

FINAL BILL REPORT

EHB 1902

C 332 L 07

Synopsis as Enacted

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

Sponsors: By Representatives Grant, Newhouse, Linville, Orcutt, Blake, Hailey, Walsh, P. Sullivan, Kristiansen, Dunn and Hinkle.

House Committee on Finance

Senate Committee on Agriculture & Rural Economic Development

Senate Committee on Ways & Means

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.

Summary:

The term "farm vehicles" is included within the definition of "qualifying farm machinery and equipment" thereby exempting replacement parts for farm vehicles from sales and use tax.

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

Labor and services rendered in respect to the repairing of qualifying machinery and equipment 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.

Exempt labor and services, even if included in a single transaction with taxable services, are exempt as long as the exempt services are separately itemized.

As an alternative to the requirement to file a federal Schedule F of Form 1040, an applicant may make a declaration signed under penalty of perjury that the applicant is an eligible farmer.

Farmers with a harvested value of at least \$10,000 per tax year may qualify for the sales and use tax exemption. Harvested value is the number of units of the agricultural product that were grown, raised, or produced, multiplied by the average sale price of the agricultural product, as determined by data provided by the U.S. Department of Agriculture.

The term "farm implement" is defined as machinery or equipment used by a farmer to grow, raise, or produce agricultural products.

Votes on Final Passage:

House	88	9	
Senate	32	12	(Senate amended)
House	95	3	(House concurred)

Effective: July 22, 2007