Washington Association of Wheat Growers
109 E. First Ave. • Ritzville, WA • 99169 • Phone (509) 659-0610 • Fax (509) 659-4302

From: Washington Association of Wheat Growers
To: Citizen Commission for Performance Measurement of Tax Preferences
Subject: Public Testimony regarding tax preferences for Farm Machinery Replacement Parts (Sales and Use Tax)
Date: Thursday, September 17, 2015

Here is our public testimony regarding the 6 questions posed by the commissioners:

1. **Is there evidence that the tax preference achieved its purpose, as noted in the 2015 tax preferences reports?**

   The tax preference was intended to provide tax relief to farmers, and it has been successful in achieving its intended purpose for the last few crop years. The preference alleviates some of the tax burden for certain repairs. For example, when a wheat growers purchases a combine needed to harvest his crop, he is making a major investment, if new, purchase price is upwards of $500,000. That purchase is taxable, so the grower pays sales and use tax on that purchase. The grower also pays sales and use tax on the combine header attachment. This exemption allows growers to not have to pay sales and use tax on replacement parts, such as sickle blades on the header, which often need to be replaced annually. Nearly all other top wheat producing states in the US offer sales and use tax preferences on farm machinery repair or replacement parts in addition to a tax preference on the new or used equipment purchases, leases, and rentals.

2. **Does the preference provide benefits in addition to those stated in its intended or inferred purpose, consistent with one or more of the six public policy objectives stated in RCW 82.32.808(2)?**

   This preference helps our growers compete in highly competitive international markets of small grain production despite low margins. Grain production, along with many other ag commodities are homogenous products. Farmers are price takers, they cannot increase their price to recover increases in the cost of production because they have no ability to control the price in which they sell their crop. Without the ability to pass on increases in operating costs, assistance through this vital long-standing tax preference encourages growers that their elected officials will maintain the tax preferences they need to operate competitively in Washington for the benefit of the 220,000 jobs supported by agriculture.

   Loss of this preference would jeopardize our industry's competitiveness relative to other states in agricultural production. Washington needs to continue to provide this tax preference to retain jobs supported in and around agriculture and promote national and international competitiveness.

3. **Is there a loss of tax revenue as a result of the preference; and if so, do any increased taxes from new economic activity exceed that loss?**

   The tax preference is projected to save beneficiaries $62.2 million in 2016 and 2017 according to the JLARC 2015 performance review preliminary report. This loss in revenue to the state from this preference will be returned to the states in greater proportion through direct and secondary impacts. WAWG, in conjunction with other agricultural organizations, hired Community Attributes Inc. to conduct an economic and fiscal impact study on Washington agriculture. The study determined for every dollar in state investments in agriculture and processing activities, $1.30 is generated in state tax payments through direct and secondary impacts. By expanding on those projections, the state would lose 18.5 million in tax revenue per biennium if this preference is discontinued.

4. **Specifically, in the case of property tax preferences, what would be the impacts on taxpayers and economic activity if the preference is eliminated or modified?**

If this preference is eliminated or modified to be enacted only under specific market conditions, Washington farmers will be less competitive than other states, and make operating in Washington less attractive. Purchasing behavior would not be altered, as replacement parts and labor will still be purchased as needed to allow growers to continue to operate.

The 34,000 farms in Washington[1] support 220,600 other jobs statewide are supported either directly or through business transactions or personal income expenditures. Nearly $36 billion in business revenues are supported by ag activities, through direct activities and multiplier effects.

5. **Does this preference have negative consequences? For example, were other industries, workers, or the environment harmed by activities stimulated by this tax preference?**

   This preference does not have any negative consequences to my knowledge. Farmers do not have increased purchasing behavior buying replacement parts or labor that are not needed to maintain ongoing farming operations.

6. **How does the overall impact of the "preference" affect the tax burden in Washington compared with a similar tax burden in other states?**

   In comparison to other top wheat producing states, Washington's sales and use exemption for repairs and replacement parts is consistent with that of nine of the ten top producing wheat states in the US. Only Idaho does not have a tax exemption for repair and replacement parts, however the state does offer a sales tax exemption for new, used, and leased equipment for farming. It should be noted that Washington has a significantly more narrow scope for this exemption compared to other top producing wheat states in the US.

   - North Dakota farm machinery repair parts and used farm machinery purchases are also exempt. New machinery is subject to the 3% gross receipts tax in North Dakota.[2]
   - Kansas Department of Revenue offers an Agriculture Tax Exemption Certificate which covers all farm machinery or equipment, including new and used equipment and equipment rentals as well as the parts and labor purchased to repair or maintain the farm machinery or equipment. Combines, tractors, irrigation equipment automobiles, trucks, tools, grain bins, hand tools, and welding equipment among other named items are exempt from sales tax in Kansas if used exclusively for agriculture production. [3]
   - Montana has no general state sales tax, so an exemption is not necessary.[4]
   - South Dakota charges no sales tax on repair parts and services and maintenance items and services for leased machinery, attachment units, and irrigation equipment that is used exclusively for ag purposes. The sale or lease of farm machinery, attachment units and irrigation equipment is subject to 4% state tax, but no municipal tax. Additionally, if farm machinery is traded in toward the purchase of farm machinery, credit will be given for the value of the trade in and tax will apply to the total purchase price less the trade in value. [5]
   - Idaho State Tax Commission offers a farming and ranching production exemption on sales tax which offers a sales tax exemption for new and used equipment and leased equipment and irrigation equipment, but does not cover equipment and supplies used for maintenance or repairs [6]

---

[1] NASS Agricultural census 2013 estimated there are 34,249 farms in Washington

[2] North Dakota Office of State Tax Commissioner Sales Tax Exemptions https://www.nd.gov/tax/salesanduse/pubs/guide/gl-21826.pdf?20150914172439 January 2012 publication date
2006 document- http://www.nd.gov/tax/salesanduse/pubs/guide/gl-21814.pdf?20150914123113

[3] Kansas Department of Revenue Agricultural Tax Exemption Certificate http://www.ksrevenue.org/pdf/st28f.pdf

[4] Montana Department of Revenue http://revenue.mt.gov/home/businesses/sales_tax

[5] South Dakota Department of Revenue http://dor.sd.gov/Taxes/Business_Taxes/Publications/PDFs/agriculture0713.pdf

[6] Idaho State Tax Commission Farming and Ranching An Educational Guide to Sales Tax in the State of Idaho http://tax.idaho.gov/pubs/EBR00031_06-01-2002.pdf

- Colorado offers a sales tax exemption for farm equipment purchases[7] and parts for maintenance and repair of that equipment also qualifies for exemption as of July 1, 2000.[8]
- Nebraska just recently added a sales tax exemption for repair and replacement parts for agricultural machinery and equipment on October 1, 2014. Repair labor is also sales tax exempt in Nebraska. [9]
- Texas offers an exemption for farm machinery and repair or replacement parts.[10]
- New and used machinery in Minnesota is exempt from sales tax, as are repair and replacement parts, and rental and leased farm equipment.[11]

Additional Issues of Concern which the committee should be aware of when evaluating JLARC's preliminary report:
NASS reports from the 2013 census of agriculture there are 37,249 farms in Washington State. A farm is defined by USDA as any place from which $1000 of agricultural products were produced and sold, or normally, would have been sold, during the census year. This definition has remained unchanged since 1974. This is very different than the information on page 2 of the preliminary report from JLARC, where an eligible farmer must have had gross sales or an estimated value of ag products from the prior year over $10,000. The committee should recognize that hobby farms and small production for personal use are not eligible for these preferences. The more strict definition used in by the legislature ensures that these preferences are for farmers competing on a national and international level, not for tax breaks for hobby farmers.

Please let this testimony supplement verbal testimony which will be offered at the hearing on September 18, 2015.
Thank you for your consideration.
Keva M. Guszkowski
Policy Director
Washington Association of Wheat Growers
109 E. First
Ritzville, WA 99169
keva@wawg.org

---

[7] Colorado Department of Revenue Affidavit for Colorado Sales Tax Exemption for Farm Equipment https://www.colorado.gov/pacific/sites/default/files/DR0511.pdf

[8] Colorado Department of Revenue Taxpayer Service Division Sales 75 Farm Equipment Exemption, page 2 https://www.colorado.gov/pacific/sites/default/files/Sales75.pdf

[9] Nebraska Department of Revenue Information Guide September 2014 Nebraska Agricultural Machinery and Equipment Sales Tax Exemption http://www.revenue.nebraska.gov/info/6-368.pdf

[10] Texas comptroller of public accounts Texas Agricultural Sales Tax Exemptions http://comptroller.texas.gov/taxinfo/taxpubs/tx96_1112.pdf

[11] Minnesota Revenue Farm Machinery publications 106 Sales Tax Fact Sheet http://www.revenue.state.mn.us/businesses/sut/factsheets/FS106.pdf