2025 tax preference review:

# Agricultural Fertilizer and Seed Wholesaling

PRELIMINARY REPORT | JULY 2025

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## Legislative Auditor's conclusion

The preference meets the legislative goal of providing tax relief for certain commercial fertilizer, pesticide, and seed wholesalers.

## Key points

- The 2017 Legislature passed the preference to provide tax relief to wholesalers that distribute agricultural products.
- The preference exempts certain sales of commercial fertilizers, seeds, and pesticides.
- Beneficiaries must have a specific ownership structure described in statute to qualify.
- Fewer than three beneficiaries claim the preference.

## About this preference

**Estimated savings:** Not disclosable — fewer than three beneficiaries

**Tax type:** Business & occupation tax

**Expiration date:** No expiration date

# Report details

The 2017 Legislature enacted a preference to exempt sales of commercial fertilizers, seeds, and pesticides between businesses with a specific ownership structure.

The sales of commercial fertilizers, seeds, and pesticides involve the following:

- **Manufacturer**: Business that produces commercial fertilizers, seeds, and pesticides.
- **Distributor**: Wholesaler that buys fertilizers, seeds, and pesticides from the manufacturer and resells those products to a retailer.
- **Retailer**: Business that makes retail sales of fertilizers, seeds, and pesticides.

The preference provides tax relief to distributors with a specific ownership structure.

## Beneficiaries must have a specific ownership structure described in statute

The tax preference exempts sales of commercial fertilizer, pesticides, and seeds between a distributor and retailer with a specific ownership structure. Within this specific ownership structure, an eligible distributor sells products to eligible retailers that have partial ownership of the distributor. Additional detail is in **Appendix A**.

## The Legislature enacted the preference to reduce structural inefficiencies

Washington's nexus rules define the minimum connection between a business and the state that makes a business's activity subject to the state's taxing jurisdiction.

- Prior to 2015, nexus for wholesalers was based solely on physical presence in Washington.
- In 2015, the Legislature added an economic nexus threshold for out-of-state wholesalers. This change meant the business and occupation (B&O) tax applied to out-of-state wholesalers that generated more than $267,000 in revenue within Washington.

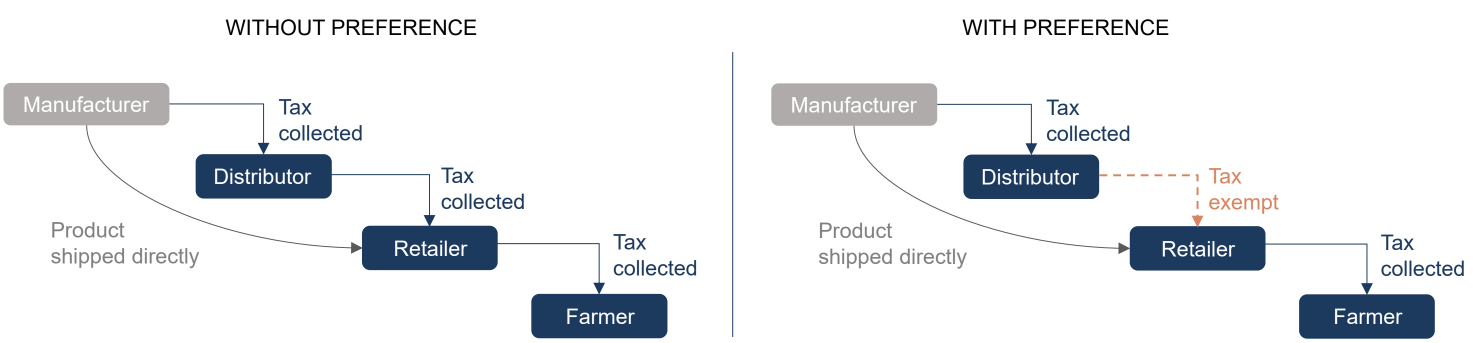
Supporters of the tax preference testified that the 2015 nexus change created a structural inefficiency. It added a third taxable transaction for Washington-based retailers with a specific ownership structure.

Public testimony provided the following example:

- A group of regional agricultural retailers form a holding company to increase their purchasing power with the manufacturers.
- The holding company forms a new out-of-state wholesale distributor to negotiate and purchase products from the manufacturers. The new distributor is a joint venture between the holding company and another entity.
- The wholesaler manages ordering and billing but does not receive physical inventory. The manufacturers ship the products directly to the retailers.
- Before the exemption, B&O tax applied to three transactions. First between the manufacturer and the distributor, again between the distributor and the retailer, and, finally, between the retailer and the farmer.

The preference exempts the transaction between the distributor and the Washington-based retailers.

**Figure 1: Without the preference, tax is applied to three transactions. With the preference, it is applied to two.**



Source: Joint Legislative Audit and Review Committee (JLARC) staff analysis of RCW and public testimony.

## The preference meets the Legislature's public policy objective by providing tax relief to certain agricultural wholesalers

The Legislature's public policy objective for this preference is to provide tax relief to certain agricultural wholesalers.

The preference does not have an expiration date. However, the Legislature stated it intends to extend the preference if a review finds the number of eligible wholesalers has increased or stayed the same.

JLARC staff found that the preference continues to provide tax relief to eligible wholesalers, meeting the Legislature's public policy objective.

Because there are fewer than three beneficiaries, JLARC staff cannot disclose the following without the beneficiaries' permission:

- The number of businesses that have claimed the preference.
- The amount of taxpayer savings.

JLARC requested, but did not receive, such permission for this preference.

# Recommendations

The Legislative Auditor makes two recommendations.

**Recommendation #1:**
**The Legislature should allow the preference to continue.**

The preference meets legislative intent by providing tax relief to certain agricultural wholesalers.

**Legislation required:** No.

**Fiscal impact:** Not disclosable.

**Implementation date:** Not applicable.

**Recommendation #2:**
**The Legislature should clarify whether the preference is exempt from the requirements for an automatic expiration date and a tax preference performance statement.**

The preference is exempt from both requirements. However, it has a tax preference performance statement. It states that the Legislature intends to extend the preference if the number of eligible wholesalers increased or stayed the same. There is no expiration date, making extension unnecessary.

**Legislation required:** Yes.

**Fiscal impact:** None.

**Implementation date:** At the discretion of the Legislature.

## Letter from commission chair

To be included in proposed final report.

### Commission recommendation

To be included in proposed final report.

### Current recommendation status

JLARC staff review whether the agency acted on the recommendation for four years. The first review typically happens about a year after we issue the report. The most recent responses from agencies and status of the recommendations in this report can be viewed on our **legislative auditor recommendations page**.

# Appendices

**Appendix A: Ownership structure** | **Appendix B: Applicable statutes** | **Appendix C: Study questions & methods** | **Appendix D: Audit authority** | **Appendix E: Study Process**

### Appendix A: Ownership structure

To be eligible for the tax preference, distributors and retailers must have the following ownership arrangement.

- Eligible distributor: Wholesaler that resells commercial fertilizers, seeds, and pesticides to an eligible retailer.
- Eligible retailer: Business that makes retail sales of commercial fertilizers, seeds, and pesticides and owns 5% of a holding company that owns at least 50% of an eligible distributor.
- Holding company: A company that owns a controlling interest in another company. In this specific ownership structure, the holding company must own at least 50% of an eligible distributor.

**Figure 2: Beneficiaries must meet specific ownership criteria**


Source: JLARC staff analysis of RCW.

## Appendix B: Applicable statutes

RCW **82.04.628** Exemptions — Commercial fertilizer, agricultural crop protection products, and seed.

RCW **82.04.067** Substantial nexus — Engaging in business.

RCW **82.32.805** Tax preferences — Expiration dates.

RCW **82.32.808** Tax preferences — Performance statement requirement.

## Appendix C: Study questions

### By law, tax preference reviews must address these study questions

Study questions define the scope of the audit. These reviews will consider the study questions as they relate to each preference, which were presented to JLARC in September 2024 (**view here**).

- **Public policy objectives:** What did the Legislature intend to accomplish? Has the preference achieved those goals?
  - The Legislature defined specific performance metrics for some tax preferences.
  - For others, JLARC staff infer objectives and metrics.
- **Beneficiaries:** Who does the preference benefit, either directly or indirectly? How much have they saved?
- **Revenue and economic impacts:** What are the impacts to the taxpayers and the state?
- **Other states:** Do other states have a similar tax preference?
- **Racial equity:** Are there racial equity considerations associated with the tax preferences?

## Methods

The methodology JLARC staff use when conducting analyses is tailored to the scope of each study, but generally includes the following:

- **Interviews** with stakeholders, agency representatives, and other relevant organizations or individuals.
- **Site visits** to entities that are under review.
- **Document reviews**, including applicable laws and regulations, agency policies and procedures pertaining to study objectives, and published reports, audits or studies on relevant topics.
- **Data analysis**, which may include data collected by agencies and/or data compiled by JLARC staff. Data collection sometimes involves surveys or focus groups.
- **Consultation with experts** when warranted. JLARC staff consult with technical experts when necessary to plan our work, to obtain specialized analysis from experts in the field, and to verify results.

The methods used in this study were conducted in accordance with Generally Accepted Government Auditing Standards.

More details about specific methods related to individual study objectives are described in the body of the report under the report details tab or in technical appendices.

## Appendix D: Audit authority

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's nonpartisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in **Chapter 44.28 RCW**, requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

## Appendix E: Study process

View guide to JLARC Tax Preference Reviews **here**.

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