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**Finance Committee**

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**HB 1901**

**Brief Description:** Concerning the sales and use taxation of repairs to farm machinery and equipment.

**Sponsors:** Representatives Grant, Newhouse, Linville, Orcutt, Blake, Hailey, Walsh, Morrell, Kristiansen, Dunn and Hinkle.

**Brief Summary of Bill**

- Exempts replacement parts and services related to farm vehicles from sales and use tax.

**Hearing Date:** 2/23/07

**Staff:** Jeff Mitchell (786-7139).

**Background:**

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.4 percent, depending on the location. The average local tax rate is 2.0, for an average combined state and local tax rate of 8.5 percent.

Farmers with annual gross sales of agricultural products of \$10,000 or more are exempt from sales and use tax on the purchase of replacement parts for farm machinery and equipment. The exemption covers machinery and equipment designed for the purpose of growing, raising, or producing agricultural products. Farmers must apply with the Department of Revenue for an exemption certificate. The certificate must be renewed every five years. The exemption includes parts for farm tractors and farm implements, but not other farm vehicles. Replacement parts for aircraft, hand tools, hand-powered tools, and equipment with a useful life of less than one year are not exempt.

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"Farm implements" are defined as machinery or equipment used by a farmer to grow, raise, or produce agricultural products.

"Farm vehicles" are defined as vehicles used primarily in agricultural pursuits on farms for the purpose of transporting machinery, equipment, implements, farm products, supplies, and labor. Farm vehicles are operated or moved along public highways only for the purpose of going from one farm to another.

**Summary of Bill:**

The sales and use tax exemption for replacement parts for qualifying machinery and equipment is extended to include replacement parts for farm vehicles.

Labor and services rendered in respect to the installation of replacement parts for farm vehicles are exempted from retail sales and use tax.

Labor and services rendered in respect to repairing farm vehicles are exempted from retail sales and use tax, as long as no additional tangible personal property is installed in the farm vehicle other than exempt replacement parts or nominal items such as oil, hydraulic fluid, or antifreeze.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.