

Extend agricultural processor tax exemptions

- Description** This proposal would extend, until July 1, 2025, the expiration date of the following tax exemptions:
- Dairy product businesses (RCW 82.04.4268)
 - Seafood product businesses (RCW 82.04.4269)
 - Fresh fruit and vegetable businesses (RCW 82.04.4266)
- Upon their expiration, the exemptions would be replaced with a preferential B&O tax rate of 0.138 percent.
- The expiration date for the preferential rate for dairy product sales to a purchaser who uses the dairy product as an ingredient or component in the manufacturing of another dairy product would be extended to July 1, 2029.
 - The preferential rate for the other qualifying activities would not expire.
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- Current Law** **Dairy product businesses**
- Dairy product businesses are exempt from B&O tax until July 1, 2015, on the following activities:
- The manufacturing of dairy products;
 - The sale of dairy products manufactured by the seller to a customer that either:
 - Transports the product outside this state in the ordinary course of business, or
 - Uses such dairy products as an ingredient or component in the manufacturing of another dairy product.
- After July 1, 2015, the exemption is replaced with a preferential tax rate of 0.138 percent on these activities. The preferential rate expires July 1, 2023, but only for sales to a purchaser who uses the dairy product as an ingredient or component in the manufacturing of another dairy product.
- Seafood businesses**
- Seafood businesses are exempt from B&O tax until July 1, 2015, on the following activities:
- The manufacturing of seafood that remains in a raw, raw frozen or raw salted state at the completion of the manufacturing, and
 - The sale of such manufactured seafood products by the manufacturer to a customer that transports the product outside this state in the ordinary course of business.
- After July 1, 2015, the exemption is replaced with a preferential tax rate of 0.138 percent on these activities. This preferential tax rate does not expire.
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Extending agricultural processor tax exemptions, Continued

Current Law,
continued

Fruit and vegetable businesses

Fruit and vegetable businesses are exempt from B&O tax until July 1, 2015, on the following activities:

- Manufacturing by canning, preserving, freezing, processing or dehydrating fresh fruits or vegetables, and
- The wholesaling of such manufactured fruits and vegetables by the manufacturer to a customer that transports the products outside this state in the ordinary course of business.

After July 1, 2015, the exemption is replaced with a preferential tax rate of 0.138 percent. This preferential tax rate does not expire.

Original Purpose and Current Analysis

- For dairy, to create additional jobs in the dairy processing industry.
- For seafood, it appears the original purpose may have been to create additional jobs in the seafood processing industry.
- For fruit and vegetable manufacturers, it appears the original purpose may have been to provide parity with the dairy and seafood processing industries.

Citizen Commission Recommendation

Although the three tax preferences appear to satisfy their objectives, the Citizen Commission recommended that the Legislature should consider other factors in evaluating the effectiveness of these preferences, such as “locational choice.”

Revenue Impact

General Fund Impacts (\$ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
250	\$ (7.2)	\$ (7.8)	\$ (15.0)	\$ (7.8)	\$ (7.8)	\$ (15.6)

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*