
HOUSE BILL 2597

State of Washington 63rd Legislature 2014 Regular Session

By Representatives Chandler, Johnson, and Ross

Read first time 01/22/14. Referred to Committee on Finance.

1 AN ACT Relating to clarifying that the definition of qualifying
2 machinery and equipment includes all equipment used by hop farmers in
3 harvesting the crop; amending RCW 82.08.855; creating a new section;
4 and declaring an emergency.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 NEW SECTION. **Sec. 1.** The legislature intends to clarify that the
7 machinery and equipment used to get hops to a marketable farm gate
8 product is not processing equipment but instead production equipment
9 that is eligible for the sales and use tax exemption of other
10 qualifying farm machinery and equipment.

11 **Sec. 2.** RCW 82.08.855 and 2007 c 332 s 1 are each amended to read
12 as follows:

13 (1) The tax levied by RCW 82.08.020 does not apply to the sale to
14 an eligible farmer of:

- 15 (a) Replacement parts for qualifying farm machinery and equipment;
16 (b) Labor and services rendered in respect to the installing of
17 replacement parts; and

1 (c) Labor and services rendered in respect to the repairing of
2 qualifying farm machinery and equipment, provided that during the
3 course of repairing no tangible personal property is installed,
4 incorporated, or placed in, or becomes an ingredient or component of,
5 the qualifying farm machinery and equipment other than replacement
6 parts.

7 (2)(a) Notwithstanding anything to the contrary in this chapter, if
8 a single transaction involves services that are not exempt under this
9 section and services that would be exempt under this section if
10 provided separately, the exemptions provided in subsection (1)(b) and
11 (c) of this section apply if: (i) The seller makes a separately
12 itemized charge for labor and services described in subsection (1)(b)
13 or (c) of this section; and (ii) the separately itemized charge does
14 not exceed the seller's usual and customary charge for such services.

15 (b) If the requirements in (a)(i) and (ii) of this subsection (2)
16 are met, the exemption provided in subsection (1)(b) or (c) of this
17 section applies to the separately itemized charge for labor and
18 services described in subsection (1)(b) or (c) of this section.

19 (3)(a) A person claiming an exemption under this section must keep
20 records necessary for the department to verify eligibility under this
21 section. An exemption is available only when the buyer provides the
22 seller with an exemption certificate issued by the department
23 containing such information as the department requires. The exemption
24 certificate shall be in a form and manner prescribed by the department.
25 The seller shall retain a copy of the certificate for the seller's
26 files.

27 (b) The department shall provide an exemption certificate to an
28 eligible farmer or renew an exemption certificate, upon application by
29 that eligible farmer. The application must be in a form and manner
30 prescribed by the department and shall contain the following
31 information as required by the department:

32 (i) The name and address of the applicant;

33 (ii) The uniform business identifier or tax reporting account
34 number of the applicant, if the applicant is required to be registered
35 with the department;

36 (iii) The type of farming engaged in;

37 (iv) Either a copy of the applicant's information as provided in

1 (b)(iv)(A) of this subsection or a declaration as provided in
2 (b)(iv)(B) of this subsection, as elected by the applicant:

3 (A) A copy of the applicant's Schedule F of Form 1040, Form 1120,
4 or other applicable form filed with the internal revenue service
5 indicating the applicant's gross sales or harvested value of
6 agricultural products for the tax year covered by the return. If the
7 applicant has not filed a federal income tax return for the prior tax
8 year or is not required to file a federal income tax return, the
9 applicant shall provide copies of other documents establishing the
10 amount of the applicant's gross sales or harvested value of
11 agricultural products for the tax year immediately preceding the year
12 in which an application for exemption under this section is submitted
13 to the department;

14 (B) A declaration signed under penalty of perjury as provided in
15 RCW 9A.72.085 that the applicant is an eligible farmer as defined in
16 subsection (4)(b) of this section. Any person who knowingly makes a
17 materially false statement on an application submitted to the
18 department under the provisions of this section shall be guilty of
19 perjury in the second degree under chapter 9A.72 RCW. In addition, the
20 person is liable for payment of any taxes for which an exemption under
21 this section was claimed, with interest at the rate provided for
22 delinquent taxes, retroactively to the date the exemption was claimed,
23 and penalties as provided under chapter 82.32 RCW;

24 (v) The name of the individual authorized to sign the certificate,
25 printed in a legible fashion;

26 (vi) The signature of the authorized individual; and

27 (vii) Other information the department may require to verify the
28 applicant's eligibility for the exemption.

29 (c)(i) Except as otherwise provided in this section, exemption
30 certificates take effect on the date issued by the department are not
31 transferable and are valid for the remainder of the calendar year in
32 which the certificate is issued and the following four calendar years.
33 The department shall attempt to notify holders of exemption
34 certificates of the impending expiration of the certificate at least
35 sixty days before the certificate expires and shall provide an
36 application for renewal of the certificate.

37 (ii) When a certificate holder merely changes identity or form of

1 ownership of an entity and there is no change in beneficial ownership,
2 the exemption certificate shall be transferred to the new entity upon
3 written notice to the department by the transferor or transferee.

4 (d)(i) A person who is an eligible farmer as defined in subsection
5 (4)(b)(iii) of this section shall be issued a conditional exemption
6 certificate. The exemption certificate is conditioned upon:

7 (A) The eligible farmer having gross sales or a harvested value of
8 agricultural products grown, raised, or produced by that person of at
9 least ten thousand dollars in the first full tax year in which the
10 person engages in business as a farmer; or

11 (B) The eligible farmer, during the first full tax year in which
12 that person engages in business as a farmer, growing, raising, or
13 producing agricultural products having an estimated value at any time
14 during that year of at least ten thousand dollars, if the person will
15 not sell or harvest an agricultural product during the first full tax
16 year in which the person engages in business as a farmer.

17 (ii) If a person fails to meet the condition provided in (d)(i)(A)
18 or (B) of this subsection, the department shall revoke the exemption
19 certificate. The department shall notify the person in writing of the
20 revocation and the person's responsibility, and due date, for payment
21 of any taxes for which an exemption under this section was claimed.
22 Any taxes for which an exemption under this section was claimed shall
23 be due and payable within thirty days of the date of the notice
24 revoking the certificate. The department shall assess interest on the
25 taxes for which the exemption was claimed. Interest shall be assessed
26 at the rate provided for delinquent excise taxes under chapter 82.32
27 RCW, retroactively to the date the exemption was claimed, and shall
28 accrue until the taxes for which the exemption was claimed are paid.
29 Penalties shall not be imposed on any tax required to be paid under
30 this subsection (3)(d)(ii) if full payment is received by the due date.
31 Nothing in this subsection (3)(d) prohibits a person from reapplying
32 for an exemption certificate.

33 (4) The definitions in this subsection apply to this section.

34 (a) "Agricultural products" has the meaning provided in RCW
35 82.04.213.

36 (b) "Eligible farmer" means:

37 (i) A farmer as defined in RCW 82.04.213 whose gross sales or
38 harvested value of agricultural products grown, raised, or produced by

1 that person is at least ten thousand dollars for the tax year
2 immediately preceding the year in which an application for exemption
3 under this section is submitted to the department;

4 (ii) The transferee of an exemption certificate under subsection
5 (3)(c)(ii) of this section where the transferred certificate expires
6 before the transferee engages in farming operations for a full tax
7 year, if the combined gross sales or harvested value of agricultural
8 products that the transferor and transferee have grown, raised, or
9 produced meet the requirements of (b)(i) of this subsection;

10 (iii) A farmer as defined in RCW 82.04.213, who does not meet the
11 definition of "eligible farmer" in (b)(i) or (ii) of this subsection,
12 and who did not engage in farming for the entire tax year immediately
13 preceding the year in which application for exemption under this
14 section is submitted to the department, because the farmer is either
15 new to farming or newly returned to farming; or

16 (iv) Anyone who otherwise meets the definition of "eligible farmer"
17 in this subsection except that they are not a "person" as defined in
18 RCW 82.04.030.

19 (c) "Farm vehicle" has the same meaning as in RCW 46.04.181.

20 (d) "Harvested value" means the number of units of the agricultural
21 product that were grown, raised, or produced, multiplied by the average
22 sales price of the agricultural product. For purposes of this
23 subsection (4)(d), "average sales price" means the average price per
24 unit of agricultural product received by farmers in this state as
25 reported by the United States department of agriculture's national
26 agricultural statistics service for the twelve-month period that
27 coincides with, or that ends closest to, the end of the relevant tax
28 year, regardless of whether the prices are subject to revision. If the
29 price per unit of an agricultural product received by farmers in this
30 state is not available from the national agricultural statistics
31 service, average sales price may be determined by using the average
32 price per unit of agricultural product received by farmers in this
33 state as reported by a recognized authority for the agricultural
34 product.

35 (e)(i) "Qualifying farm machinery and equipment" means:

36 (A) Machinery and equipment used primarily by an eligible farmer
37 for growing, raising, or producing agricultural products; and

1 (B) For hop farmers, all machinery and equipment including, but not
2 limited to, deviners, top and bottom cutters, mobile and stationary
3 picking chambers and their components, separating equipment, and kilns
4 and balers used to remove hops from the bines, separate hops from
5 leaves, and dry and bale hops must be considered to be primarily used
6 for producing an agricultural product.

7 (ii) "Qualifying farm machinery and equipment" does not include:

8 ((+i+)) (A) Vehicles as defined in RCW 46.04.670, other than farm
9 tractors as defined in RCW 46.04.180, farm vehicles, and other farm
10 implements. For purposes of this subsection (4)(e)((+i+)) (ii)(A),
11 "farm implement" means machinery or equipment manufactured, designed,
12 or reconstructed for agricultural purposes and used primarily by an
13 eligible farmer to grow, raise, or produce agricultural products, but
14 does not include lawn tractors and all-terrain vehicles;

15 ((+ii+)) (B) Aircraft;

16 ((+iii+)) (C) Hand tools and hand-powered tools; and

17 ((+iv+)) (D) Property with a useful life of less than one year.

18 (f)(i) "Replacement parts" means those parts that replace an
19 existing part, or which are essential to maintain the working
20 condition, of a piece of qualifying farm machinery or equipment.

21 (ii) Paint, fuel, oil, hydraulic fluids, antifreeze, and similar
22 items are not replacement parts except when installed, incorporated, or
23 placed in qualifying farm machinery and equipment during the course of
24 installing replacement parts as defined in (f)(i) of this subsection or
25 making repairs as described in subsection (1)(c) of this section.

26 (g) "Tax year" means the period for which a person files its
27 federal income tax return, irrespective of whether the period
28 represents a calendar year, fiscal year, or some other consecutive
29 twelve-month period. If a person is not required to file a federal
30 income tax return, "tax year" means a calendar year.

31 NEW SECTION. Sec. 3. This act is necessary for the immediate
32 preservation of the public peace, health, or safety, or support of the
33 state government and its existing public institutions, and takes effect
34 immediately.

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