

# Special Notice

*Intended audience: Businesses providing services to farmers*

**Aug 4, 2022**

## **Services for farmers – B&O and public utility tax exemptions**

Effective July 1, 2022, the business and occupation (B&O) tax and the public utility tax exemptions for certain providers of custom farming and other farming-related services for farmers are restored.

These exemptions were previously available between Aug. 1, 2007, and Dec. 31, 2020.

## **Custom farming services – B&O tax exemption**

A B&O tax exemption is provided for persons performing custom farming services for a farmer, when the person performing the custom farming services is:

- An eligible farmer.
- At least 50% owned by an eligible farmer.

## **What are custom farming services?**

Custom farming services are specific farming operations performed by an operator using any farm machinery or equipment, farm implement, or draft animal, when both of the following apply:

- The specific farming operation consists of activities directly related to the growing, raising, or producing of any agricultural product to be sold or consumed by a farmer.
- The performance of the specific farming operation is for, and under a contract with, or the direction or supervision of, a farmer.

## **What are specific farming operations?**

Specific farming operations include planting, cultivating, harvesting, or similar operations.

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Specific farming operations do not include: veterinary services as defined in RCW 18.92.010, farrier, boarding, training, appraisals, artificial insemination or stud services, agricultural consulting, packing or processing agricultural products, or pumping or other waste disposal services.

## Who is a farmer?

A farmer is any person growing or producing any agricultural product for sale on land they own or to which they have a present right of possession. [RCW 82.04.213\(2\)\(a\)](#).

## Who is an eligible farmer?

An eligible farmer is a farmer as defined in [RCW 82.04.213](#);

- 1) whose gross sales or harvested value of agricultural products grown, raised, or produced by that person or gross sales of bee pollination services was at least ten thousand dollars for the immediately preceding tax year;
- 2) whose agricultural products had an estimated value of at least ten thousand dollars for the immediately preceding tax year, if the person did not sell or harvest an agricultural product or bee pollination service during that year;
- 3) who has merely changed identity or the form of ownership of an entity that was an eligible farmer, where there was no change in beneficial ownership, and the combined gross sales, harvested value, or estimated value of agricultural products or bee pollination services by both entities met the requirements of 1 or 2 (above) for the immediately preceding tax year;
- 4) who does not meet the definition of “eligible farmer” in 1,2, or 3 (above), and who did not engage in farming for the entire immediately preceding tax year, because the farmer is either new to farming or newly returned to farming; or
- 5) Anyone who otherwise meets the definition of “eligible farmer” except that they are not a “person” as defined in [RCW 82.04.030](#).

## Other farming services between related parties – B&O tax exemption

A B&O tax exemption is also provided for persons that perform one or any combination of specific farming services for a farmer or a person performing custom farming services. The person performing the service and the farmer or custom farmer receiving the service must be related. The specific farming services eligible for the exemption are:

- Farm management services.
- Contract labor services.
- Services provided with respect to animals that are defined as agricultural products in RCW 82.04.213.

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## What does “related” mean?

For purposes of this exemption, “related” means having any of the relationships described in section [26 USC §267](#)(b) (1), (2), and (4) through (13) of the Internal Revenue Code.

## What are farm management services?

Farm management services are consultative decisions made regarding farm operations, including, but not limited to:

- Determining which crops to plant.
- Choosing and timing fertilizers and chemicals.
- Determining horticultural practices to apply.
- Marketing crops and livestock.
- Caring and feeding animals.

## Farm Hauling between related parties – public utility tax exemption

Persons that haul agricultural products, farm machinery, or equipment for a farmer or persons performing custom farming services are exempt from public utility tax when they are related to the farmer (or custom farmer receiving the service), as defined above.

## Filing requirements

### Custom Farming Services and Other Farming Services between related parties.

Gross income received from custom farming services and farming services between related parties is reported under the Service and Other Activities B&O tax classification. When reporting on the Combined Excise Tax Return, you must:

For service income under \$1 million in the current or prior year:

- Report gross income under the Service and Other Activities B&O tax classification for custom farming services/other farming services between related parties.
- Deduct the amount of the sale under the Service and Other Activities classification, using the deduction “Custom Farming/Farm Services for Related Party.”

For service income \$1 million or greater in the prior year:

- Report gross income under the Service and Other Activities (\$1 million or greater in the prior year) B&O tax classification for custom farming services/other farming services between related parties.
- Deduct the amount of the sale under the Service and Other Activities classification, using the deduction “Custom Farming/Farm Services for Related Party.”

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## **Farm Hauling between related parties**

Income from hauling between related parties is reported under the Motor or Urban Transportation public utility tax (PUT) classification. When reporting on the Combined Excise Tax Return, you must:

- Report gross income under the Motor or Urban transportation PUT classification for farm hauling between related parties.
- Deduct the amount of the sale under the Motor or Urban transportation PUT classification, using the deduction “Farm Hauling for Related Party.”

## **More information**

[SHB 1641](#), Chapter 119, Laws of 2022

## **Questions?**

If you have questions regarding these B&O and public utility tax exemptions, please visit [dor.wa.gov](http://dor.wa.gov) or contact our Telephone Information Center at 360-705-6705.