

# SENATE BILL REPORT

## SB 5764

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As Reported By Senate Committee On:  
Agriculture & Rural Economic Development, February 26, 2007

**Title:** An act relating to making technical and administrative changes to improving the administration of the sales and use tax exemptions for replacement parts for farm machinery and equipment.

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

**Sponsors:** Senators Schoesler and Rasmussen.

**Brief History:**

**Committee Activity:** Agriculture & Rural Economic Development: 2/12/07, 2/26/07 [DPS-WM].

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### SENATE COMMITTEE ON AGRICULTURE & RURAL ECONOMIC DEVELOPMENT

**Majority Report:** That Substitute Senate Bill No. 5764 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

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

**Staff:** Bob Lee (786-7404)

**Background:** The state sales and use tax rate is 6.5 percent. In addition, cities, counties, and transit districts may impose local option sales and use taxes for general purposes as well as a variety of specific purposes. As of December 2005, local rates ranged from 0.5 percent to 2.4 percent.

In 2006, farmers became exempt from sales and use tax on the purchase of replacement parts for farm tractors and farm implements if their income from growing, raising, or producing agricultural products is at least \$10,000 in the calendar year. To show that the gross income requirements were met, the farmer was required to submit portions of the federal income tax return to the Department of Revenue and then would receive an certificate of exemption.

Other vehicles, not including farm tractors and farm implements, used only incidentally on or moved along public highways for the purpose of going from one farm to another are defined as farm vehicles. The 2006 exemption from sales and use tax did not apply to replacement parts for farm vehicles.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Summary of Bill:** Replacement parts installed on farm vehicles are exempt from the sales and use tax if used by a farmer having at least \$10,000 income from the sale of agriculture products per year.

The labor and services to install replacement parts on farm machinery and equipment and on farm vehicles is also exempt from sales tax.

**EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Agriculture & Rural Economic Development):** New tax exemptions are excluded and instead changes are made to how last year's statute is administered. The exemption from the sales tax for parts for farm machinery enacted last year was limited only to farms that had sales over \$10,000 per year. That legislation required that the federal tax return be submitted to verify that the operation exceeded the \$10,000 threshold. This bill replaces the requirement to submit the federal tax return with a requirement to submit a signed declaration under the penalty of perjury. A person who knowingly makes a materially false statement on an application is guilty of perjury in the second degree which is a class C felony. Other procedural changes recommended by the Department of Revenue are included.

**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:** PRO: The requirement in last year's bill to submit federal tax returns to the Department of Revenue raised concerns with farmers and lowered their participation rate. Questions were asked as to whether it was standard procedure to require submission of federal tax returns to claim an exemption under state law. Interest was expressed in finding an alternative to submitting a copy of the federal tax return.

**Persons Testifying:** PRO: Jack Field, Washington Cattlemen's Association; Heather Hansen, Wheat Growers; Patrick Connor, Farm Bureau.