



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.

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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.

