

Limit B&O tax preferences for meat processors and fruit & vegetable processors

Description

This proposal would narrow:

- Activities eligible for the reduced B&O tax rate for processing perishable meat products by requiring that the end product be either:
 - A perishable meat product;
 - A nonperishable meat product comprised primarily of animal carcass, but not including canned meat products; or
 - A meat by-product manufactured in a rendering plant.
- B&O tax preference provided to fresh fruit and vegetable processors by requiring the end product to be comprised primarily of fruits, vegetables, or both.

This proposal would supersede the decision of the Washington Supreme Court in *Agrilink Foods, Inc. v. Dep't of Revenue*, 153 Wn.2d 392 (2005).

Current Law

A preferential B&O tax rate is provided for “slaughtering, breaking and/or processing perishable meat products and/or selling the same at wholesale.”

- In 2005, the Washington Supreme Court’s *Agrilink* decision significantly broadened the types of businesses that are entitled to this tax preference by holding that the preferential tax rate applies to the processing of perishable meat products into nonperishable finished products, such as canned food.

A preferential B&O tax rate was also provided for canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables. That preferential rate was replaced by a temporary exemption, which reverts back to a preferential rate effective July 1, 2012.

- The Department has determined that the *Agrilink* rationale applies to this tax preference.
- As a result, the processing of any food product that includes a fresh fruit or vegetable as an ingredient will qualify for the preference.

This proposal was enacted in 2010 legislation but was subsequently repealed by Initiative 1107.

Continued on next page

Limit B&O tax preferences for meat processors and fruit & vegetable processors, Continued

Revenue Impact

General Fund Impacts (\$ millions):

Fiscal Year 2012	Fiscal Year 2013	2011-2013 Biennium
\$0	\$ 0.9	\$0.9

Notes:

- Estimate assumes a July 1, 2012, effective date, representing 11 months of collections for FY 2013.
- Estimate reflects the November 2011 Economic & Revenue Forecast Council revenue forecast.

Expenditure Impact

Fiscal Year 2012	Fiscal Year 2013	2011-2013 Biennium
\$1,300	\$ 0	\$1,300