

# Exemption for Farm Equipment and Machinery

A **partial** exemption from the sales and use tax became available under section 6356.5 for the sale, storage, use, or other consumption of farm equipment, machinery and their parts to qualified persons for use in qualifying activities. The partial exemption also applies to leases of certain farm equipment and machinery.

- The partial exemption applies only to the state sales and use tax rate portion. The exemption does not apply to any local, city, county, or district taxes. Sales and purchases of farm equipment, machinery and parts will continue to be subject to the remaining portion of the sales and use tax rate consisting of the local, city, county and any applicable district taxes.
- Qualified person means:
  - Someone engaged in a line of business described in Codes 0111 to 0291 of the Standard Industrial Classification (SIC) Manual (1987 edition), or
  - A person or employee who assists a person engaged in those codes by performing the activities in SIC Codes 0711 to 0783.
- The farm equipment, machinery and parts must be used primarily in producing and harvesting agricultural products. "Primarily" means 50% or more of the time.
- Farm equipment and machinery means "implements of husbandry" as defined in Revenue and Taxation Code [section 411](#). Qualifying property includes, but is not limited to:

Agricultural heating and cooling equipment	Dairy production equipment
Egg and poultry production equipment	Feeding, watering and waste disposal systems for livestock
Fencing and trellis support systems	Ginning equipment
Hand farm tools	Handling and packing equipment
Harvesting equipment	Irrigation systems
Livestock handling and care equipment	Tractor implements
Wind machines	

- Farm equipment and machinery may also include materials and fixtures used to construct certain qualifying property such as **agricultural operating structures**, when sold to a qualified person prior to installation on real property.
- Agricultural operating structures are single purpose agricultural or horticultural buildings specifically designed and constructed for and exclusively used in the housing, raising and feeding of livestock, or for the commercial production of plants. These structures are

more specifically defined by Treasury Regulation 1.48-10 ([26 CFR 1.48-10](#)).

Farm equipment and machinery also includes property designated as implements of husbandry in Chapter 1 of Division 16 of the [Vehicle Code](#) that is used **exclusively** for agricultural operations.

- Such property includes cotton module movers and automatic bale wagons. Also included are lift carriers, tip-bed type trailers, trailers/semi-trailers having no bed, spray or fertilizer applicator rigs, nurse rigs or equipment auxiliaries, row dusters, trap wagons, fertilizer nurse tanks or trailers, cotton trailers, and truck tractors and truck tractor/semi-trailer combinations when used in the manner specifically described in section 36005 of the Vehicle Code.
- Vehicles primarily designed for the transportation of persons or property on a highway are generally **not** considered implements of husbandry and, therefore, **not** exempt under this bill.

**Parts** of farm equipment and machinery generally include repair and replacement parts that are used to maintain, repair, or modify qualified farm equipment and machinery. Qualified parts include lubricants, coolants, and fluids that are not consumed as part of the operation of the equipment, for example, grease or transmission fluid. A product that is consumed as part of the operation of the equipment, for example, gasoline, is not a qualified part.

**Leases** - Taxable rentals payable from the lease of farm equipment and machinery to a qualified person may qualify for the partial exemption. If a lease qualifies for the partial exemption, rentals payable should be taxed at the lower rate.

The following criteria will qualify a lease for the partial exemption:

- The lessee must be a qualified person who will use the property primarily in agricultural production and harvesting.
- If the property qualifies as an "implement of husbandry" under the Vehicle Code (see above), it must be used **exclusively** in agricultural operations.

**Leases of mobile transportation equipment** - Leases of equipment that qualify as "mobile transportation equipment" (MTE) generally will not qualify for the partial exemption. Regulation 1661, Leases of Mobile Transportation Equipment, provides that the lessor of MTE is the consumer of the equipment and is required to pay tax or tax reimbursement on its purchase. Even when a lessor timely elects to pay tax on the fair rental value of the MTE, liability for the tax falls on the lessor. Consequently, the full amount of tax or tax reimbursement is due from the purchaser of the MTE unless the purchaser is a qualified person using the property primarily in agricultural production and harvesting. Under the Sales and Use Tax Law, MTE is generally defined as equipment used to transport persons or property for substantial distances. Included in this category of equipment are trucks (including pick-up trucks), truck-tractor units, trailers, reusable shipping containers, and railroad cars. For more details on leases of MTE see [Regulation 1661](#).

**Specifically excluded** from the category of farm equipment and machinery is:

- Property used for administration, management, or marketing of an agricultural operation,
- Supply items such as shop towels, cleaning agents such as hand cleaners and solvents, and agricultural chemicals,
- Articles of clothing, **except** for clothing designed to protect an agricultural product or that is required by law when applying chemicals.

If you have a question about whether a specific piece or category of equipment is eligible for the partial exemption, please review the [FAQs](#) or contact the Board directly at 800-400-7115.

### **Partial Exemption Certificates**

A retailer is relieved from the liability for the sales or use tax subject to the partial exemption if they take a partial exemption certificate timely and in good faith, from a purchaser stating that the property will be used in a qualifying manner as provided under section 6356.5. The partial exemption certificate should be retained for a period of not less than four (4) years.

A purchaser who provides a partial exemption certificate to a retailer and who does not use the equipment and machinery primarily in producing and harvesting agricultural products and, in the case of property qualifying as an implement of husbandry under the Vehicle Code, exclusively in agricultural operations, will be liable for the tax, plus interest and applicable penalties. Purchasers must maintain records supporting the use of the equipment, machinery and parts purchased under a partial exemption certificate.