

# Dairy Product Processors

2022 JLARC TAX PREFERENCE REVIEW

Estimated 2023-25 beneficiary savings: \$10.5 Million

B&O Taxes

## B&O tax preferences for manufacturing and certain sales of dairy products

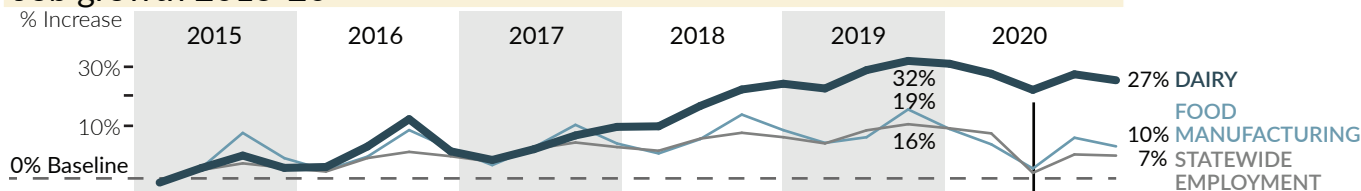
- Exemption for those who manufacture and/or sell wholesale dairy products, such as milk and cheese, for delivery out of state.
  - Darigold, Inc. claimed on average 83% of savings from 2015-20.
- Targeted exemption for those who sell to buyers that use the products to manufacture other dairy products, such as powdered whey.



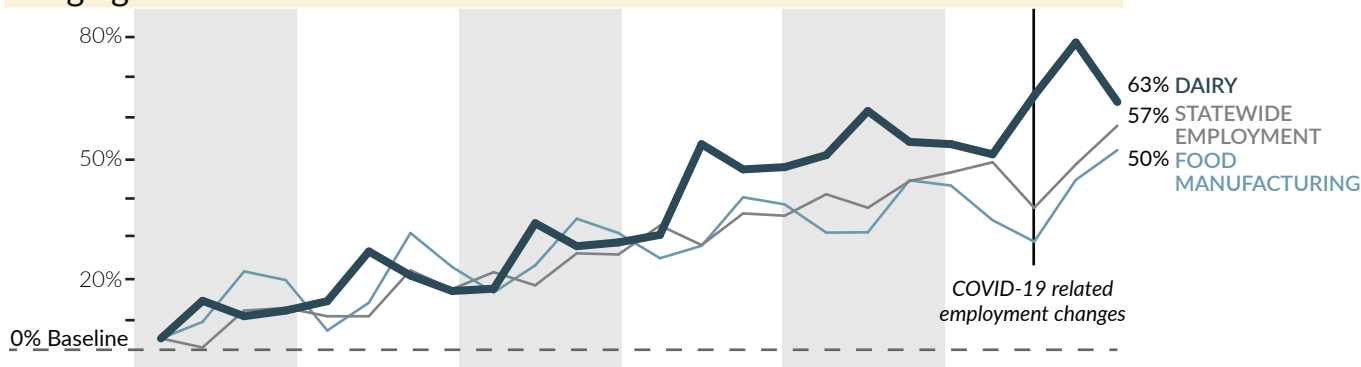
- **Main exemption expires** July 1, 2025, and will be replaced with preferential rate of 0.138% until January 1, 2036.
- **Targeted exemption expires** June 30, 2023, and then taxed at the general 0.484% B&O tax rate.

## Beneficiary job and wage growth exceeded industry and state averages

### Job growth 2015-20

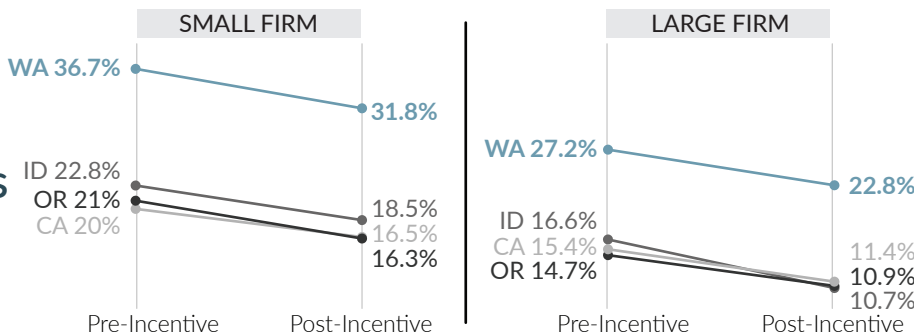


### Wage growth 2015-20



## Preferences give tax relief, but WA still has highest effective tax rate among neighboring states for firms investing in new facilities

**Effective tax rate:** How much a firm's rate of return is reduced after it pays state/local taxes over a 30-year period.



## LEGISLATIVE AUDITOR'S RECOMMENDATION

### Preference for dairy processors:

**Continue and clarify** because the preference is meeting its objectives of providing tax relief and retaining jobs. The Legislature should clarify its expectations for job and wage growth and determine the level of tax relief needed to meet those expectations.

### Targeted exemption for dairy products used to make other dairy products:

**Allow to expire** because the activity it was intended to incentivize did not occur.

The complete report is on the JLARC web site: [www.leg.wa.gov/jlarc](http://www.leg.wa.gov/jlarc)

For more information, contact: Keenan Konopaski, Washington State Legislative Auditor  
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 July 2022

# Fruit & Vegetable Processors

2022 JLARC TAX PREFERENCE REVIEW

Estimated 2023-25 beneficiary savings: \$22.7 Million

B&O Taxes

## B&O tax exemption for manufacturing and certain sales of fruit & vegetable products

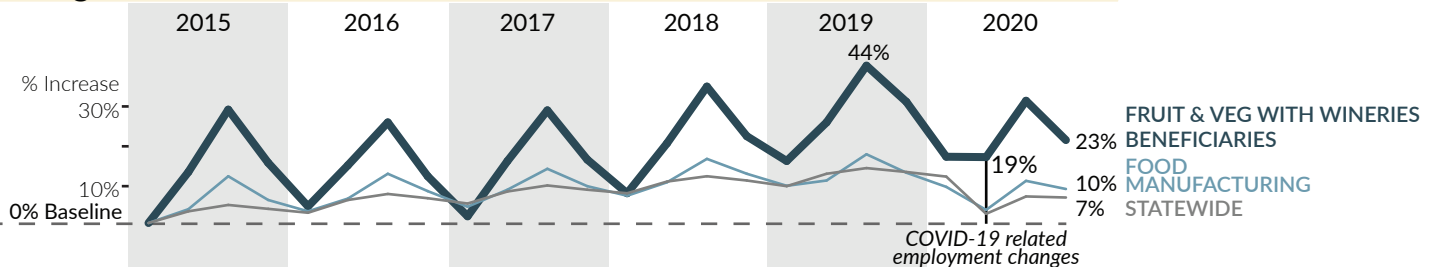


Exemption expires July 1, 2025, and will be replaced with a preferential rate of 0.138%. The preferential rate does not expire.

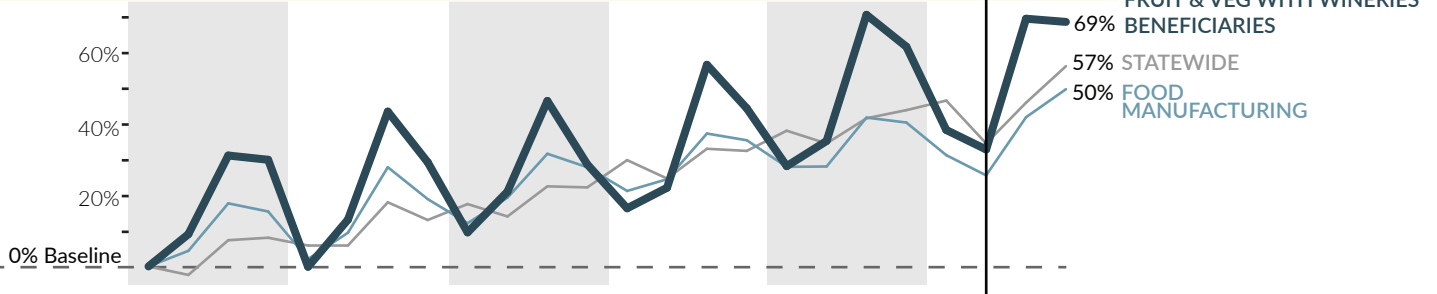
Exemption for those who manufacture and/or sell wholesale fruit or vegetable products, such as apple juice, frozen french fries, or wine for delivery out of state.

## Beneficiary job and wage growth exceeded industry and state averages

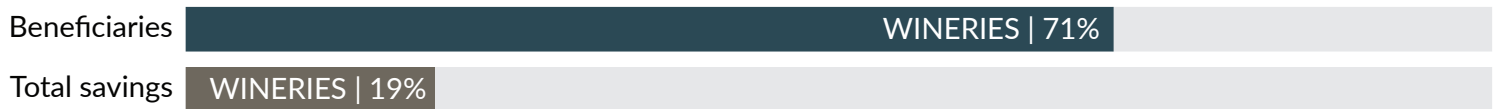
### Job growth 2015-20



### Wage growth 2015-20

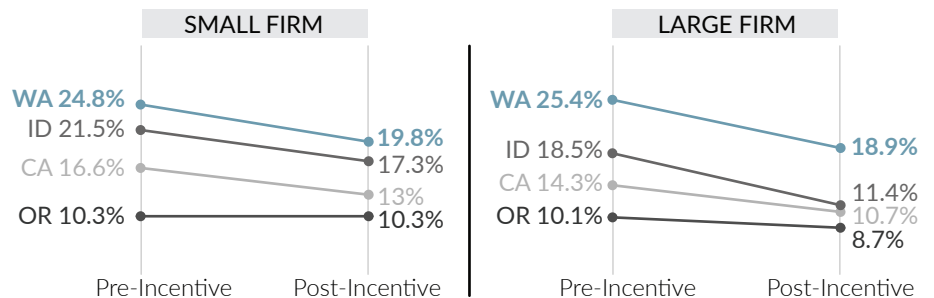


## Wineries are 71% of preference users, but only claim 19% of the savings



## Preferences give tax relief, but WA still has highest effective tax rate among neighboring states for firms investing in new facilities

**Effective tax rate:** How much a firm's rate of return is reduced after it pays state/local taxes over a 30-year period.



## LEGISLATIVE AUDITOR'S RECOMMENDATION

### Preference for fruit and vegetable processors:

**Continue and clarify** because the preference is meeting its objectives of providing tax relief and creating and retaining jobs. The Legislature should clarify its expectations for job and wage growth and determine the level of tax relief needed to meet those expectations.

The complete report is on the JLARC web site: [www.leg.wa.gov/jlarc](http://www.leg.wa.gov/jlarc)

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# Seafood Product Processors

2022 JLARC TAX PREFERENCE REVIEW

Estimated 2023-25 beneficiary savings: \$4.9 Million

B&O Taxes

## B&O tax exemption for manufacturing and certain sales of seafood products

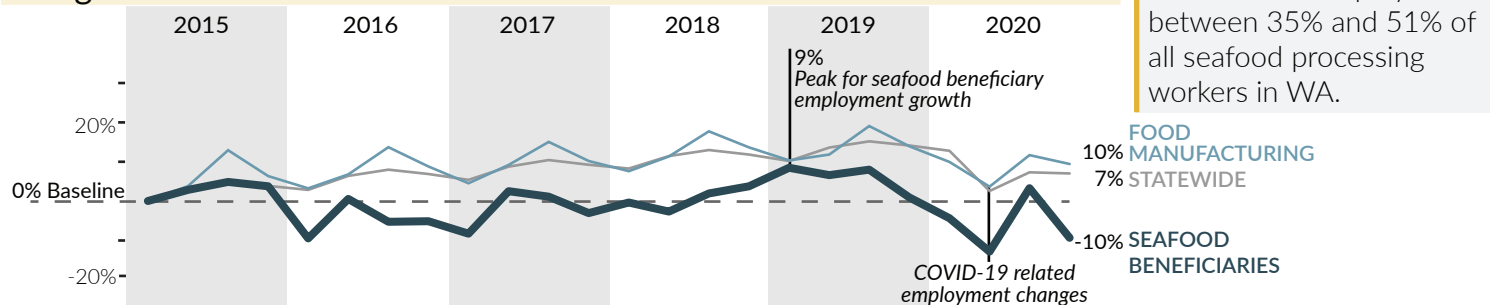
Exemption for those who manufacture and/or sell at wholesale or retail seafood products, such as frozen fish fillets or fish sticks, for delivery out of state.



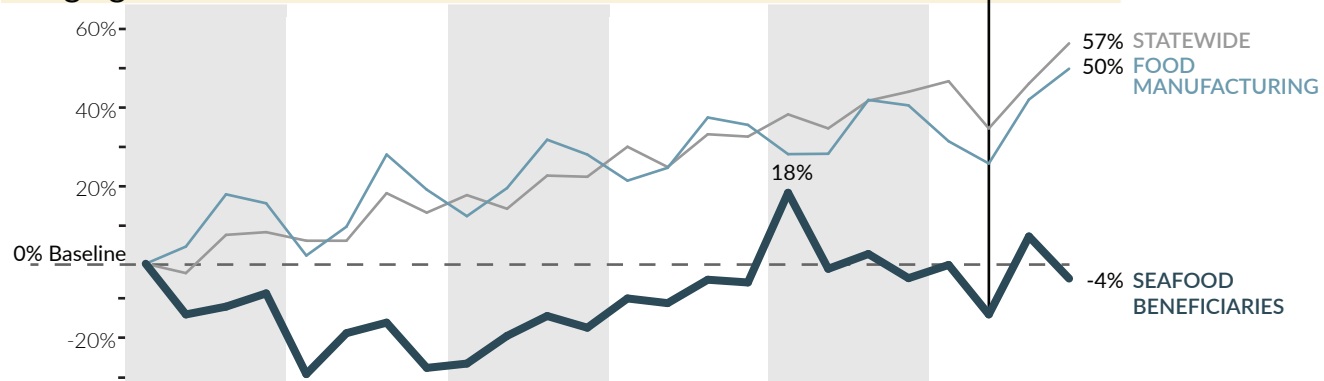
Exemption expires July 1, 2025, and will be replaced with a preferential rate of 0.138%. The preferential rate does not expire.

## Jobs and wages declined for beneficiaries while they increased for food manufacturers and statewide

### Job growth 2015-20

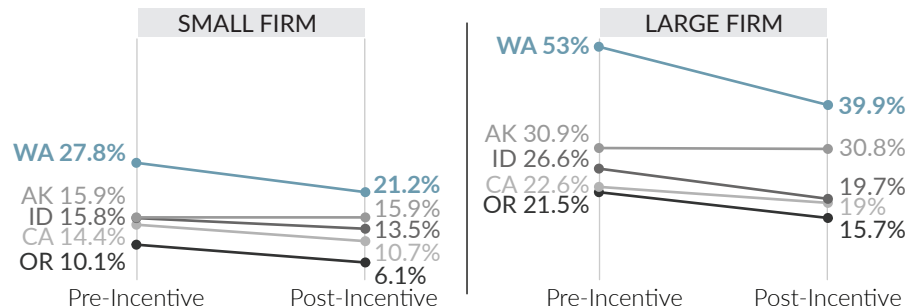


### Wage growth 2015-20



## Preferences give tax relief, but WA still has highest effective tax rate among neighboring states for firms investing in new facilities

Effective tax rate: How much a firm's rate of return is reduced after it pays state/local taxes over a 30-year period.



## LEGISLATIVE AUDITOR'S RECOMMENDATION

### Preference for seafood product processors:

**Review and clarify** because the preferences only meet one of two objectives. Beneficiary jobs have declined and their wages decreased. It is unclear why more businesses do not use the preference or what the Legislature's expectations are for the industry's jobs and wages.

The complete report is on the JLARC web site: [www.leg.wa.gov/jlarc](http://www.leg.wa.gov/jlarc)

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