

Tax Commission

IDAHO

FARMING & RANCHING

An
Educational
Guide to
Sales Tax in
the State
of Idaho



This brochure is intended to help farmers and ranchers understand the sales tax laws that apply to their business. This information is based on the sales tax laws and rules in effect on July 1, 2002.

PURCHASES BY FARMERS AND RANCHERS

Farmers and ranchers can buy some things tax exempt because of the "production exemption." The exemption can be claimed in two ways:

- 1) Give the seller a completed form ST-101, Sales Tax Resale or Exemption Certificate. Once on file with the seller, this form is valid for all future exempt sales.
- 2) Fill in a "Production Exemption" claim printed or stamped on the seller's invoice or on your purchase order. If you do this for each exempt purchase, you do not have to give your suppliers a form ST-101.

THE PRODUCTION EXEMPTION

The production exemption mainly eliminates sales tax on materials, supplies and equipment used directly in the production process by farmers, ranchers, manufacturers and other producers. (Mining, logging and lumber manufacturing are explained in separate brochures.)

WHAT QUALIFIES AS A FARM OR RANCH?

Farming includes custom farming and the operation of a farm or ranch with the intention of making a gain or profit. Farming does *not* include hobby farming or the operation of ranches or stables for the sole purpose of showing or racing horses, or for breeding show or race horses.

WHEN IS A PURCHASE EXEMPT FROM TAX?

The farm production exemption allows tax-exempt purchases of:

- 1) Raw materials, such as seed, that become part of a final product.
- 2) Chemicals and catalysts that affect a product by:
 - Causing a physical change
 - Removing impurities
 - Making the product more marketable

Example: Fertilizer or pesticides a farmer buys may affect crops in one or more of the ways mentioned above.

3) Equipment or other tangible personal property which is primarily and directly used in the farming operation, and is necessary or essential to the operation.

The key words here are:

- Tangible personal property — It must be (and remain) tangible personal property; the exemption *does not apply to items that will become part of real property* (such as fence posts or building materials).
- Primarily — More than 50% of its use must be in the farming operation.
- Directly — Its function must be reasonably necessary to the operation of the total farming business.
- Necessary or essential — It must be required for the farming operation.

An item must meet all four of the above conditions in order to qualify for the farming production exemption.

EXAMPLES OF TAX-EXEMPT PURCHASES

- Land preparation equipment
- Planting and harvesting equipment, potato pilers, onion bins
- Irrigation equipment
- Feeding equipment (not licensed to drive on highways)
- Milking equipment and disinfectants used to clean it
- Parts and supplies for exempt equipment:
 - antifreeze welding rods oil
 - batteries tires
- Seed for planting
- Fertilizers, insecticides, weed killers
- Feed and drugs for livestock
- Safety equipment and supplies required by a state or federal agency
- Removable farm produce truck beds, such as potato beds

WHAT MAKES A PURCHASE TAXABLE?

Some items do not qualify for the production exemption. Sales tax applies to the following purchases, for **example**:

- 1) Licensed motor vehicles, licensed trailers, recreation-related vehicles and aircraft, or any related parts and supplies;
- 2) Hand tools with a unit price of \$100 or less, regardless of how they are used;
- 3) Equipment and supplies for any of the following:
 - Office
 - Safety equipment and supplies that are *not* required by a state or federal agency
 - Selling or distribution activities
 - Janitorial purposes
 - Research and development
 - Transportation activities
- 4) Equipment and supplies used for maintenance and repair;
- 5) Real property or items bought for use as improvements or fixtures to real property.

EXAMPLES OF TAXABLE PURCHASES

- Shop equipment used for repairs:
 - welders and accessories
 - drills and bits
 - shop compressors
 - power driven tools
- Shop supplies:
 - oxygen and acetylene
 - paint (even if used for production equipment)
 - sandpaper
- Hand tools, regardless of use, when the unit price is \$100 or less:

pitchforks	hammers
power tools	buckets
branding irons	wheelbarrows
cattle prods	shovels
wrenches	reusable syringes
emasculators	crimpers
ropes	whips
- Motor vehicles and trailers required to be licensed, and any transportation equipment
- Parts and supplies for licensed motor vehicles, trailers and transportation equipment

- Farm produce beds permanently attached to licensed trucks or trailers
- Selling and distribution equipment and supplies
- Materials to improve or repair real property:

concrete	rebar
light fixtures	gates
gravel	shingles
barn lumber	granaries
fence posts and wire	
- Recreation-related vehicles, regardless of use:
 - snowmobiles and ATVs
 - off-highway motorbikes
 - campers and camp trailers
- Supplies for 4-H and FFA projects

(The examples listed here are not all-inclusive, and are intended only to give a general idea of the production exemption's guidelines.)

THE AGRICULTURAL IRRIGATION EXEMPTION

There is a sales tax exemption for agricultural irrigation equipment and supplies which is related to, but separate from, the production exemption.

It differs from the production exemption in two ways:

- 1) The agricultural irrigation exemption applies even if the item purchased will become part of real property (such as concrete for an irrigation ditch or casing for an irrigation well); and
- 2) The exemption can be claimed not only by a farmer/rancher but also by a contractor installing the system for the farmer/rancher.

Like the production exemption, this exemption does not apply to hand tools with a unit price of \$100 or less.

SALES BY FARMERS AND RANCHERS

A farmer or rancher becomes a retailer when he sells his products to a consumer. Retailers must collect sales tax. Therefore, if you sell to consumers, you must get a seller's permit and collect tax.

For **example**, a farmer wants to open a roadside stand to sell his fruit and produce. He must get a seller's permit, collect sales tax and file sales tax returns, just like any other retailer.

ARE SALES OF LIVESTOCK TAXABLE WHEN SOLD TO CONSUMERS?

Yes, unless sold at a public livestock market.

Sales of livestock at public livestock markets are exempt. The sales tax exemption applies to livestock purchased at:

- Public livestock auctions
- Sales held by a breeder or an association of breeders
- Going-out-of-business sales by farmers, dairymen, livestock breeders or feeders
- 4-H, FFA, or fair auctions
- Sales held by an association of livestock producers
- Sales held by a nonprofit cooperative, religious, fraternal or benevolent organization, as long as they are not in the organization's regular course of business.

Livestock includes cattle, calves, sheep, mules, horses, swine or goats. Sales of other animals do not qualify.

FOR MORE INFORMATION, READ:

Brochure #2	Use Tax
Brochure #4	Retailers
Brochure #5	Retailers & Wholesalers: Making Exempt Sales
Brochure #30	The Production Exemption
Rule 18	Retailer Defined
Rule 79	Production Exemption
Rule 83	Farming and Ranching
Rule 96	Irrigation Equipment and Supplies
Rule 128	Certificates for Resale & Other Exemption Claims

This brochure was prepared by the Idaho State Tax Commission. It does not provide comprehensive explanations of Idaho tax laws or rules. Specific questions should be addressed to the Idaho State Tax Commission or a qualified tax practitioner.

Costs associated with this publication are available from the Idaho State Tax Commission in accordance with section 60-202 Idaho Code.

