Washington Association of Wheat Growers
109 E. First Ave. ● Ritzville, WA ● 99169 ● Phone (509) 659-0610 ● Fax (509) 659-4302

From: Washington Association of Wheat Growers
To: Citizen Commission for Performance Measurement of Tax Preferences
Subject: Public Testimony regarding tax preferences for Grain & Unprocessed Milk Wholesaling (B&O Tax)
Date: Thursday, September 17, 2015

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?**

   This preference has been successful in achieving its purpose. The state has also benefitted from many indirect benefits from this preference as well.

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 preference has helped to to create and retain jobs for small grain farmers as well as making the industry more competitive in the international marketplace of grain. Small grain crop farmers have no ability to control the price in which they sell their crop, they are price takers. They cannot increase their price to recover increases in the cost of production, they must absorb those increases within their operating margins. Without the ability to control the sales price of their crops, assistance through this vital long-standing tax preference encourages growers to sell their product to country elevators (wholesalers) into an economy of scale, where the grain can be marketed, transported, and utilized in a more cost efficient manner. This preference also encourages industry specialization, by allowing grain merchandising firms the ability to specialize in grain procurement without incurring additional tax costs. Many of the merchandisers, including the two largest, in our state are ag cooperatives, and money saved by this tax preferences is distributed back to their member-owners. This tax preference also helps to ensure small grain crop production is retained within our state. 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. Additionally, loss of this preference would jeopardize our industry's competitiveness among other top producing states as none of the top ten tax farmer or ag cooperatives. Washington needs to continue to provide this tax preference to retain jobs and promote market efficiencies through economies of scale for an industry that produces over $1 billion of product for Washington's economy annually.

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 $14.8 million in the 2015-2017 biennium according to the JLARC 2015 performance review preliminary report. This loss in revenue to the state from this preference will be returned to the states in greater proportion through direct and secondary impacts. WAWG, in conjunction with other agricultural organizations, retained Community Attributes Inc. to conduct an economic and fiscal impact study on Washington agriculture. The study 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. Loss of this preference would reduce state income by approximately 4.5 million dollars.

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 to be eliminated, B&O taxes incurred at the point of sale from farmer to country elevator, from elevator to exporter, and from exporter to the miller/baker would all be passed back to the farmer. It will affect both large and small growers, substantially increasing their state tax burden and reducing their operating margins.

Because Washington receives additional tax revenue of approximately $1.30 for every dollar of preferences offered to the industry, the State would lose 4.5 million in tax revenue which is generated in excess of the 14.8 million by this tax preference. Additionally, the 34,000 farms in Washington[1] support over 160,000 jobs statewide either directly or through business transactions or personal income expenditures.

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

   This preference does not have any negative consequences to our knowledge.

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 top ten wheat producing states as reported in 2014, Washington ranked fifth largest. Of the top ten wheat producing states, North Dakota, Kansas, Montana, Idaho, Colorado, Texas, and Minnesota have a state income tax exemption for farmer co-ops or ag co-ops. South Dakota, Nebraska, and Texas have no business income tax and a franchise tax exemption. Washington needs to keep this B&O tax exemption to retain our industry competitiveness with other top producing states.

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

Keva M. Guszkowski
Policy Director
Washington Association of Wheat Growers
109 E. First
Ritzville, WA 99169
keva@wawg.org

[1] NASS Agricultural census 2013