

SENATE BILL REPORT

EHB 1902

As Reported By Senate Committee On:
Agriculture & Rural Economic Development, March 22, 2007
Ways & Means, April 18, 2007

Title: An act relating to the sales and use taxation of repairs to farm machinery and equipment.

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

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

Brief History: Passed House: 3/10/07, 88-9.

Committee Activity: Agriculture & Rural Economic Development: 3/19/07, 3/22/07 [DPA-WM].

Ways & Means: 3/30/07, 4/18/07 [DPA, DNP].

SENATE COMMITTEE ON AGRICULTURE & RURAL ECONOMIC DEVELOPMENT

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.

Signed by Senators Rasmussen, Chair; Hatfield, Vice Chair; Schoesler, Ranking Minority Member; Morton and Shin.

Staff: Bob Lee (786-7404)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Zarelli, Ranking Minority Member; Brandland, Carrell, Hatfield, Hewitt, Hobbs, Honeyford, Parlette, Rasmussen, Roach and Schoesler.

Minority Report: Do not pass.

Signed by Senators Fairley and Tom.

Staff: Dianne Criswell (786-7433)

Background: The state sales and use 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 currently exempt from sales and use tax on the purchase of replacement parts for farm machinery and equipment. The exemption covers

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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.

Summary of Engrossed Bill: 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. The requirement that service costs to repair qualifying machinery and equipment must be separately stated from replacement part costs is eliminated because the bill exempts these services from retail sales and use tax.

Farmers with a harvested value of at least \$10,000 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. "Farm implements" are defined as machinery or equipment used by a farmer to grow, raise, or produce agricultural products.

EFFECT OF CHANGES MADE BY RECOMMENDED STRIKING AMENDMENT(S) AS PASSED COMMITTEE (Agriculture & Rural Economic Development): An option is added for applying to the Department of Revenue for a certificate of exemption that the farm produced over \$10,000 of agricultural commodities per year. The only option currently available is to submit a copy of the applicants federal income tax form. The new option allows the applicant to file a signed declaration under the penalty of perjury. The remainder of the bill's provisions are unchanged.

EFFECT OF CHANGES MADE BY RECOMMENDED AMENDMENT(S) AS PASSED COMMITTEE (Ways & Means): If a seller makes a separately itemized charge for labor and services, exempt services will qualify, even if provided in a single transaction with nonexempt services. Makes technical corrections to the federal income tax documentation requirements. Allows a declaration under perjury as an alternative proof of income. Clarifies the conditional exemption certificate process for persons new to farming that do not have proof of past income. Changes "calendar year" to "tax year" to allow persons filing on different calendar periods to qualify. Provides other technical corrections and clarifications.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony (Agriculture & Rural Economic Development):

PRO: Testimony given to near companion Senate bills earlier in session (see SB 5764 and SB 5765) also applies to this bill. Concepts for changes were discussed with the Department of Revenue and could be incorporated into this bill.

Persons Testifying (Agriculture & Rural Economic Development): PRO: Heather Hansen, Washington Association of Wheat Growers.

Staff Summary of Public Testimony (Ways & Means): PRO: The tax benefit in HB 1901, which extended the current exemption to farm vehicles, was added into this bill. Adding vehicles to EHB 1902 did not greatly increase the fiscal note. Local governments do need funding, but these tax exemptions greatly help farmers in rural communities.

CON: This bill improves the exemption by streamlining the process. Last year, this exemption was compared with the exemption for manufacturing machinery and equipment, which does not include vehicles. By expanding these exemptions to include farm vehicles and labor on replacement parts and repairs, local governments serving rural communities will have less resources. The majority of the lost taxes will impact cities, taking away resources that rural communities need.

Persons Testifying (Ways & Means): PRO: Heather Hansen, Washington Association of Wheat Growers.

CON: Julie Murray, Washington State Association of Counties; Jim Justin, Association of Washington Cities.