



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

May 22, 2007

Services for Farmers – B&O and Public Utility Tax Exemption

Effective August 1, 2007, certain providers of custom farming and other farming-related services for farmers are exempt from business and occupation (B&O) tax and/or public utility tax. (Engrossed Substitute House Bill 2352, Chapter 334, Laws of 2007)

Custom Farming Services – B&O Tax Exemption

Custom farming services performed for farmers by eligible farmers or entities at least 50 percent owned by eligible farmers are exempt from B&O tax.

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:

- (1) the specific farming operation is directly related to growing, raising, or producing an agricultural product to be sold or consumed by a farmer, **and**
- (2) the specific farming operation is performed for and either under a contract with or directed or supervised by, a farmer.

Custom farming services do not include custom application of fertilizers, chemicals, or biologicals.

What are “specific farming operations”?

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

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.

Who is an “eligible farmer”?

An eligible farmer is a person who qualifies for the *Exemption Certificate for Replacement Parts for Farm Machinery and Equipment* under RCW 82.08.855 at the time the custom farming services are performed. However, the person does not need to have applied for or received the exemption certificate to qualify as an eligible farmer for purposes of this B&O tax exemption.

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For additional information on the exemption certificate and the farm machinery and equipment replacement part sales and use tax exemption, see our Special Notice *Replacement Parts for Farm Machinery and Equipment – Sales and Use Tax Exemption* at http://dor.wa.gov/Docs/Pubs/SpecialNotices/2006/sn_06_FarmReplacementParts.pdf.

Other Farming Services Between Related Parties – B&O Tax Exemption

Persons that perform one or any combination of specific farming services for a farmer or a person performing custom farming services are exempt from B&O tax when the person performing the service and the farmer or custom farmer receiving the service are related as defined below. The specific farming services eligible for the exemption are:

- Farm management services
- Contract labor services
- Services provided to animals that are defined as agricultural products in RCW 82.02.213.

What does “related” mean?

For purposes of this exemption, “related” means having any of the relationships described in section 267(b) (1), (2), and (4) through (13) of the Internal Revenue Code, as amended and renumbered as of January 1, 2007 and noted below.

- (1) Member of a family, as defined in subsection (c)(4);
- (2) An individual and a corporation more than 50 percent in value of the outstanding stock of which is owned, directly or indirectly, by or for such individual;
- (4) A grantor and a fiduciary of any trust;
- (5) A fiduciary of a trust and a fiduciary of another trust, if the same person is grantor of both trusts;
- (6) A fiduciary of a trust and a beneficiary of such trust;
- (7) A fiduciary of a trust and a beneficiary of another trust, if the same person is a grantor of both trusts;
- (8) A fiduciary of a trust and a corporation more than 50 percent in value of the outstanding stock of which is owned, directly or indirectly, by or for the trust or by or for a person who is a grantor of the trust;
- (9) A person and an organization to which section 501 (relating to certain education and charitable organizations which are exempt from tax) applies and which is controlled directly or indirectly by such person or (if such person is an individual) by members of the family of such individual;
- (10) A corporation and a partnership if the same persons own –
 - (A) more than 50 percent in value of the outstanding stock of the corporation, and
 - (B) more than 50 percent of the capital interest, or the profits interest, in the partnership;
- (11) An S corporation and another S corporation if the same persons own more than 50 percent in value of the outstanding stock of each corporation;
- (12) An S corporation and a C corporation, if the same persons own more than 50 percent in value of the outstanding stock of each corporation; or
- (13) Except in the case of a sale or exchange in satisfaction of a pecuniary bequest, an executor of an estate and a beneficiary of such estate.

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 determining application timing for fertilizers and chemicals
- Determining horticultural practices to apply
- Marketing crops and livestock
- Care and feeding of animals

**Agricultural Product/ Farm Machinery & Equipment Hauling
Between Related Parties – Public Utility Tax Exemption**

Persons that haul agricultural products or farm machinery or equipment for a farmer or person performing custom farming services are exempt from public utility tax when the person performing the hauling and the farmer or custom farmer receiving the service are related.

If you have questions regarding these new B&O and public utility tax exemptions, please contact our Telephone Information Center at 1-800-647-7706.