

# Custom Farming & Hauling Farm Products

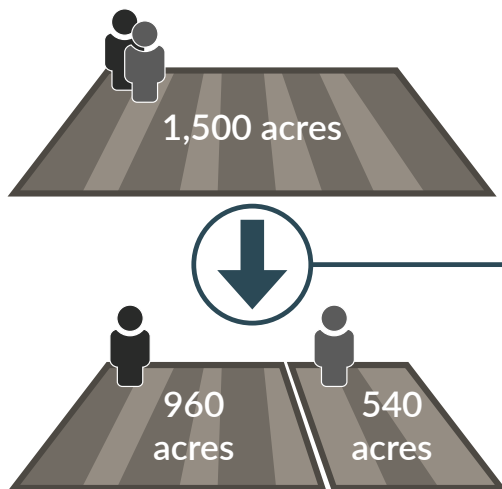
JLARC Staff 2018 Tax Preference Performance Review

Custom Farming, Specific Farming Services (B&O Tax)

Estimated 2019-21 beneficiary savings: \$67,500; unknown

Hauling Farm Products/Equipment (Public Utility Tax)

## Some Washington farmers reorganized their farms in response to federal regulations. This had state tax consequences.



Some owners split their farms among multiple owners.

Often responding to federal regulations that limit irrigation water to **no more than 960 acres**.

They may continue to operate as one farming operation.

If one owner provides a service or hauling for another owner, **these services could be subject to B&O or public utility tax.**

## Preferences eliminate potential taxation for these farmers and others who have split ownership

An eligible farmer **does not pay B&O tax** when performing custom farming services (e.g., harvesting agricultural products) for another farmer.

A person who performs **specific farming services** (e.g., farm management) **does not pay B&O tax** if they are related to the farmer.

A person who **hauls agricultural products or machinery** for a farmer **does not pay public utility tax (PUT)** if they are related to the farmer.

(RCW 82.04.625, 82.16.300)

**Related farmer** means a family member or an organizational relationship specified by the Internal Revenue Service.

## Preferences expire December 31, 2020

**Objective met for one preference:**

The B&O tax preference is providing tax relief as intended: 5-7 businesses benefit.

**Unclear if objective met for the other:**

PUT preference is structured to provide tax relief. No data about use is available.

## Legislative Auditor's recommendation

### Continue and clarify (structural purpose)

The Legislature should continue and clarify the two preferences to:

- Eliminate the expiration date -- preferences appear to address a structural tax issue.
- Add performance statements that specify public policy objectives.

The complete report is on the JLARC web site.

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