



# Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

June 3, 2014

## Repair Parts and/or Services for Farm Machinery and Equipment – Sales and Use Tax Exemptions Update

Effective June 12, 2014, Chapter 97, Laws of 2014, Senate Bill 6333, eliminates the requirement for those farmers that qualify for the sales and use tax exemptions for replacement parts for qualifying farm machinery and equipment to apply to the Department and obtain an *Exemption Certificate for Repair Parts and Services for Farm Machinery and Equipment* prior to claiming the exemption.

### **Background**

RCW 82.08.855 and RCW 82.12.855 provide retail sales and use tax exemptions for replacement parts and repair services for qualifying farm machinery and equipment.

Prior to June 12, 2014 eligible farmers had to apply to the Department and receive an *Exemption Certificate for Repair Parts and Services for Farm Machinery and Equipment* before they could claim the exemption.

### **Effect of Change**

*Exemption Certificate for Repair Parts and Services for Farm Machinery and Equipment* will no longer be valid effective June 12, 2014.

From June 12, 2014 forward eligible farmers will no longer have to apply to the Department and the Department will no longer issue the exemption certificates. Instead qualifying farmers must provide a completed *Farmers' Certificate for Wholesale Purchases and Sales Tax Exemptions* to their vendors to obtain the exemption on qualifying purchases. This certificate can be found on our website at [dor.wa.gov](http://dor.wa.gov) or by calling 1-800-647-7706.

### **Who is an eligible farmer?**

An "eligible farmer" includes any person who:

- Engages in the business of growing, raising, or producing agricultural products (as defined in RCW 82.04.213) for sale upon that person's own land or land in which the person has a present right of possession; **and**
- Generates gross sales of agricultural products, or has a harvested value of agricultural products, which the person has grown, raised, or produced, of at least \$10,000 for the immediately preceding tax year; or
- A farmer (as defined in RCW 82.04.213) whose agricultural products had an estimated valued of at least ten thousand dollars for the immediately preceding tax year, if the person did not sell or harvest an agricultural product during that year.

### **What if you are a new farmer?**

If you have not engaged in farming operations for an entire tax year immediately before using the exemption because you are new to farming or newly returned to farming, you may still qualify for the exemption. The exemption is conditioned on the farmer either:

- Making gross sales of agricultural products, or having a harvested value of agricultural products, which the farmer has grown, raised or produced, at least \$10,000 in the first full tax year that the farmer engaged in farming operations; or
- Being in the process of growing, raising, or producing agricultural products having an estimated value at any time during the first full tax year that the farmer engaged in farming operation of at least \$10,000, if the farmer will not sell or harvest an agricultural product during the first full tax year in which the farmer engages in farming operations.

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If a person fails to meet the above conditions, and claims an exemption, the person must repay the taxes within thirty days of the end of the first full tax year in which the person engages in business as a farmer. The Department of Revenue must assess interest on the taxes for which the exemption was claimed, retroactively to the date the exemption was claimed and accrues until the taxes for which the exemption was claimed are paid.

### **What is a replacement part for qualifying machinery and equipment?**

A replacement part is a part that replaces an existing part, or which is essential to maintain the working condition of a piece of qualifying farm machinery and equipment.

A replacement part **does not** include an item that may be desirable but is not essential for maintaining the working condition of a piece of qualifying farm machinery and equipment, unless the item replaces an existing part. A replacement part **does not** include paint, fuel, oil, grease, hydraulic fluids, anti-freeze, and similar items **except** when the seller incorporates these items when installing exempt replacement parts or making repairs to qualifying farm machinery and equipment.

### **What charges are exempt from retail sales tax?**

The exemption applies to charges for:

- Parts that replace an existing part, or which are essential to maintain the working condition, of a piece of qualifying farm machinery and equipment;
- Installing replacement parts for qualifying farm machinery and equipment; and
- Repairing qualifying farm machinery and equipment.

If exempt installation or repair services are provided in a single transaction that also involves the provision of nonexempt services, the exemptions apply to the exempt services as long as the charge for the exempt services are separately itemized and does not exceed the seller's usual and customary charge for such services. The exemptions **do not** apply if the seller makes a single non-itemized charge for all of the services.

### **What is qualifying farm machinery and equipment?**

Qualifying farm machinery and equipment means machinery and equipment used primarily by an eligible farmer for growing, raising, or producing agricultural products including **farm tractors** and **other farm implements**. As of July 22, 2007, qualifying farm machinery and equipment includes vehicles licensed as *farm vehicles*.

A "farm tractor" is a motor vehicle that is designed and used primarily as a farm implement for drawing plows, mowing machines, and other farm implements of husbandry. (RCW 46.04.180)

"Farm vehicles" are vehicles used primarily in agricultural pursuits on farms for the purpose of transporting machinery, equipment, implements, farm products, supplies and or farm labor and are incidentally operated on or moved along public highways for the purpose of going from one farm to another. (RCW 46.04.181) For example, sales tax does not apply to replacement parts for motor vehicles licensed with the Department of Licensing (DOL) specifically for "farm use," "farm exempt," or "farm combination," including farm tractors and farm implements, unless it is specifically excluded from the definition of farm machinery and equipment (as discussed below).

A "farm implement" is machinery or equipment that is manufactured, designed, or reconstructed for agricultural purposes and used primarily by an eligible farmer to grow, raise, or produce agricultural products, but does not include lawn tractors and all-terrain vehicles.

### **What is *not* qualifying farm machinery and equipment?**

For the purposes of these exemptions, qualifying farm machinery and equipment does not include:

- Vehicles, except for those specifically noted above
- Lawn tractors
- All-terrain vehicles
- Aircraft
- Hand tools and hand powered tools; and
- Property with a useful life of less than one year

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## What property and services remain subject to retail sales or use tax?

The purchase or use of the following items and services remain subject to retail sales or use tax, unless some other exemption applies:

- All machinery and equipment used in farming, including farm vehicles and other motor vehicles, tractors, and other farm implements;
- Parts for nonqualifying farm machinery and equipment, including replacement parts for vehicles other than farm vehicles, farm tractors, and other farm implements;
- Other tangible personal property that does not meet the statutory definition of replacement parts, such as GPS equipment installed on a combine that did not previously have GPS equipment;
- Items that are specifically excluded from the statutory definition of replacement parts, such as paint, fuel, oil, grease, hydraulic fluids, antifreeze, and similar items, when purchased by a farmer for installation in qualifying or nonqualifying machinery or equipment. **However**, the purchase by a farmer of otherwise exempt installation or repair services remain exempt if the seller installs, incorporates, or places such items in qualifying farm machinery and equipment during the course of installing replacement parts or repairing the qualifying farm machinery and equipment;
- Installation services for items that do not qualify as replacement parts;
- Repair services for non-qualifying farm machinery or equipment; and
- Otherwise exempt installation or repair services included in a single transaction involving nonexempt services, if the charge for the otherwise exempt services is not separately itemized or exceeds the seller's usual and customary charge for such services.

## Transactions that include both qualifying and nonqualifying exempt purchases

A seller must separately identify taxable and exempt charges when:

The seller provides nonqualifying labor and services or nonqualifying parts, in addition to qualifying replacement parts and/or qualifying labor and services.

The separate charge for qualifying parts and labor cannot exceed the seller's usual and customary charge for such services. A seller that does not separately itemize the charges is responsible for collecting and remitting sales tax on the entire charge and will be held personally responsible for any uncollected sales tax due on such a transaction.

An item that is not on this list is not qualifying livestock nutrient management equipment and does not qualify for the exemptions even if used to handle and treat livestock manure.

## Obtaining the Exemption:

In order to obtain the exemption eligible farmers are required to provide their vendors with a completed *Farmers' Certificate for Wholesale Purchases and Sales Tax Exemptions*. This form is available on our website at [dor.wa.gov](http://dor.wa.gov) or by calling us at 1-800-647-7706.

## Record keeping requirements for farmers (buyers)

A farmer claiming an exemption must keep records necessary for the Department to verify eligibility. Farmers must pay sales or use tax on purchases that do not qualify for the exemption or when records are insufficient to substantiate eligibility for the exemption. Unlawful use of the exemption may subject the farmer to interest and penalties in addition to the tax due.

If a farmer claims a sales or use tax exemption for nonqualifying parts or services, the farmer must pay deferred sales or use tax, including any applicable penalties and interest, directly to the Department. Farmers who are not registered with the Department may use a *Consumer Use Tax Return* to report deferred sales or use tax. This form is available on our website at [dor.wa.gov](http://dor.wa.gov) or by calling us at 1-800-647-7706.

## Record keeping and reporting requirements for sellers

A seller who makes exempt sales of replacement parts, installation services, or repair services must receive from the buyer a copy of a properly completed *Farmers' Certificate for Wholesale Purchases and Sales Tax Exemptions*. The seller must keep the copy of the exemption certificate for five years from the date of sale.

When completing the combined excise tax return, exempt sales to farmers should be included in the gross sales reported for sales tax purposes and then deducted as "Retail Sales Tax Exempt Purchases by Farmer." The deduction should be reported on the appropriate deduction detail page of the combined excise tax return. There is no comparable B&O tax exemption for sales of qualifying replacement parts or installation or repair services.

## For more information:

If you have additional questions, please call the Department of Revenue at 360-705-6705.