Sales Tax Issues Related to Agriculture

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Taxpayer Service Specialist
Aren’t Farmers Always Exempt from Sales Tax?

NO

Paying sales tax depends on what is purchased and what it is used for.
How Must Items be Used to be Exempt?

Generally, items purchased must be used directly and primarily in agricultural production to be exempt from sales tax.
What is Agricultural Production?

It includes the following:

• raising of crops, livestock, or domesticated fowl for market
• feedlot operations, whether or not crops are grown on the property or if the livestock are owned by feedlot operators
• aquaculture
• nurseries
• production of flowering, ornamental, or vegetable plants in commercial greenhouses and other similar businesses
• operations that grow or raise seed for sale to farmers
• ranches
• dairies
What Isn’t Agricultural Production?

Some Examples

- logging
- Christmas trees
- mink and other non-domesticated furbearing animals
- Non-domesticated fowl
- beekeeping
- creation of farm ponds
- land placed in the federal government’s Conservation Reserve Program (CRP)
- construction of machine sheds, confinement facilities, storage bins, or other farm buildings
- clearing or preparation of previously uncultivated land
When Does Agricultural Production Begin & End?

Begins:
• cultivation of land previously cleared for planting crops; or
• the purchase or breeding of livestock or domesticated fowl.

Ends:
• a product has been transported to the point where it will be sold by the farmer or processed.
Animals Considered Livestock

Some Examples

- sheep
- cattle
- swine/hogs
- goats
- ostriches
- Rheas
- emus
- bison
- fish and other animals which are products of aquaculture
- farm deer (includes fallow deer, red deer, elk, sika, whitetail, and mule deer, but not free-ranging whitetail, mule deer, or unmarked free-ranging elk.)
Animals Considered Domesticated Fowl

Some Examples

- chickens
- turkeys
- ducks
- geese
- pigeons
QUIZ QUESTION #1

Is constructing a grain bin on a farm considered part of “agricultural production?”

✓ No. Even though used on the farm, the bin’s construction isn’t agricultural production.
Exempt When Used in Ag Production

• Bedding used for livestock or domesticated fowl:
  – woodchips
  – sawdust
  – hay
  – straw
  – paper

• Draft horses:*
  – Belgian
  – Clydesdale
  – Percheron
  – Shire

• Chemicals / Fertilizers

• Drainage tile

*Draft horses always exempt
More Exempt Items

• Feed for livestock or domesticated fowl:
  – including antibiotics, other medicines, vitamins & minerals

• Machinery and equipment used directly and primarily in agricultural production:
  – self-propelled implements
  – implements customarily drawn or attached to a self-propelled implement
  – auxiliary attachments (including GPS) which improve the performance, safety, operation, or efficiency of the machinery or equipment
  – replacement parts: oil/gas filters, spark plugs, tires
Legislative Change
(effective July 1, 2012)

Sales tax exemption – Farm Equipment (HF 2470)

- Snow blower
- Rear-mounted or front-mounted blade
- Rotary cutter

- Must be used in agricultural production
  (direct & primary use not required)

- Must be attached to or towed by self-propelled implement of husbandry
More Exempt Items

Packing materials used for agricultural production:

- containers
- labels
- cartons
- pallets
- packing cases
- wrapping

- baling wire
- twine
- bags
- bottles
- shipping cases
More Exempt Items

Utilities used for agricultural production:

- electricity
- natural gas
- liquefied petroleum gas (LPG)
- other forms of energy / fuel
- drinking water for livestock or domesticated fowl
- energy / fuel used to dry grain
- energy / fuel used in heating or cooling (not general lighting) of livestock buildings on the farm
- fuel used in an implement of husbandry, such as a tractor or combine
What Types of Items are Taxable Even if Purchased by a Farmer?

- Computers
- Machinery and equipment that become real property
- Supplies:
  - oil
  - grease
- Pets and racing animals:
  - horses, except draft horses
  - mules
  - dogs
  - cats
  - pet food & medicine
More Taxable Items

• Registered vehicles (subject to the 5% one-time registration fee):
  – pickups
  – stock trucks
  – grain trucks
  – camping trailers
  – livestock trailers

• Utilities for personal use:
  – household use
  – farm shops
QUIZ QUESTION #2

Which of the following are exempt from sales tax?

a. Food for horses
b. Food for livestock
c. Food for pets

✓ b. Food for horses & pets is taxable.
ATVs
(all-terrain vehicles, off-road utility vehicles, and off-road motorcycles)

ATVs are exempt from sales tax if they are used
“directly and primarily in agricultural production.”
ATVs Defined

What is direct use?
• Only used to initiate, sustain, or terminate an exempt activity as part of agricultural production.
• If helpful or essential in the production of agricultural products - does not mean it is directly used.

What is primary use?
• Used in agricultural production more than 50% of the total time it is used.
How should dealers handle the exemption?

• To claim the exemption, your customer must complete the Iowa Sales Tax Exemption Certificate.

• If the dealer has actual knowledge of information or circumstances indicating that it is unlikely the ATV will be used directly and primarily in agricultural production, the dealer must make further inquiry to determine the facts supporting the exemption certificate.

• Dealers must keep the fully completed exemption certificate for at least three years in case of an audit.

• See our Iowa Sales Tax Exemption Certificates publication for more information on completing exemption certificates properly.
ATVs Also Used for Recreation

Registration for Use on Iowa’s Trails

• Some individuals may use their ATVs directly and primarily for agricultural production, but they would also like to register them to use them on designated DNR trails from time to time.

• The Department recommends:
  – pay the sales tax at the time of purchase and then submit an IA 843 Claim for Refund to the Department.
  – The Department will determine whether or not the agricultural production exemption should be allowed.
  – If the exemption is allowed, the taxpayer will receive a refund of the sales tax paid.
Construction Equipment

• Some equipment may be used for both construction activities and agricultural production.

• The primary use (more than 50%) determines taxability.
Equipment Examples

**Tractor**
- Exempt if used to till fields and harvest crops
- Taxable if purchased by an elevator to primarily haul grain from an unloading dock to a silo

**Skidloader**
- Exempt if primarily used in agricultural production.
- Taxable if used primarily for construction.
A co-op uses a skidloader 60% of the time to clean the feedlot of its livestock operation. The remaining 40% is used to handle fertilizer and do utility work on the co-op premises.

Is the skidloader exempt from sales tax?

✓ Yes. The skidloader is exempt because it is primarily (more than 50%) used in agricultural production.
Delivery

• If the customer takes delivery of a taxable product in Iowa, it is subject to Iowa tax.
  – May also be subject to local option sales tax (LOST) if delivered in a LOST jurisdiction.

• If delivery occurs outside Iowa (interstate commerce), Iowa tax does not apply.
  – Keep documentation showing delivery outside Iowa.
Delivery Charges

Delivery charges are exempt from sales tax, as long as they are:

• separately stated,
• reasonable in amount, and
• directly related to the cost of transportation.

Delivery charges include:

• transportation
• shipping
• postage
• handling
• crating
• packing
Fuel Surcharges

Fuel surcharges are exempt from sales tax, as long as they are:

- separately stated,
- reasonable in amount, and
- directly related to the cost of transportation.

Fuel surcharges related to the cost of transportation are typically based in some way on the distance traveled, such as:

- a specific "per mile" charge
- differing surcharge amounts based upon certain "ranges" of miles traveled.

“Flat Fee“ (the same amount charged to all customers without regard to the distance traveled) or calculated as a percentage of the cost of the good to which it applies is not considered part of exempt transportation or delivery charges, and is taxable.
What About Services?

Services performed on a farm are generally taxable to the same extent they are taxable to any other type of business. (See Services: Which Ones Are Taxable?)

Examples of taxable services:
- exterminating bugs, roaches, and all other pests in the farm home
- exterminating bugs, rodents, and all other pests in grain bins, full or empty
- repairing a tractor or other farm equipment
- routine maintenance services, such as oil changes
- pressure washing a livestock building
- welding

Examples of exempt services:
- veterinary services
- spraying pests to prevent or control infestation of cropland
Are There Lists of Exempt & Taxable Items I Can Look At?

YES

- Exempt for Agricultural Production
- Exempt for Dairy and Livestock Production
- Exempt for Flowering, Ornamental, or Vegetable Plant Production
- Taxable Even if Used in Agricultural Production

www.iowa.gov/tax
How Do Farmers Claim Exemption When They Qualify?

• A seller must obtain a completed exemption certificate from the purchaser to verify the purchase qualifies for exemption.

• See Exemption Certificates: How and When to Use Them.
Exemption Certificates
Used to make exempt purchases
Fillable online at www.iowa.gov/tax
What if Tax has Already Been Paid by Mistake?

• The person who paid the tax should file an IA 843 Claim for Refund (pdf) with the Department to request a sales / use tax refund.

• Refunds may be requested up to three years from when the tax payment was due or one year from when the tax was paid, whichever time is the later.
# IA 843 Claim for Refund

**Sales, Use, Excise, and Local Option Tax**

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**NAME**

**BUSINESS NAME**

**CURRENT MAILING ADDRESS**

**CITY, STATE, ZIP**

**SOCIAL SECURITY NUMBER**

**SALES OR USE TAX PERMIT NUMBER**

**FEDERAL EMPLOYER IDENTIFICATION NUMBER**

**COUNTY NUMBER**

**CHECK THE BOX corresponding to the type of refund you are claiming. Complete all sections on the form. See instructions for documentation required to support claim.**

- Retail Sales Tax
- Fuel Used in Implement of Husbandry
- Fuel Used in Processing
- Machinery, Equipment, and Computers
- Retailer’s Use Tax
- Consumer’s Use Tax
- Vehicle One-time Registration Fee/Vehicle Use Tax:
  - Enter your Vehicle Identification Number (VIN): ________________
- Local Option Sales Tax: Complete the schedule on the second page.
- Local Hotel / Motel Tax
- Automobile Rental Tax
- State Excise Tax: Lodging
- State Excise Tax: Certain Construction Equipment
- Biodiesel Production

**CLAIM PERIOD**

破下声明期间按季度。附上额外的页面如果必要。

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QUIZ QUESTION #4

A farmer is purchasing a tractor to be directly and primarily used in agricultural production.

What should the farmer provide to the equipment dealer?

a. The farmer’s Social Security Number
b. An Exemption Certificate
c. Nothing needs to be provided to the dealer

✓ b. The farmer must complete an Exemption Certificate.
On Our Web Site

www.iowa.gov/tax

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**Farmers Guide to Iowa Taxes**

- Sales/Use Tax Issues for Farming Operations
- Purchases and Sales: Taxable and Exempt
- Exemption Certificates
- Services
- Refunds
- List of Items Exempt for Agricultural Production
- List of Items Exempt for Dairy and Livestock Production

- List of Items Exempt for Flowering, Ornamental, or Vegetable Plant Production
- List of Items Taxable Even if Used in Agricultural Production
- Income Tax Withholding on Agricultural Labor
- Iowa Fuel Tax
- Agribusiness Sales/Use Tax Issues
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