

Farmers and Use Tax

JULY 2011

Many farmers do not realize that use tax may be due when they acquire tangible personal property without paying Washington's retail sales tax. For example, if a farmer buys a tractor from a neighboring farmer use tax is due unless a specific exemption applies.

Since farmers are not generally required to register with the Department of Revenue, many are unaware that they may owe use tax and if so, how to report it.

What is use tax?

Use tax is owed on the use of tangible personal property and retail services in Washington when sales tax has not been paid. It is computed at the same rate as the sales tax. Unless specifically exempt by law, all tangible personal property, including machinery and equipment, used in this state is subject to either the sales or use tax, but not both, regardless of how the property is acquired.

When you purchase machinery and equipment from a dealer in this state, you usually pay sales tax to the dealer who, in turn, remits the tax to the Department of Revenue. However, there are many instances where sales tax is not paid. In these situations, use tax is due. The following are examples of when farmers may owe use tax:

- **Machinery and equipment purchased from another farmer** – Unless the seller is registered with the Department, sales tax will not be collected and the purchaser owes use tax.
- **Machinery and equipment purchased in another state** – In this case, the purchaser owes use tax.
- **Machinery and equipment purchased from a mail order catalog** – Many mail order businesses collect Washington's sales or use tax. However, if the seller does not collect sales tax, the purchaser owes use tax.
- **Machinery and equipment purchased through the Internet** – If the seller does not collect Washington's sales or use tax, the purchaser owes use tax.
- **Machinery and equipment repairs (parts and labor)** – If repairs are performed outside the state and the machinery and equipment are shipped back into Washington use tax is due.



Aren't farmers exempt from tax?

Farmers are exempt from the business and occupation (B&O) tax on wholesale sales of agricultural products that they grow, raise or produce. However, they are not automatically exempt from sales tax or use tax.

Here are some sales/use tax exemptions available to farmers:

- Purchases of tangible personal property (which have been used in conducting a farm activity) made through an auctioneer, if the seller is a farmer and the sale is conducted on a farm. (RCW 82.08.0257, RCW 82.12.0258)
- Purchases of feed for feeding livestock at public livestock markets. (RCW 82.08.0296, RCW 82.12.0296)
- Purchases of pollen. (RCW 82.08.0277, RCW 82.12.0273)
- Purchases of semen for use in the artificial insemination of livestock. (RCW 82.08.0272, RCW 82.12.0267)
- Purchases of livestock for breeding purposes. (RCW 82.08.0259, RCW 82.12.0261)
- Purchases of cattle and milk cows used on the farm. (RCW 82.08.0259, RCW 82.12.0261)
- Purchases of poultry for use in the production of poultry or poultry products for sale. (RCW 82.08.0267, RCW 82.12.0262)
- Purchases of bedding materials used to facilitate the removal of chicken manure. (RCW 82.08.920, RCW 82.12.920)
- Purchases of propane and natural gas used to heat structures used exclusively to house chickens. (RCW 82.08.910, RCW 82.12.910)
- Leases of certain irrigation equipment. (RCW 82.08.0288, RCW 82.12.0283)
- Purchases of animal pharmaceuticals. (RCW 82.08.880, RCW 82.12.880)
- Construction of agricultural employee housing. (RCW 82.08.02745, RCW 82.12.02685)
- Purchases of machinery, equipment, or structures primarily used to reduce field burning. (RCW 82.08.841, RCW 82.12.841) Expired January 1, 2011.
- Purchases of anaerobic digesters. (RCW 82.08.900, RCW 82.12.900)
- Note: Each exemption listed above contains a brief description, but does not include the requirements for the exemption. For more information on these exemptions please see the related RCW.
- In addition to the above exemptions, sales and use taxes do not apply to purchases of feed, seed, seedlings, fertilizer, agents for enhanced pollination, and spray materials by farmers for producing agricultural products for sale. Additionally, sales or use tax does not apply to agricultural goods purchased for resale. When making purchases for resale, the farmer must provide their vendor with either a copy of their reseller permit or a Farmers' Certificate for Wholesale Purchases and Sales Tax Exemptions.

Do I get credit for equipment traded-in?

Use tax is computed on the amount due after the value of a "like kind" trade-in is subtracted from the purchase price. For example, if you bought a plow from a dealer in another state and you used another plow as a trade-in, use tax is due on the balance remaining after the value of the trade-in is subtracted.

Do I get credit for sales tax paid in another state?

If sales or use tax was paid in another state or country, you may take a credit for the amount of tax paid against the amount of use tax due in Washington. In order to take the credit, you must have documentation, such as an invoice, stating the amount of tax paid.

Is use tax due if I acquire farm equipment when I purchase a farm?

If you acquire tangible personal property with the purchase of a farm, use tax is due on the value of the personal property such as machinery, equipment and supplies, unless another exemption applies.

When completing the Real Estate Excise Tax Affidavit for the county treasurer, you must indicate the value of the personal property separate from that of the real property.

Do I owe use tax if machinery or equipment is given to me?

If the person giving you the machinery and equipment has already paid sales or use tax, then you do not owe use tax. However, if sales or use tax was not paid by the previous owner, you owe use tax.

When is use tax due?

Use tax is due when the tangible personal property is first put to use in this state.

How do I report and pay use tax?

For farm vehicles and trailers that must be licensed for use on roads, use tax is paid to the county auditor or licensing agent at the time of registration.

To report and pay use tax on other types of tangible personal property, the Consumer Use Tax Return may be used. You can obtain this form by visiting our website at dor.wa.gov, by calling our Telephone Information Center at 1-800-647-7706 or by using the above link.

If you are registered with the Department, you should report use tax under the use tax sections of the excise tax return.

How will the Department of Revenue know if I don't pay the tax?

Department staff actively investigates and pursues businesses and individuals to collect unpaid taxes, including use tax. Department employees use many resources to discover unpaid use tax. For example, we review personal property records of the county assessor's office to locate tangible personal property on which sales or use tax has not been paid. After a review of the assessor's records, notices are sent to farmers requesting either payment of use tax or verification that sales or use tax has been paid. Likewise, the Department's staff reviews Real Estate Excise Tax Affidavits to determine whether use tax has been paid on personal property acquired in connection with a real property transfer. The Department also detects unpaid use taxes through the audit process.

How can I prove that sales or use tax has been paid?

Your invoice will prove sales tax has been paid. By law, purchase documents, such as sales receipts or invoices, must separately state the sales tax from selling price. To prove you have paid use tax, keep the documentation (for example, Consumer Use Tax Returns or excise tax returns) for all items on which you've paid the tax.

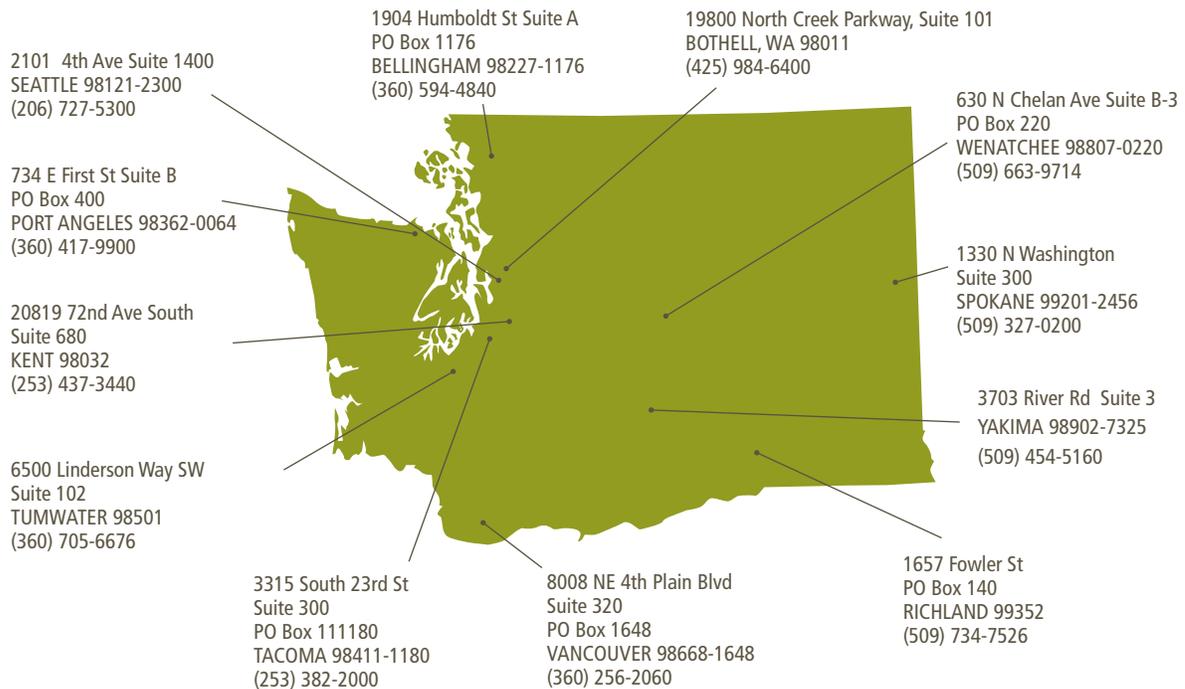
If you need more information

The following administrative rules and guides apply to farmers:

- WAC 458-20-102 discusses the use of reseller permits.
- WAC 458-20-209 discusses the taxability of farming for hire and horticultural services provided to farmers.
- WAC 458-20-210 discusses the sale of agricultural products and tangible personal property for farming.
- WAC 458-20-178 discusses use tax in general.
- WAC 458-20-262 discusses agricultural employee housing.
- Agriculture Guide – an overview of taxes and the farming industry.
- The rules, laws, applications, and forms are available on our website at dor.wa.gov or by calling 1-800-647-7706.

Department of Revenue Taxpayer Assistance

Local Office Locations



Telephone Information Center

1-800-647-7706

Website

dor.wa.gov

Mailing Address

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Washington State Department of Revenue
PO Box 47478
Olympia, WA 98504-7478
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The information contained in this fact sheet is current as of the date of this publication and provides general information about use tax. It does not cover every aspect of the tax, nor does it alter or supersede any administrative regulations or rulings issued by the Department of Revenue.