

WASHINGTON STATE DEPARTMENT OF REVENUE

**SPECIAL NOTICE**

For further information contact:  
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**FARMWORKER DRINKING WATER SPECIAL NOTICE**

In 1996, the Legislature enacted RCW 82.08.02745 and RCW 82.12.02685 that provides a sales and use tax exemption for agricultural employers making purchases of materials and labor for use in constructing, repairing, decorating, or improving new or existing buildings or other structures that will be used to provide housing to the employer's agricultural employees. The exemption also applies to purchases of mobile homes, mobile bunkhouses, modular homes, or prefabricated components of housing when such items are mounted on a permanent foundation and connected to utilities (water, electricity, sewer, gas, phone, etc.).

In 1999, the State of Washington Department of Health inspected water systems that supply agricultural housing with drinking water. The inspection found that many water systems did not meet state safe drinking water standards and would require improvements before they could be certified as providing safe drinking water under state and federal law. Those employers with systems needing improvement are being notified by the Department of Health.

After reviewing this issue, the Department of Revenue has concluded that improvements to water systems operated by agricultural employers for agricultural housing qualify for the sales and use tax exemptions provided under RCW 82.08.02745 and 82.12.02685. The construction of new water systems and/or improvements to existing systems that supply farmworker housing are not subject to retail sales or use tax. This exemption is limited to materials and labor dedicated to farmworker housing. Any portions of the costs associated with new construction or improvements that provide water to the agricultural employer are not eligible for the exemption.

**EXAMPLES:**

An agricultural employer has been notified that safe drinking water regulations require the replacement or upgrading of the water system that supplies farmworker housing. The employer will do one of the following:

- ◆ Replace or upgrade the water system only for farmworker housing.
- ◆ Replace or upgrade the water system for farmworker housing and connect the employer's personal residence to the water system.

When the employer replaces or upgrades the water system that supplies the farmworker housing with drinking water, all of the costs are eligible for the sales tax exemption.

When the employer replaces or upgrades the water system and further connects the system to the employer's personal residence, only part of the costs are eligible for the sales tax exemption. Any costs associated with extending the water line to the employers' residence are not eligible for the sales tax exemption. This type of upgrade or replacement must segregate the eligible and ineligible costs.

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To use the exemption, agricultural employers must give the seller the attached Agricultural Employee Housing Exemption Certificate. The seller must retain the certificate for five years.

Sellers should also be aware that there is no comparable business and occupation (B&O) tax exemption. Consequently, income from sales of material and labor to agricultural employers continues to be subject to B&O tax under the retailing classification. When reporting such sales on the Combined Excise Tax Return, sellers will report using lines 15 (retailing B&O tax) and 16 (retail sales tax). The amount of the sale may then be deducted in Column 2 on line 16. On the deduction detail pages, the amount of the exempt sale must be identified in the column for line 16 on page four. Use the line for "Other" and write in "farm worker housing."

Additional information about this exemption can be obtained by calling the Department of Revenue's Telephone Information Center at 360-705-6705.

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