

From: Dan Swecker
To: Citizen Commission for Performance Measurement of Tax Preferences
Subject: Public testimony regarding tax benefits for Aquaculture in WA
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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?

I do not agree with the purposes identified for the sales and use tax exemption on fish feed. My wife and I developed the first contract salmon smolt growing fish farm in the US in 1974 here in Washington. We provide salmon smolts for net pen grow-out facilities in Washington State and ocean ranching facilities in Oregon. We viewed our activities and commercial salmon farming operations as similar to all of the other diverse farming activities in our state. My wife was raised on a dairy farm and I had grown up working on cattle ranches in Wyoming. Much to our dismay, in about 1983, we were informed by the Department of Revenue that fish growing was classified as "extraction" similar to Christmas tree growing under Washington law. As a result they were considering charging us use tax on our feed. We had serious objections because this would have likely put us out of business. All of the activities of our farming operations were conducted in privately owned closed facilities in Washington. All of the steps in the process included growing a living organism like all other farming. The feed was an ingredient that was incorporated into the final live product. And the products were ultimately destined for human consumption. In all other farming operations feed is exempt from sales and use tax.

For that reason we embarked on a campaign to insure that aquaculture was defined as agriculture under Washington law. We were first successful in achieving this goal in 1985. Since that time many references to aquaculture as agriculture have been incorporated into the RCW's and WAC's. As with other agriculture products the intention of this law is to make Washington agriculture products competitive in international commodities markets. Any changes in this law would require massive changes to all of the laws governing agriculture activities in our state.

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)? These six purposes are that the preference is:

Intended to induce certain designated behavior by taxpayers – Yes, the designated behavior has been the growth of the WA industry to compete in an emerging new aquaculture industry which has become the fastest growing agriculture sector in the world for the last 30 years.

Intended to improve industry competitiveness – Yes, with massive growth in countries like Chile, Norway and BC, cost is the deciding factor about whether we can compete on the world stage. Margins are often very small so this exemption can be critical in determining the overall final costs and whether we can remain competitive.

Intended to create or retain jobs – Yes, before selling our business, our operation went from a family farm employing a husband and wife to employing 60 people. Those jobs and many more continue to exist today and are distributed among a number of businesses that have emerged or expanded because of our industry.

Intended to reduce structural inefficiencies in the tax structure – Definitely, we viewed the exclusion of aquaculture from the definition of agriculture as a severe structural problem in WA. All

other agriculture activities in our state exempt animal feed from sales and use taxes.

Intended to provide tax relief for certain businesses or individuals – Yes, we were able to remain competitive in an international market place because of this tax relief.

A general purpose not identified above – Yes, this tax relief is ultimately a matter of fairness to fish farming like any other agricultural operation in Washington.

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? – I believe this preference resulted in the development of a whole new industry in Washington State. This would likely not have been possible with the competitive nature of the international market place that developed for our products.
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? – Because we are classified as agriculture we receive the same property tax exemptions as other agricultural activities. Again, these exemptions are critical to our ability to remain competitive in an international commodity market.
5. Does this preference have negative consequences? For example, were other industries, workers, or the environment harmed by activities stimulated by this tax preference? – We saw no negative consequences, only positive growth in the industry. Today, aquaculture has matured into a strong sustainable economic activity for our state and around the world.
6. How does the overall impact of the “preference” affect the tax burden in Washington compared with a similar tax burden in other states? – Aquaculture is now viewed internationally as an agricultural activity which is necessary to provide food for the growing world population. It enjoys many of these same tax benefits in one form or another around the world.

I am unable to attend the hearing on Sept 17th. Please let this stand as my public testimony. Thank you for your consideration.

Dan Swecker

Senator, Retired

Executive Director

Washington Fish Growers Association

10420 173rd Ave. sW

Rochester, WA 98579

360-489-4532

dans@wfga.net
