

HOUSE BILL REPORT

EHB 1902

As Passed Legislature

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

Brief History:

Committee Activity:

Finance: 2/23/07, 3/2/07 [DP].

Floor Activity:

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

Senate Amended.

Passed Senate: 4/20/07, 32-12.

House Concurred.

Passed House: 4/20/07, 95-3.

Passed Legislature.

Brief Summary of Engrossed Bill

- Exempts replacement parts for farm vehicles from sales and use tax.
- Exempts labor and services rendered in respect to qualifying farm machinery and equipment from sales and use tax.
- Allows an applicant to make a declaration signed under penalty of perjury that the applicant is an eligible farmer.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 6 members: Representatives Hunter, Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Ericks, Roach and Santos.

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.

Minority Report: Do not pass. Signed by 3 members: Representatives Hasegawa, Vice Chair; Conway and McIntire.

Staff: Jeff Mitchell (786-7139).

Background:

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state 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 exempt from sales and use tax on the purchase of replacement parts for farm machinery and 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. The certificate must be renewed every five years. The exemption includes parts for farm tractors and farm implements, but not other farm vehicles. Replacement parts for aircraft, hand tools, hand-powered tools, and equipment with a useful life of less than one year are not exempt.

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.

Exempt labor and services, even if included in a single transaction with taxable services, are exempt as long as the exempt services are separately itemized.

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.

As an alternative to the requirement to file a federal Schedule F of Form 1040, an applicant may make a declaration signed under penalty of perjury that the applicant is an eligible farmer.

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.

Appropriation: None.

Fiscal Note: Available. Requested on 3/12/07.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) Last year farm vehicles and services were excluded from a tax exemption bill for farm equipment, because we didn't know the financial impact to the State General Fund. The impact last year was considerably less than anticipated; now we should include parts and services. Any time we can help our farms and ranchers it is appreciated. Only nine states tax farm parts at the full rate. It is time to move forward on equity in tax treatment for farmers. We are only adding a small number of farm vehicles to this exemption, and it is very hard to separate parts from services, because when something breaks, services are required to replace the parts.

(Opposed) This bill disproportionately causes a negative impact on our rural and small communities, as they have some of the smallest tax bases. Look at the fiscal impact of these proposals. We are nervous about the impact on our smallest cities.

Persons Testifying: (In support) Representative Grant, prime sponsor; Jack Field, Washington Cattlemen's Association; Patrick Connor, Washington Farm Bureau; and Heather Hansen, Washington Association of Wheat Growers.

(Opposed) Julie Murray, Washington State Association of Counties; and Jim Justin, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: None.