highway use for farmers. Propane is a clean fuel and is recognized as an alternative fuel. Propane is used in farming in Washington by orchards to fuel their wind machines to protect young fruit from freezing and in their atmosphere-controlled rooms. One orchard is known to have spent \$680,000 on propane. Propane is nontoxic and not harmful to soil or water and this bill would provide similar tax treatment for farmers who wish to use propane instead of diesel.

(Information only) The determination of agricultural use and non-qualifying usage would be done by audit on a case-by-case basis.

(Opposed) None.

Persons Testifying: (In support) Representative Kretz, prime sponsor; Representative Grant-Herriot; Mel Sorensen, Northwest Propane Gas Association; Chris Cheney, Washington Dairy Federation and Hop Growers of Washington; Jim Halstrom, Washington State Horticultural Association; and Ben Buchholz, Washington State Council of Farm Cooperatives.

(Information only) Drew Shirk, Department of Revenue.

Persons Signed In To Testify But Not Testifying: None.