

SPECIAL NOTICE

March 12, 2002

For further information contact:
Telephone Information Center
1-800-647-7706 or (360) 486-2345

Alternate Formats (360) 486-2342
Teletype 1-800-451-7985

Dairy Nutrient Management Sales/Use Tax Exemption

In the past, farmers have had limited contact with the Department of Revenue (Department). Because most agricultural activities are exempt from the business and occupation (B&O) tax, many farmers are not required to have a tax registration number. However, that does not mean that farming is a tax-exempt activity. Farmers, like any other business, must pay sales/use tax on their purchases of equipment and supplies used in farming, unless a specific exemption has been granted by the Legislature. The purpose of this Special Notice is to provide information about a new sales/use tax exemption related to dairy farming and to explain that farmers using the exemption have certain responsibilities.

The Exemption

RCW 82.08.890 provides milk producers, **who have an approved and certified dairy nutrient management plan in place**, a sales tax exemption for services rendered to operate, repair, clean, alter, or improve dairy nutrient management equipment and facilities. RCW 82.08.890 and 82.12.890 provide a sales and use tax exemption for tangible personal property that becomes an ingredient or component of such equipment and facilities. The exemptions are intended to provide an incentive to dairy farmers to have their dairy nutrient management plan approved and certified prior to the December 31, 2003 deadline. The effective date of this law was July 13, 2001.

The Responsibilities

Farmers taking advantage of the exemption have a responsibility to keep suitable records documenting their qualification for the exemption. The records must be available for audit by the Department. You may be required to pay the sales or use tax, as well as interest and penalties, if you fail to keep suitable records.

Who Qualifies

Persons eligible for the exemption are those licensed to produce milk under Chapter 15.36 RCW and who have a certified dairy nutrient management plan by December 31, 2003, as required by Chapter 90.64 RCW. The certification process is as follows:

(more)



- ◆ The dairy nutrient management plan must be approved by the local conservation district.
- ◆ After the plan is implemented (equipment and facilities constructed or otherwise put into place), it must be certified by the local conservation district.
- ◆ The farmer must certify that the elements are being used as designed and intended.

Once these conditions are met, the conservation district notifies the Department of Ecology that the plan is certified.

Please contact your local conservation district for more information on the certification process.

What Qualifies

The exemption applies to purchases made to **maintain** the dairy nutrient management plan after the plan is certified. The exemption is not for the original purchase, construction or installation of such facilities and/or equipment.

“Dairy nutrient management equipment and facilities” means machinery, equipment, and structures used **exclusively** to handle and treat dairy manure. It also includes tangible personal property that becomes an ingredient or component of the eligible equipment and facilities, including repair and replacement parts.

Charges to operate, repair, clean, alter or improve dairy nutrient management equipment and facilities are exempted from sales tax. Purchases of tangible personal property that become an ingredient or component of eligible equipment and facilities are exempted from sales and/or use tax.

Dairy nutrient management equipment includes equipment to process dairy manure, such as aerators, agitators, alley scrapers, augers, dams, gutter cleaners, loaders, lagoons, pipes, pumps, separators and tanks.

What Does Not Qualify

- ◆ The original purchase, construction or installation of equipment and facilities (purchases made prior to certification do not qualify for the exemption).
- ◆ Purchases made without an exemption certificate from the Department.
- ◆ Equipment or structures used for any other purpose (equipment must be used exclusively to handle and treat dairy manure).
- ◆ Fuel, grease, oil or other lubricants (fuel and lubricants are not considered to be ingredients or components of the equipment).
- ◆ Vehicles or trailers (unless used exclusively to handle dairy manure and part of the dairy nutrient management plan).

How to Obtain an Exemption Certificate:

To obtain an exemption certificate, the dairy farmer must:

- ◆ Have the dairy nutrient management plan approved and certified; and
- ◆ Submit an application to the Department of Revenue. A sample application is attached. A sample can also be found on our web site at <http://dor.wa.gov/>, under “Publications,” “Special Notices” and “F” for farmer.

The Department of Revenue will then issue an exemption certificate. The exemption certificate must be provided to the seller and the seller must retain a copy for its records.

Record Keeping Requirements for Buyers

To use the sales tax exemption, the farmer must provide the seller with a copy of the exemption certificate to document the exempt nature of the transaction.

A farmer taking advantage of the exemption must also keep records necessary for the Department to verify eligibility. This places the burden on the farmer to maintain records documenting that the equipment or structures are used exclusively on an eligible activity.

The types of records to be maintained are not specified. The Department will look at purchase invoices, depreciation schedules, farming practices logs and other records kept to verify eligibility for this exemption.

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

Record Keeping Requirements for Sellers

The seller must take the certificate in good faith and retain it for five years. Sellers should also be aware that there is no comparable B&O tax exemption. Consequently, income from sales of eligible equipment and structures continues to be subject to business and occupation (B&O) tax under the retailing classification.

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

To inquire about the availability of this document in an alternate format for the visually impaired, please call (360) 486-2342. Teletype (TTY) users please call 1-800-451-7985.

Dairy Farmer Sample Application

Date _____

Department of Revenue
Taxpayer Account Administration
Attn: Gayle Carlson
PO Box 47476
Olympia, Washington 98504-7476

Dear Ms. Carlson:

I am writing to apply for the sales and use tax exemption certificate for dairy nutrient management equipment and facilities. This letter shall serve as the application required under Second Substitute Senate Bill (2SSB) 5947, Chapter 18, Laws of 2001, 2nd Special Session.

My Milk Producer License number is _____ and my Unified Business Identifier (UBI) number is _____. This application is for the (insert name of dairy) _____ at the following location:

Address _____
City, State and Zip Code _____

I certify that the dairy at the above location has a dairy nutrient management plan certified by the dairy producer, the local Conservation District, and the Department of Ecology under the requirements of Chapter 90.64 RCW. This certification was effective _____ date.

I understand that the sales and use tax exemption is limited to services rendered in respect to operating, repairing, cleaning, altering, or improving dairy nutrient management equipment and facilities, and to the sales of tangible personal property that becomes an ingredient or component of the equipment and facilities. I understand that the exemption only applies to equipment and facilities that are used **exclusively** for activities necessary to maintain a certified dairy nutrient management plan and that the exemption only applies to purchases made **after** the dairy nutrient management plan is certified under chapter 90.64 RCW.

Thank you for your consideration. If you have any questions you can contact me at (area code and phone number) (_____) _____ - _____.

Dairy Farmer