

SPECIAL NOTICE

May 15, 2006

For further information contact:

Telephone Information Center
1-800-647-7706 or (360) 705-6676

Alternate Formats (360) 705-6715
Teletype 1-800-451-7985

Replacement Parts for Farm Machinery and Equipment – Sales and Use Tax Exemption

Eligible farmers may purchase replacement parts for farm machinery and equipment without paying retail sales tax, starting July 1, 2006. Before claiming the exemption, farmers must apply to the Department of Revenue for an exemption certificate. Purchases made before July 1, 2006 are subject to sales or use tax. (Substitute House Bill (SHB) 2457 (chapter 172, Laws of 2006))

Eligible Farmers

“Eligible farmers” include any person who:

- Grows, raises, or produces agricultural products upon his/her own land or land that he/she has a right of possession;
- Sells those agricultural products; *and*
- Generates at least \$10,000 in gross income from those sales in the calendar year immediately before the year the exemption claim is made. For growers who also process the agricultural products, the \$10,000 threshold is determined by the fair market value of the agricultural products at the time of harvest.

New Farmers

If you did not engage in farming operations for an entire calendar year immediately before applying for the exemption, you may apply for a **conditional exemption certificate**. This is based on earnings of at least \$10,000 in gross sales of agricultural products grown, raised, or produced in the first full calendar year that you engaged in business as a farmer.

You must provide documentation (see “Exemption Certificates” section) to the Department by December 31 of the year immediately following the first full calendar year that states the gross sales of agricultural products from the first full calendar year you farm.

The Department will revoke your certificate if you fail to provide the required documentation by the December 31 due date. If an exemption certificate is revoked, all taxes for which an exemption was claimed must be repaid within 30 days of the notice date revoking the certificate.

Property Exempt from Retail Sales Tax

The exemption applies to replacements of existing parts on qualifying farm machinery and equipment. Qualifying farm machinery and equipment includes machinery and equipment used primarily for growing, raising, or producing agricultural products including farm tractors and other farm implements. A farm

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

For this exemption, farm machinery and equipment **does not include**:

- Farm vehicles and other vehicles defined in RCW 46.04, other than farm tractors or implements (see information on “Farm Vehicles” below)
- Lawn tractors
- All-terrain vehicles
- Aircraft
- Hand tools and hand powered tools
- Property with a useful life of less than one year

“**Farm vehicles**” are used primarily in agricultural pursuits on farms for transporting machinery, equipment, implements, farm products, supplies and or farm labor, and are incidentally operated on or moved along public highways for going from one farm to another.

For example: Sales tax applies to replacement parts for farm vehicles licensed with the Department of Licensing (DOL) specifically for “farm use,” “farm exempt,” or “farm combination.”

Property Subject to Retail Sales and/or Use Tax

The following items remain subject to retail sales and/or use tax:

- Machinery and equipment
- Replacement parts for vehicles and farm vehicles
- Labor and other service charges
- Parts excluded from the statutory definition of replacement parts, such as paint, fuel, oil, grease, hydraulic fluids, and antifreeze
- Other tangible personal property unless a specific exemption applies

The Department is continuing to examine qualifying farm machinery and equipment. As more information becomes available, we will include the information in the *Agricultural Guide* or post the information on our Internet web site.

Requirements of Sale

Replacement parts sold to an eligible farmer without installation are exempt from retail sales tax. The buyer must provide the seller with a properly completed exemption certificate. If non-qualifying parts are sold on the same invoice, the qualifying replacement parts must be listed separately. Retail sales tax must be collected on sales of all non-qualifying parts. The sales tax exemption does not apply if the seller makes a single non-itemized invoice.

If a seller performs repair services on qualifying machinery and equipment and separates the charge between qualifying replacement parts and labor, retail sales tax does not apply to the replacement parts charges - as long as the charge for the parts does not exceed the seller’s current publicly stated retail selling price. If the seller does not publicly state the retail selling price, the price of the part for purposes of the exemption cannot exceed the amount paid by the seller to acquire the part. The sales tax exemption does not apply if the replacement parts are installed by the seller and the charge for providing the parts and labor is listed on a single non-itemized invoice.

Exemption Certificates

To obtain an exemption certificate, farmers must submit an application to the Department of Revenue and attach one of the following documents to verify gross proceeds of sales of agricultural products:

- Schedule F of Internal Revenue Service (IRS) form 1040,
- IRS form 1120, or
- Other applicable form filed with the IRS.

An *Application for Exemption Certificate for Replacement Parts for Farm Machinery and Equipment* is attached to this notice. The application is also available on our web site at <http://dor.wa.gov>.

The Department will issue an exemption certificate to eligible farmers. Exemption certificates are non-transferable and valid for the calendar year in which the certificate is issued and the following four calendar years (five years maximum). Eligible farmers must reapply for a new exemption certificate before the current certificate expires.

Record Keeping Requirements for Farmers (Buyers)

Farmers who use the 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. Unlawful use of the exemption may subject the farmer to interest and penalties, in addition to the tax.

If parts are purchased without paying sales tax and the part does not qualify as a “replacement part,” the farmer must pay sales or use tax on the purchase price including any additional costs such as shipping and handling charges paid to the seller. Farmers can report use tax on the *Consumer Use Tax Return*.

Record Keeping Requirements for Sellers

A seller who makes exempt sales of replacement parts must obtain a copy from the buyer of the *Exemption Certificate for Replacement Parts for Farm Machinery and Equipment* issued by the Department. The seller must keep the copy with the business records for five years.

Deductions are reported under the retail sales tax classification on the deduction sheet as “Retail Sales Tax Exempt Purchases by Farmer.” There is no comparable B&O tax exemption for sales of qualifying replacement parts.

More Information

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

For detailed information about the sales tax exemption, see the following references:

- Substitute House Bill (SHB) 2457 (chapter 172, Laws of 2006)
- RCW 82.04.213
- RCW 46.04.180
- RCW 46.04

To inquire about the availability of this document in an alternate format for the visually impaired, please call (360) 705-6715. Teletype (TTY) users please call 1-800-451-7985.



Application for Exemption Certificate for Replacement Parts for Farm Machinery and Equipment

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

Federal Employer Identification Number (FEIN) (if applicable) _____

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 _____

Farmer applies for:

- Exemption Certificate (for an established farmer)**

The issuance of an Exemption Certificate for Replacement Parts for Farm Machinery and Equipment is conditioned upon a farmer who grows, raises, or produces agricultural products, having gross annual sales of those products of at least \$10,000.

A farmer who applies for the exemption certificate must attach a copy of Schedule F of Form 1040, Form 1120, or other applicable form filed with the Internal Revenue Service indicating the amount of the farmer's gross sales of agricultural products for the calendar year before this application.

- Conditional Exemption Certificate (farming for less than one full calendar year)**

A farmer who has not farmed for the full calendar year may be eligible for a conditional Exemption Certificate for Replacement Parts for Farm Machinery and Equipment. The issuance of a conditional exemption certificate is conditioned upon the farmer making gross sales of agricultural products grown, raised, or produced by the farmer of at least \$10,000 in the first full calendar year that the farmer engages in the business of farming.

A farmer who receives a conditional exemption certificate must provide documentation of the amount of gross sales of agricultural products made during the first full calendar year of farming by December 31st of the second calendar year following this application.

A farmer who receives a conditional exemption certificate and either fails to provide the required documentation or does not meet the threshold for gross sales of agricultural products in the first full calendar year of engaging in the business of farming is subject to the amount of the tax exemption claimed and interest.

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

I, the undersigned applicant, certify that I:

- Am an eligible farmer as defined.
- Understand that use of the exemption certificate issued to me is limited to the purchase of replacement parts for farm machinery and equipment used primarily for growing, raising, or producing agricultural products.
- Understand that I must keep records necessary for the Department to verify eligibility.
- Understand that I am subject to the retail sales or use tax and interest on purchases that do not qualify for the exemption.

Applicant Name _____

Title _____

Applicant Signature _____

Send 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

- Attach** a copy of Schedule F of Form 1040, Form 1120, or other applicable form filed with the Internal Revenue Service (IRS)

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

Chapter 172, Laws of 2006, provides that neither retail sales nor use tax applies to purchases of replacement parts for 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.

What is qualifying farm machinery and equipment?

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

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

- Farm vehicles and other vehicles as defined in chapter 46.04 RCW (other than farm tractors and other farm implements);
- 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 of agricultural products grown, raised, or produced by the farmer was at least \$10,000 in the calendar 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 calendar year, but only if the combined gross proceeds of sales of agricultural products of the previous entity and new entity are at least \$10,000 in the calendar 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 forms a corporation to run the farming operations and is the only shareholder. The Department transfers the farmer's exemption certificate to the corporation for the remaining six months. After the exemption certificate expires, the corporation is an eligible farmer and can apply to renew the certificate if, in the calendar 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 calendar year immediately before applying for the exemption, and did not engage in farming at all in any other previous year. In other words, the farmer is new to farming.
- 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 calendar 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 solely for his or her own consumption, that sells animals or substances in connection with operating a stockyard or a slaughter or packing house, or that extracts, cultivates, or raises timber **is not** a farmer 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.