

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.

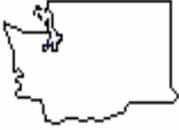
Taxation of Farmers

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.



FARMERS' RETAIL SALES TAX EXEMPTION CERTIFICATE

Not to be used for purchases of feed, seed, seedlings, fertilizer, or spray materials (for these purchases, use a Resale Certificate)

Sellers who accept properly completed copies of this certificate in good faith are relieved of the responsibility to collect sales tax on the types of sales indicated. Certificates must be obtained at the time of the sale. Sellers must retain a copy of this certificate to document the exempt sale.

Seller Date

Street Address City State Zip Code

I, the undersigned buyer, certify that I am making an exempt purchase for the following reason:

CHECK APPLICABLE BOXES

1. Nonresident Farmer

Place of residence: _____ Proof of residence: _____

Equipment for use in a farming activity (include brand, model, and address of use)

2. Livestock for Breeding Purposes

Animal type: _____ Registered Breed Association: _____

Animal name: _____

3. Animal Pharmaceuticals

Animal pharmaceuticals (include description): _____

4. Chicken Farming (Eff. 9/20/01)

a. Propane or natural gas used to heat structures used to house chickens.

b. Bedding materials used to accumulate and facilitate the removal of chicken manure.

5. Reducing Agricultural Burning (This exemption expires January 1, 2011)

Items purchased: _____

The farmer certifies that more than 50% of his/her tillable acres are in cereal grains and/or field grass and turf grass grown for seed in qualified counties. County _____

The retail sales tax exemption is available for these items or services:

- no-till drills • discs • power rakes • combine component: straw choppers
- minimum-till drills • cultivators • balers • combine component: chaff spreaders
- chisels • harrows • bale handlers • combine component: stripper headers
- plows • mowers • shredders
- sprayers • swathers • transplanter
- Tractors (250 engine hp and over)
- The construction of sheds for the storage of hay.

6. Agricultural Employee Housing

Items purchased: _____

(Continued on back)

6. Agricultural Employee Housing (continued)

The retail sales tax exemption is available for these items:

- Constructing, repairing, decorating, or improving of new or existing buildings or structures used as agricultural employee housing,
- Tangible personal property that becomes an ingredient or component of the buildings or other structures during the course of the construction, repairing, decorating, or improving.

Is the agricultural employee housing being built on agricultural land? Yes No

If yes, please provide parcel number: _____

➔ I, the undersigned buyer, understand that by completing and signing this certificate I am certifying that I qualify for the tax-exempt purchase(s) indicated above. I understand that I am required to keep records to verify eligibility for the exemption(s) and that I will be required to pay sales or use tax on purchases that do not qualify for the exemption(s) in addition to any applicable interest and penalties. This certificate is given with full knowledge of, and subject to, the legally prescribed penalties for fraud and tax evasion per RCW 82.32.090.

Name of Buyer: _____

UBI No.: _____

Authorized Signature: _____

Date: _____

Title: _____

Seller must retain a copy of this certificate.

Do not send to Department of Revenue.

INSTRUCTIONS

Buyers must ensure entitlement to the exemption before using this Certificate. For information regarding exemptions, contact Washington State Department of Revenue Taxpayer Information Center at 1-800-647-7706 or visit the Department's web site at <http://dor.wa.gov>.

Line 1 applies to machinery, implements, repair parts and labor purchased in this state by a nonresident for use in conducting a farming activity outside the state. The equipment must be transported outside the state immediately upon purchase. **Seller must examine and record buyer's proof of residency.** See WAC 458-20-239 for acceptable proof of residency. Reference: RCW 82.08.0268 and WAC 458-20-239.

Line 2 applies to the purchase of livestock for breeding purposes. "Livestock" is defined in RCW 16.36.005. The animal must be registered in a nationally recognized breed association. Reference: RCW 82.08.0259 and WAC 458-20-122.

Line 3 applies to the purchase of animal pharmaceuticals by farmers for the purposes of administering to an animal raised for sale by the farmer. Animal pharmaceuticals must be approved by the United States Food and Drug Administration or the United States Department of Agriculture. Reference: Chapter 17, Laws of 2001, 2nd Special Session.

Line 4a applies to the purchase of propane or natural gas used to heat structures used to house chickens. The chickens must be raised by a farmer and sold as agricultural products. Reference: Chapter 25, Laws of 2001, 2nd Special Session.

Line 4b applies to the purchase of bedding materials used to accumulate and facilitate the removal of chicken manure. The chickens must be raised by a farmer and sold as agricultural products. "Bedding materials" means wood shavings, straw, sawdust, shredded paper and other similar materials. Reference: Chapter 25, Laws of 2001, 2nd Special Session.

Line 5 applies to the purchase of the listed machinery, equipment, and structures by farmers of cereal grains and field and turf grass grown for seed. Reference: Chapter 420, Laws of 2005 and WAC 458-20-271.

Line 6 applies to the purchase by agricultural employers 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. Reference: RCW 82.08.02745 and WAC 458-20-262.

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