

SENATE BILL REPORT

SB 5092

As of January 14, 2025

Title: An act relating to a sales and use tax exemption for qualifying farm machinery and equipment.

Brief Description: Providing a sales and use tax exemption for qualifying farm machinery and equipment.

Sponsors: Senator Boehnke.

Brief History:

Committee Activity: Agriculture & Natural Resources: 1/16/25.

Brief Summary of Bill

- Exempts certain small farmers from sales and use tax on qualifying farm machinery and equipment.

SENATE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

Staff: Jeff Olsen (786-7428)

Background: Sales and Use Tax. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services—including construction. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital product, or service when used in this state. The state, most cities, and all counties levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent, local sales and use tax rates vary from 0.5 percent to 4.1 percent, depending on the location.

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

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

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.

Tax Preference Performance Statement. State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

Summary of Bill: A farmer with annual gross sales or harvest values less than \$2 million is exempt from sales and use tax on the purchase of qualifying farm equipment. The exemption is available only when the buyer provides the seller with an exemption certificate as prescribed by the Department of Revenue. An eligible farmer may not claim the exemption more than once each calendar year.

To qualify for the exemption, the farm equipment must have been acquired by the eligible farmer at a sales price of \$10,000 or more. Farm equipment includes tractors, trailers, combines, tillage implements, balers, and other equipment, including attachments and accessories that are used in the planting, cultivating, irrigation, harvesting, and marketing of agricultural, horticultural, or livestock products.

By January 1, 2034, JLARC must evaluate the fiscal impact of the exemption including changes in the number of small- and medium-sized producers located in Washington. The exemption expires October 1, 2035.

Appropriation: None.

Fiscal Note: Requested on January 6, 2025.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on October 1, 2025.