
SUBSTITUTE HOUSE BILL 1901

State of Washington 60th Legislature 2007 Regular Session

By House Committee on Finance (originally sponsored by Representatives Grant, Newhouse, Linville, Orcutt, Blake, Hailey, Walsh, Morrell, Kristiansen, Dunn and Hinkle)

READ FIRST TIME 3/5/07.

1 AN ACT Relating to the sales and use taxation of repairs to farm
2 machinery and equipment; amending RCW 82.08.855 and 82.12.855; and
3 providing an effective date.

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

5 **Sec. 1.** RCW 82.08.855 and 2006 c 172 s 1 are each amended to read
6 as follows:

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

9 (a) Replacement parts for qualifying farm machinery and equipment;

10 (b) Labor and services rendered in respect to the installing of
11 replacement parts exempt under (a) of this subsection for farm
12 vehicles, regardless of whether items excluded from the definition of
13 replacement parts in subsection (4)(f)(ii) of this section are
14 installed, incorporated, or placed in the farm vehicle during the
15 course of the installation; and

16 (c) Labor and services rendered in respect to the repairing of farm
17 vehicles, provided that during the course of repairing no tangible
18 personal property is installed, incorporated, or placed in, or becomes
19 an ingredient or component of, the farm vehicle other than: (i)

1 Replacement parts exempt under (a) of this subsection; and (ii) items
2 excluded from the definition of replacement parts in subsection
3 (4)(f)(ii) of this section.

4 (2)(a) Notwithstanding anything to the contrary in this chapter, if
5 replacement parts are installed by the seller during the course of
6 repairing, cleaning, altering, or improving qualifying farm machinery
7 and equipment and the seller makes a separate charge for the parts, the
8 tax levied by RCW 82.08.020 does not apply to the separately stated
9 charge to an eligible farmer for replacement parts but only if the
10 separately stated charge does not exceed either the seller's current
11 publicly stated retail price for the parts or, if no (~~separately~~)
12 publicly stated retail price is available, the seller's cost for the
13 parts. However, the exemption provided by this section shall not apply
14 if replacement parts are installed by the seller during the course of
15 repairing, cleaning, altering, or improving qualifying farm machinery
16 and equipment and the seller makes a single nonitemized charge for
17 providing the parts and service.

18 (b) This subsection does not apply with respect to replacement
19 parts for farm vehicles.

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

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

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

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

37 (iii) The type of farming engaged in;

1 (iv) A copy of the applicant's Schedule F of Form 1040, Form 1120,
2 or other applicable form filed with the internal revenue service
3 indicating the gross sales of agricultural products by the applicant in
4 the calendar year immediately preceding the year that the application
5 was made to the department. If application is made before the due date
6 of the applicant's federal income tax return for the prior calendar
7 year, or any extension of the due date, the applicant shall provide a
8 copy of the appropriate federal income tax form that was due for the
9 second calendar year immediately preceding the year that the
10 application is made to the department. If the applicant is not
11 required to file federal income tax returns, the department may require
12 the applicant to provide copies of other documents establishing the
13 amount of the applicant's gross sales of agricultural products for the
14 relevant calendar year;

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

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

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

20 (c)(i) Except as otherwise provided in this section, exemption
21 certificates take effect on the date issued by the department, are not
22 transferable and are valid for the remainder of the calendar year in
23 which the certificate is issued and the following four calendar years.
24 The department shall attempt to notify holders of exemption
25 certificates of the impending expiration of the certificate at least
26 sixty days before the certificate expires and shall provide an
27 application for renewal of the certificate.

28 (ii) When a certificate holder merely changes identity or form of
29 ownership of an entity and there is no change in beneficial ownership,
30 the exemption certificate shall be transferred to the new entity upon
31 written notice to the department by the transferor or transferee.

32 (d)(i) Exemption certificates issued to persons who are eligible
33 farmers under subsection (4)(b)(iii) of this section are conditioned on
34 the person making at least ten thousand dollars of gross sales of
35 agricultural products grown, raised, or produced by that person in the
36 first full calendar year that the person engages in business as a
37 farmer.

1 (ii) A person who is issued a conditional exemption certificate
2 must provide the department with a copy of the person's Schedule F of
3 Form 1040, Form 1120, or other applicable form filed with the internal
4 revenue service indicating the gross sales of agricultural products by
5 the person in the first full calendar year that the person engaged in
6 business as a farmer. If a person is not required to file federal
7 income tax returns, the person shall provide copies of other documents
8 establishing the amount of the person's gross sales of agricultural
9 products for the first full calendar year that the person engaged in
10 business as a farmer. The documentation required in this subsection
11 (3)(d)(ii) is due no later than December 31st of the year immediately
12 following the first full calendar year in which the person engaged in
13 business as a farmer.

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

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

32 (a) "Agricultural products" has the meaning provided in RCW
33 82.04.213.

34 (b) "Eligible farmer" means:

35 (i) A farmer as defined in RCW 82.04.213 whose gross proceeds of
36 sales or harvested value of agricultural products grown, raised, or
37 produced by that person is at least ten thousand dollars in the

1 calendar year immediately preceding the year in which ~~((a claim of~~
2 ~~exemption is made under this section))~~ 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 calendar
7 year, if the combined gross proceeds of sales ~~((by))~~ or harvested value
8 of agricultural products that the transferor and transferee ~~((of~~
9 ~~agricultural products that they))~~ have grown, raised, or produced meet
10 the requirements of (b)(i) of this subsection;

11 (iii) A farmer as defined in RCW 82.04.213, who does not meet the
12 definition of "eligible farmer" in (b)(i) or (ii) of this subsection,
13 and who did not engage in farming for the entire calendar year
14 immediately preceding the year in which application for exemption under
15 this section is made and who did not engage in farming in any other
16 year;

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

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

21 (d) "Harvested value" means the number of units of the agricultural
22 product that were grown, raised, or produced, multiplied by the average
23 sales price of the agricultural product. For purposes of this
24 subsection (4)(d), "average sales price" means the average price per
25 unit of agricultural product received by farmers in this state as
26 reported by the United States department of agriculture's national
27 agricultural statistics service for the twelve-month period that
28 coincides with, or that begins or ends closest to, the calendar year
29 immediately preceding the calendar year during which an application for
30 exemption under this section is submitted to the department or the
31 first full calendar year during which a person engages in business as
32 a farmer, as the case may be, regardless of whether the prices are
33 subject to revision. If the price per unit of an agricultural product
34 received by farmers in this state is not available from the national
35 agricultural statistics service, average sales price may be determined
36 by using the average price per unit of agricultural product received by
37 farmers in this state as reported by a recognized authority for the
38 agricultural product.

1 (e) "Qualifying farm machinery and equipment" means machinery and
2 equipment used primarily for growing, raising, or producing
3 agricultural products. "Qualifying farm machinery and equipment" does
4 not include:

5 (i) ~~((Farm vehicles and other))~~ Vehicles ~~((as those terms are~~
6 ~~defined in chapter 46.04 RCW, except))~~ as defined in RCW 46.04.670,
7 other than farm tractors as defined in RCW 46.04.180, farm vehicles,
8 and other farm implements. For purposes of this subsection
9 (4)~~((e))~~(e)(i), "farm implement" means machinery or equipment
10 manufactured, designed, or reconstructed for agricultural purposes and
11 used primarily by an eligible farmer to grow, raise, or produce
12 agricultural products, but does not include lawn tractors and
13 all-terrain vehicles;

14 (ii) Aircraft;

15 (iii) Hand tools and hand-powered tools; and

16 (iv) Property with a useful life of less than one year.

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

21 (ii) "Replacement parts" ~~((shall))~~ do not include paint, fuel, oil,
22 grease, hydraulic fluids, antifreeze, and similar items.

23 **Sec. 2.** RCW 82.12.855 and 2006 c 172 s 2 are each amended to read
24 as follows:

25 (1) The provisions of this chapter do not apply in respect to the
26 use by an eligible farmer of:

27 (a) Replacement parts for qualifying farm machinery and equipment;

28 (b) Labor and services rendered in respect to the installing of
29 replacement parts exempt under (a) of this subsection, for farm
30 vehicles, regardless of whether items excluded from the definition of
31 replacement parts in RCW 82.08.855(4)(f)(ii) are installed,
32 incorporated, or placed in the farm vehicle during the course of the
33 installation; and

34 (c) Labor and services rendered in respect to the repairing of farm
35 vehicles, provided that during the course of repairing no tangible
36 personal property is installed, incorporated, or placed in, or becomes
37 an ingredient or component of, the farm vehicle other than: (i)

1 Replacement parts exempt under (a) of this subsection; and (ii) items
2 excluded from the definition of replacement parts in RCW
3 82.08.855(4)(f)(ii).

4 (2)(a) Notwithstanding anything to the contrary in this chapter, if
5 replacement parts are installed by the seller during the course of
6 repairing, cleaning, altering, or improving qualifying farm machinery
7 and equipment and the seller makes a separate charge for the parts, the
8 tax imposed by this chapter does not apply to the separately stated
9 charge to an eligible farmer for replacement parts but only if the
10 separately stated charge does not exceed either the seller's current
11 publicly stated retail price for the parts or, if no (~~separately~~)
12 publicly stated retail price is available, the seller's cost for the
13 parts. However, the exemption provided by this section shall not apply
14 if replacement parts are installed by the seller during the course of
15 repairing, cleaning, altering, or improving qualifying farm machinery
16 and equipment and the seller makes a single nonitemized charge for
17 providing the parts and service.

18 (b) This subsection does not apply with respect to replacement
19 parts for farm vehicles.

20 (3) The definitions and recordkeeping requirements in RCW
21 82.08.855, other than the exemption certificate requirement, apply to
22 this section.

23 NEW SECTION. **Sec. 3.** This act takes effect October 1, 2007.

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