

# SPECIAL NOTICE

June 29, 2005

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

## Tax Incentives to Reduce Agricultural Burning to Change

The 2005 Legislature passed Second Substitute Senate Bill (2SSB) 5663, Chapter 420, Laws of 2005 narrowing the tax incentives related to reducing agricultural burning. This law is **effective July 1, 2005** and expires January 1, 2011.

Although some farming activities are exempt from the business and occupation (B&O) tax, retail sales tax or use tax generally applies to equipment used in farming. This bill replaces previous tax incentives related to agricultural burning and continues to require farmers to keep suitable records.

### Sales/Use Tax Exemption for Qualified Farmers

Effective July 1, 2005, retail sales tax and use tax exemptions are available for the purchase or use of certain equipment (listed below) by qualified farmers. The exemptions are also available for materials, labor, and services for the construction of hay sheds for qualified farmers.

This bill repeals RCW 82.08.840 and RCW 82.12.840. Therefore, **the sales/use tax exemptions no longer apply to:**

- repairing, cleaning, decorating, altering, or improving the tax exempt equipment;
- tangible personal property that become ingredients or components of tax exempt equipment;
- repairing, cleaning, altering, or improving hay sheds **after** construction;
- materials incorporated into hay sheds **after** construction; or
- sheds for the storage of equipment.

### Exempt Machinery, Equipment, and Structures for Qualified Farmers

The bill specifically identifies those items that qualify for the exemption. They are limited to the following:

- bale handlers\*
- balers
- chisels
- combine component: chaff spreaders
- combine component: stripper headers
- combine component: straw choppers
- cultivators
- discs
- harrows
- minimum-till drills
- mowers
- no-till drills
- plows
- power rakes
- shredders
- sprayers
- swathers
- tractors (250 engine hp and over)\*
- transplanters

The construction of hay sheds is also exempt.

\* A bale handler is equipment specifically designed to load, stack, retrieve, and/or transport bales. Examples include hay trailers, telehandlers, and bale spears. The exemption does not include a tractor that is less than 250 engine horsepower even if exempt components are attached. The exemption includes kits necessary to attach exempt equipment to nonexempt equipment, when the kits and exempt equipment are purchased together.

### **Qualified Farmer**

“Qualified farmer” means a farmer as defined in RCW 82.04.213 who has more than 50 percent (50%) of his or her tillable acres in cereal grains and/or field and turf grass grown for seed in qualified counties. Cereal grains include wheat, oats, corn, barley, rye, spelt, and triticale. Tillable acres include those that are fallow, but exclude acres in the Conservation Reserve Program.

Qualified counties are those where cereal grain production exceeds fifteen thousand (15,000) acres. Currently, qualified counties include:

- Adams
- Asotin
- Benton
- Columbia
- Douglas
- Franklin
- Garfield
- Grant
- Klickitat
- Lincoln
- Spokane
- Stevens
- Walla Walla
- Whatcom
- Whitman
- Yakima

### **Business and Occupation (B&O) Tax Credit – Repealed**

This bill repeals RCW 82.04.4459, which allowed a credit against the B&O tax for 50 percent of the costs expended for constructing eligible structures and acquiring eligible machinery and equipment. The B&O tax credit remains available for costs incurred before July 1, 2005. The credit must be claimed against the B&O tax liability incurred before July 1, 2005.

### **Property Tax Exemption – Repealed**

This bill repeals the property tax exemption of RCW 84.36.580 passed by the Legislature in 2000 for property taxes due in 2002 for qualifying farm machinery and equipment used to reduce field burning or to reduce air emissions resulting from such burning. Farmers who apply for the personal property tax exemption on qualifying equipment when they filed their annual personal property listing on April 30 will be granted the exemption for the 2005 assessment for taxes to be collected in 2006. The repeal of the bill actually takes effect on July 1, 2005, however the deadline for filing personal property at the county assessor’s office is April 30. The exemption will not be available starting with the 2006 property assessments (2007 tax collections). Contact your local county assessor’s office if you have any questions.

### **Record Keeping Requirements for Buyers**

To use the sales tax exemption, a qualified farmer must give the seller an exemption certificate documenting the exempt nature of the transaction. A sample of the *Farmers’ Retail Sales Tax Exemption Certificate* is attached to this notice. It is also available on the Department of Revenue’s web site at <http://dor.wa.gov>.

The law requires that a farmer taking the exemption must also keep records necessary for the Department to verify eligibility. For example, copies of farm service agency or crop insurance records can be used to identify acreages by year as to crops grown. The records must be available for audit by the Department.

Farmers will owe sales or use tax on purchases that do not qualify for the exemption or when records are inadequate in substantiating eligibility. Improper use of the exemption certificate may subject the farmer to interest and penalties in addition to the tax.

### **Record Keeping Requirements for Sellers**

In order to sell equipment exempt from sales tax, the seller must take the certificate and retain it for five years to document the nature of the sale. Sellers should also be aware that there is no comparable B&O tax exemption. Consequently, income from sales of eligible equipment and structures remains subject to retailing B&O tax.

### **For More Information**

#### **Sales Use Tax Exemption**

For more information about the sales and use tax exemption refer to Chapter 420, Laws of 2005 or contact the Department of Revenue's Telephone Information Center at (360) 786-6100 or 1-800-647-7706.

#### **Taxation of Farmers**

For general information on the taxation of farmers, refer to the *Agriculture Guide*, which is available on our web site at <http://dor.wa.gov>.

#### **Field-burning Regulations**

For information concerning field-burning regulations, contact the Department of Ecology, Air Quality Program at (360) 407-6800.

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.