Washington Association of Wheat Growers
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From: Washington Association of Wheat Growers
To: Citizen Commission for Performance Measurement of Tax Preferences
Subject: Public Testimony regarding tax preferences for Fuel Used on Farms (Sales and Use Tax)
Date: September 17, 2015

The preference provides farm fuel users of diesel, biodiesel, and aircraft fuel an exemption from paying sales tax on the fuel used in the production of ag crops. This preference is intended to provide a price break to farmers when fuel costs increased and to make Washington consistent with other states in farm fuel tax treatment.

Here is my public testimony regarding the 6 questions posed by the commissioners:

1. **Is there evidence that the tax preference achieved its purpose, as noted in the 2015 tax preferences reports?** WAWG respectfully disagrees with the preliminary report from JLARC's position that "it is unclear whether the preference is meeting the inferred objective." The report uses Exhibit 1- Diesel process have ranged above and below the price paid before the preference was enacted demonstrating the fluctuation in diesel prices from 2000-2014. This title infers that if the price of diesel drops below the $2.29 price point from 3/6/2006, the date this exemption became effective, farmers won't need the price break from increased fuel costs, which couldn't be further from the truth.

   The report also states in the title of Exhibit 2 that "Compared to years before the tax preference, farm fuel is a higher percentage of total farm input costs." The graph clearly highlights that at the time the tax preference was enacted, farm fuel (including fuels which receive the tax preference and those that do not) accounted for 7.5% of total farm input costs. The graph demonstrates that since the preference was enacted, the amount of fuel as a percentage has been consistently lower, around 7% of total farm input costs. The last reported percentage demonstrated on the graph is 6.8% in 2013. The graph should have isolated fuels that were not subject to the preference and those that were before attempting to show a correlational or causational relationship between the tax preference being enacted and the increase (which is demonstrated as being untrue in the graph) of farm fuel as an input purchase. It should also factor in changes in agricultural technology, such as dairy digesters and automations for irrigation systems, which are new technologies that now require fuel to operate that were emerging technologies not widely used prior to the preference being enacted in 2006.

   This preference does provide tax relief to farmers and it has been successful in doing so, regardless of the price of diesel. The benefits to national competitiveness, which are discussed in more detail below should be the reasoning for maintaining this preference, and support consideration of expanding the preference to other farm fuels.

2. **Does the preference provide benefits in addition to those stated in its intended or inferred purpose, consistent with one or more of the six public policy objectives stated in RCW 82.32.808(2)?**

   The sales and use preference for fuel used on farms provides a number of benefits consistent with public policy objectives. The largest benefit this preference has provided is the increased competitiveness for the industry nationally and internationally. The tax exemption helps to help keep input costs down and provide ag producers some relief in the ever shrinking operating margins within which they survive. As discussed later in the response to question six, nearly all of the top producing wheat states also have this sales and use tax exemption on not only diesel but also on gasoline and other fuels used in agricultural production.

   Grain production, along with many other ag commodities are homogenous products. Farmers are price takers, they cannot increase their price to recover increases in the cost of production because they have no ability to control the market price offered to them. When this preference was enacted in 2006, diesel costs had risen dramatically, from $1.50 to over $3.00. Farmers fully bear the burden of increased operating costs, and the issue of rising input costs, specifically diesel, was one input which was cutting operating margins substantially. Adding to that risk, farmers are also weather takers, unable to control when and how much rain or snow we will get. In drought years such as this one, every opportunity is needed to assist those growers for additional opportunities to do what is necessary to produce a crop. Assistance through this vital long-standing tax preference encourages growers that the State of Washington values ag's contributions made to the jobs and economy of the state. As an indirect benefit to providing tax relief, those relief efforts have helped to retain jobs within the agricultural production industry.

The 34,000 farms[1] in Washington support 164,400 jobs were tied to agriculture, totaling 220,600 jobs supported in statewide, either directly or throughout business transactions and personal income expenditures. Washington needs to continue to provide this tax preference to retain jobs and promote national competitiveness with other top wheat producing states.

This preference indirectly supports benefits to our state's security and emergency response preparedness. Although we hope events such as trade failures, natural disasters or acts of war do not occur on Washington State soil, local grain production is vital to the state's ability to feed its citizens.

3. **Is there a loss of tax revenue as a result of the preference; and if so, do any increased taxes from new economic activity exceed that loss?**

The tax preference is estimated to save beneficiaries a total of $53.2 million in the 2015-2017 biennium according to the JLARC 2015 performance review preliminary report. The loss in revenue to the state from this preference will be returned to the states in greater proportion through direct and secondary impacts. In the economic impact study mentioned earlier, it was determined for every dollar in state investments in agriculture and processing activities, $1.30 is generated in state tax payments through direct and secondary impacts.
If this preference were eliminated, the state would lose approximately 19 million in tax revenue which would be generated in excess of the 53.2 million projection for this tax preference.

Nearly $36 billion in business revenues to Washington are supported by ag activities through direct activities and multiplier effects. Additionally, the 220,600 jobs statewide supported by agriculture would be negatively impacted.

4. **Specifically, in the case of property tax preferences, what would be the impacts on taxpayers and economic activity if the preference is eliminated or modified?**

If this preference were eliminated, purchasing behavior would not be altered, as fuel purchases are mandatory inputs, necessary to run tractors and pull implements such as seeders and rod weeders, to operate the combine and harvest the crop. Fuels cannot be easily substituted without major modifications.

If this preference is eliminated or modified to be enacted at a specific price point, Washington farmers will be less competitive, putting our growers at a disadvantage.

5. **Does this preference have negative consequences? For example, were other industries, workers, or the environment harmed by activities stimulated by this tax preference?**

No other industries, workers, or the environment were harmed by the activities stimulated by this tax preference, because the enactment of this preference did not increase diesel as a percentage of inputs, it has remained relatively constant since 2006, and even decreased slightly over time.

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[1] NASS census of agriculture 2013 reported 34,249 farms in Washington

6. **How does the overall impact of the "preference" affect the tax burden in Washington compared with a similar tax burden in other states?**

   Of the major wheat producing states in the US, nearly all have sales and use tax exemptions for not only diesel but also gasoline and other fuel sources used for farming purposes. Washington state needs to retain this tax preference and should consider expanding it to include gasoline used for agricultural purposes to improve Washington's ability to compete nationally and internationally in agricultural production.

   For the benefit of the commission, other states' fuel sales and taxes exemptions pertaining to agriculture are listed below. This information was obtained from Federal Highway Administration Motor Fuel Tax Compliance Outreach website, Fuel Sales and Taxes Exemptions page.[2] I did not list all states, but I do show policies on the other 9 top wheat production states, as well as number of other states.

   - North Dakota provides a sales and use tax exemption for gasoline, heating fuel, diesel fuel, propane, kerosene, aviation fuel, and jet fuel.
   - Kansas has a farm fuel sales tax exemption that covers off road diesel, propane, oil & oil additives. Electricity and gasoline have an ag use exemption for state tax but not the local sales taxes in Kansas.
   - Montana gasoline and diesel used for agricultural production are eligible for a full refund of state taxes paid on those purchases.
   - In South Dakota dyed kerosene, dyed diesel, and gasoline for farming purposes are exempt from sales tax.
   - Idaho offers a Sales Tax refund to farmers for dyed diesel, and gasoline used for agricultural purposes or off road purposes.
   - New York exempts not only diesel for farming but also diesel used in manufacturing.
   - Oklahoma exempts tax on dyed and clear diesel for ag. Gas for ag uses is also exempt with the exception of a $0.0208 per gallon tax in Oklahoma.
   - Nebraska offers tax exemptions for diesel for agricultural purposes.
   - Texas offer tax exemptions for diesel for agricultural purposes.
   - Vermont offers an exemption for all fuel used for ag purposes and for fuel used in vehicles registered as a farm truck.
   - Missouri offers an exemption for dyed diesel and dyed kerosene and gasoline purchased in quantities over 100 gallons. Quantities of gasoline purchased in Missouri under 100 gallons are eligible for a sales tax refund, but do not get the exemption.
   - Minnesota farm fuel sales tax exemption for off road diesel and gasoline.
   - Oregon has no sales tax, so there is no need for a sales tax exemption for ag production.

Please let this testimony supplement verbal testimony which will be offered at the hearing on September 18, 2015. Thank you for your consideration.

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[2] Federal Highway Administration Motor Fuel Tax Compliance Outreach website, Fuel Sales and Taxes Exemptions page https://www.fhwa.dot.gov/motorfuel/sales_taxes_exemptions.htm#top