Washington State Tree Fruit Association

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Citizen Commission for Performance Measurement of Tax Preferences
1300 Quince Street
P.O. Box 40910
Olympia, WA 98504-0910

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Dear Commissioners:

Thank you for the opportunity to comment on several tax preferences of particular interest to the tree fruit growers of Washington. These include: the sales and use tax exemption for horticultural services to farmers; the sales and use tax exemption for fuel used on farms; the sales and use tax exemption for farm machinery replacement parts; and the deductibility of farm and related business property from estate tax calculations.

When growers plant apple, pear or cherry trees they are making long-term commitments to producing particular varieties of fruit and to incurring all of the necessary costs of ongoing maintenance and production. They must do this without knowing what those future input costs will be and what the average returns will be for the varieties they are growing. Agricultural producers are also particularly vulnerable to weather related losses such as drought or hail that can cause partial or full crop loss even after these production expenses have been incurred. This can also include human-caused disasters such as the slowdowns at West Coast ports in 2014-15 that curtailed access to important export markets to apple and pear growers during what would normally by their peak export period.

While the JLARC report on the farm machinery preference correctly note that apple prices rose between 2006 and 2013, what is not noted is that prices at the end of this period were significantly higher not because of long-term trends but because of an apple crop failure in eastern apple producing states in 2012-2013. Looking at more recent data provided by our members, prices for conventional Red Delicious apples sold during the September 2014-August 2015 period fell by approximately 25% from the same period in the previous year. Similar losses were experienced for other major varieties such as Gala (-20%), Golden Delicious (-29%) and Fuji (-27%).

It is important to maintain the existing tax preferences as Washington growers do not have sufficient pricing power to pass on increased in-state production costs to their customers in other states and abroad. For example, according to data provided by the World Apple and Pear Association, the United States represents only 5% of world apple production while China--a much lower cost producer--accounts for 49% of global production. Our growers must instead manage production costs if they are to realize any profit within prevailing prices, which often means incurring additional expenses for technology and utilizing expert service providers. Washington apple growers are able to remain competitive by offering superior quality and by investing in new technology and processes to increase their production efficiency. But there are limits to the price premium that customers are willing to pay and if the costs necessary to achieve added productivity become too high, then market share will be lost.

An economic study released by the Washington Apple Commission in June of 2014 found that the value of the 2012 apple crop after packing to be $3.4 billion, with a total economic impact of $7.5 billion. Apple production alone supports 40,000 direct and a further 20,000 indirect jobs in our state. Keeping tree fruit production costs within Washington State competitive so that production is able to continue does enable the tree fruit industry to generate additional revenue to the state. An industry study released in November of 2014 estimates the total state and local taxes paid directly the tree fruit industry during the 2012-13 crop year to be nearly $200 million, which does not include the induced taxes paid by employees and suppliers.

In conclusion, orchardists must make substantial investments while being subjected to the vagaries of weather and pricing set in competitive global markets. Our state's current tax structure correctly limits the taxes imposed on production inputs such as fuel, equipment, horticultural services and the transfer of that most essential element of the family farm—land. This approach has enabled our industry to remain competitive in domestic and international markets, and results in additional revenue generated to the state which is collected further along the production chain and as a result of induced economic activity connected with the tens of thousands of jobs supported by our industry. For these reasons, we strongly urge the continuation of these current tax preferences.

Sincerely,

Jon DeVaney

Jon DeVaney
President