



# Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

JUNE 27, 2007

## Special Notice - Update

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

Engrossed House Bill (EHB) 1902 (chapter 332, Laws of 2007) expands the sales and use tax exemptions for **replacement parts for qualifying farm machinery and equipment**. Beginning July 22, 2007, the exemptions will include charges to eligible farmers for installing qualifying replacement parts and repairing farm machinery and equipment. In addition, qualifying farm machinery and equipment will also include “farm vehicles”. Sales and purchases that occur before July 22, 2007, do not qualify for the expanded sales and/or use tax exemptions.

#### Is an exemption certificate necessary?

Yes. To claim the sales tax exemption, an eligible farmer must give the seller a copy of the *Exemption Certificate for Repair Parts and Services for Farm Machinery and Equipment* issued by the Department of Revenue (Department). The Department will revise the current exemption certificate to include the expanded exemptions.

A farmer who has already been issued an *Exemption Certificate for Replacement Parts for Farm Machinery and Equipment* will be mailed an updated exemption certificate during the week of July 22, 2007. There is no need to re-apply for the certificate.

A farmer who wishes to obtain an exemption certificate must apply to the Department of Revenue. To show eligibility, a farmer may either:

- Attach federal income tax or other information verifying the amount of gross sales or harvested value of agricultural products during the tax year before submitting the application to the Department. Federal information includes Schedule F of Internal Revenue Service (IRS) form 1040; IRS form 1120; or other applicable form filed with the IRS; or
- Sign a declaration under penalty of perjury, as provided in RCW 9A.72.085, that the farmer is an eligible farmer. Any person who knowingly makes a false statement on an application is guilty of perjury in the second degree under chapter 9A.72 RCW, and is also liable for payment of any taxes with interest and penalties.

An application is attached. You can also obtain the appropriate application through our Internet web site at <http://dor.wa.gov>.

The Department will issue an exemption certificate to eligible farmers. Exemption certificates are generally not transferable and are valid for the remainder of the calendar year in which the certificate is issued and the following four calendar years. Thus, the certificate is valid for a maximum of five years. To continuously maintain the ability to claim the exemptions, an eligible farmer must reapply for a new exemption certificate before the farmer's current certificate expires.

P.O. BOX 47478 | OLYMPIA, WASHINGTON 98504-7478 | 1-800-647-7706 | [HTTP://DOR.WA.GOV](http://DOR.WA.GOV)

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## 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 in the tax year immediately before the year in which an application for exemption is submitted to the Department.

## What if you are a new farmer?

If you have not engaged in farming operations for an entire tax year immediately before applying for the exemption because you are new to farming or newly returned to farming, you may apply for an *Exemption Certificate for Replacement Parts and/or Services for Farm Machinery and Equipment*. An exemption certificate 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 operations 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.

The Department may request documentation from a farmer possessing an exemption certificate to verify whether either of the above conditions have been met. If a farmer who receives an exemption certificate does not meet either of those conditions, the Department will revoke the exemption certificate. In addition, all taxes for which an exemption was claimed plus interest must be paid within thirty days of the date of the notice revoking the exemption certificate.

## 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

### **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 can not 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.

### **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.

### **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 *Exemption Certificate for Repair Parts and Services for Farm Machinery and Equipment* issued by the Department. The seller must keep the copy of the exemption certificate for five years from the last 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.

If you need assistance or have questions, please contact the Telephone Information Center at 1-800-647-7706.



# Application for Exemption Certificate for Replacement Parts and/or Services for Farm Machinery and Equipment

Unified Business Identifier (UBI)/Tax Reporting Account (TRA) Number (if applicable) \_\_\_\_\_

Social Security Number (SSN) or Federal Employer Identification Number (FEIN) \_\_\_\_\_

Type of Agricultural product grown, raised, or produced: \_\_\_\_\_

Type of Entity:  Individual  Corporation  Sole Proprietor  Partnership  Other (Explain)

Applicant Name \_\_\_\_\_

Farm Name \_\_\_\_\_

**Farm Address** \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

**Mailing Address** \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Phone Number ( ) \_\_\_\_\_ E-mail Address \_\_\_\_\_

**For a farmer who had gross sales of agricultural products of at least \$10,000 per year:**

To receive an Exemption Certificate for Replacement Parts and/or Services for Farm Machinery and Equipment, a farmer growing, raising, or producing agricultural products must have had gross sales or a harvested value of those products of at least \$10,000 during the federal tax year immediately preceding the year before submitting this application. Please check one of the following:

- I have attached a copy of Schedule F of Form 1040, Form 1120, or other applicable form filed with the Internal Revenue Service for the tax year immediately preceding the year in which this application is submitted. This form indicates that my gross sales or harvested value of the agricultural products grown, raised, or produced by me was at least \$10,000; or
- I declare, under penalty of perjury, that I am an eligible farmer as provided in RCW 82.08.855(4).

**For a farmer who is new to farming or who is newly returned to farming:**

A farmer who has not farmed for the full federal tax year immediately preceding the year in which the farmer submits this application is eligible for an Exemption Certificate for Replacement Parts and/or Services for Farm Machinery and Equipment on the condition that the farmer meets one of the following requirements:

- Has gross sales or a harvested value of at least \$10,000 of agricultural products grown, raised, or produced by that person in the first full tax year in which the person engages in business as a farmer; or
  - If the person will not sell or harvest an agricultural product within the first full tax year, has an estimated value of at least \$10,000 of agricultural products grown, raised, or produced by that person at any time during the first full tax year in which the person engages in business as a farmer.
- I declare, under penalty of perjury that I am an eligible farmer as provided in RCW 82.08.855(4).

Applicant first engaged in the business of farming on \_\_\_\_\_  
(date)

I, the undersigned applicant, understand that:

- I may only use the exemption certificate issued to me when purchasing replacement parts for qualifying farm machinery and equipment, services to install exempt replacement parts, or services to repair qualifying farm machinery and equipment used primarily by an eligible farmer to grow, raise, or produce agricultural products for sale;
- I must keep records and make them available upon request to the Department to verify eligibility;
- I am subject to the retail sales or use tax and interest on purchases that do not qualify for the exemption; and
- Any person who knowingly makes a materially false statement on an application submitted under the provisions of RCW 82.08.855 and chapter 332, Laws of 2007, shall be guilty of perjury in the second degree under chapter 9A.72 RCW.

Dated at \_\_\_\_\_, Washington, this \_\_\_\_\_ day of \_\_\_\_\_,

\_\_\_\_\_  
(Printed name of person submitting application)

\_\_\_\_\_  
(title)

\_\_\_\_\_  
(Signature of person submitting application)

Send the completed application to:

Department of Revenue  
Taxpayer Account Administration  
PO Box 47476  
Olympia, WA 98504-7476

**Keep a copy of this application and all attachments for your records**

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

RCW 82.08.85, 82.12.855, and Chapter 332, Laws of 2007, provide that neither retail sales nor use tax applies to purchases of replacement parts, charges for installing replacement parts, and charges for repairing qualifying farm 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 adds these items when installing exempt replacement parts or making repairs to qualifying farm machinery and equipment.

### What is qualifying farm machinery and equipment?

Qualifying farm machinery and equipment is machinery and equipment used primarily (more than 50%) by an eligible farmer to grow, raise, or produce agricultural products for sale. This includes farm tractors as defined in RCW 46.04.180, farm vehicles as defined in RCW 46.04.181, and other farm implements.

Qualifying farm machinery and equipment **does not** include:

- Vehicles as defined in chapter 46.04 RCW (except those specifically noted above);
- Lawn tractors;
- All-terrain vehicles;
- Aircraft;
- Hand tools and hand-powered tools; and
- Property that has a useful life of less than one year.

### Who is an eligible farmer?

To be eligible for the sales and use tax exemptions, a person must be an "eligible farmer." RCW 82.04.213 provides that a farmer is a person who, on land the person owns or has a present right of possession, grows, raises, or produces agricultural products for sale.

A farmer is eligible for the tax exemptions if:

- The farmer's gross sales or harvested value of agricultural products grown, raised, or produced by the farmer were at least \$10,000 in the tax year immediately before applying for the exemption;
- The farmer possesses an exemption certificate that was transferred to the farmer because of a change in legal entity and the certificate expires before the new entity engages in farming for a full tax year, but only if the combined gross proceeds of sales or harvested value of agricultural products of the previous entity and new entity are at least \$10,000 in the tax year immediately before the farmer applies to renew the exemption certificate. For example, a farmer is a sole proprietor and possesses an exemption certificate issued by the Department. Six months before the certificate expires, the farmer reorganizes his farming business and is the only shareholder. Upon notification, the Department transfers the farmer's exemption certificate to the new entity for the remaining six months. After the exemption certificate expires, the new entity can apply to renew the certificate if, in the tax year immediately before applying to renew the certificate, the combined gross proceeds of sales of agricultural products by the farmer and the successor corporation is at least \$10,000;
- The farmer does not otherwise meet the definition of "eligible farmer," did not engage in farming for the full tax year immediately before applying for the exemption. In other words, the farmer is new to farming or newly returned to farming; or
- The applicant would otherwise be an eligible farmer except that they are not a "person" as defined in RCW 82.04.030. For example, a state university that grows, raises, or produces agricultural products for sale is an "eligible farmer" if its gross proceeds of sales of agricultural products is at least \$10,000 during the tax year immediately before applying for the exemption certificate, even though a state university is not a person under RCW 82.04.030.

A person that grows agricultural products for his or her own consumption, sells animals or substances in connection with operating a stockyard or a slaughter or packing house, or extracts, cultivates, or raises timber **is not** a farmer with respect to those activities and **is not** eligible for the sales and use tax exemptions for replacement parts for farm machinery and equipment.

### What is an agricultural product?

RCW 82.04.213 provides that an "agricultural product" is any product of plant cultivation or animal husbandry. Examples include:

- Products of horticulture, grain cultivation, vermiculture, viticulture, and aquaculture, as defined in RCW 15.85.020;
- Plantation Christmas trees;
- Short-rotation hardwoods, as defined in RCW 84.33.035;
- Animals, including birds and insects, and substances obtained from animals, birds and insects; and
- Turf

Pet animals **are not** agricultural products. Thus, persons who raise animal pets **are not** farmers and **are not** eligible for the exemptions.

RCW 16.70.020 provides that the following are pet animals:

- Dogs;
- Cats;
- Monkeys and other similar primates;
- Turtles;
- Psittacine (parrot family) birds;
- Skunks; and
- Any other species of wild or domestic animals sold or retained for the purpose of being kept as a household pet.