

## **Combine Head Carriers, Sprayers, Rotary Cutters, Blades and Backhoe Diggers.**

Iowa Department of Revenue and Finance Clarifies Exempt Items

By Tom Junge, Iowa Field Director

*Recently, a dealer in Iowa received a sales tax audit conducted by the Department of Revenue and Finance. Upon this audit, the Revenue agent determined that certain items did not qualify for the ag equipment sales tax exemption. These items included combine head carriers, sprayers, rotary cutters, blades and backhoe diggers.*

I-NEDA held discussions with the Department of Revenue and Finance on behalf of the dealer. Following these discussions, the Department of Revenue and Finance declared these items to be exempt as long as they are used in the production of agriculture. They also put in writing that a seller who accepts in good faith a properly completed exemption certificate is relieved of any tax liability.

The following letter addressed to LaVerne Schroeder, I-NEDA's Iowa Legislative Director, further explains these changes.

December 17, 2001

Dear Mr. Schroeder:

During recent discussions with the Department of Revenue and Finance, you asked for information concerning the taxability of various items. These items included combine head carriers, sprayers, rotary cutters, blades, and backhoe diggers.

There is an exemption in Iowa Code section 422.45(26) for farm machinery and equipment directly and primarily used in agricultural production. This exemption is also explained in department rule 701-18.44. The department would agree with your position that these items are used in agricultural production. Thus, they would qualify for the exemption under section 422.45(26).

Another criteria for the exemption is that the items must be directly and primarily used in agricultural production. This is more of a fact issue that the purchaser needs to verify. Proof of the exemption should be handled by an exemption certificate. The items must also be self-propelled implements or customarily drawn by a self-propelled implement unless the items are used in livestock or dairy production.

A seller who accepts in good faith a properly completed exemption certificate is relieved of any tax liability. If it is discovered that the item does not qualify for an exemption, then the purchaser becomes directly responsible for any tax due. As you can see, a properly completed exemption certificate is very valuable for a seller in this situation. The exemption certificates are explained in department rule 701-15.3.

This information is available on the department's website. The web address is [www.statc.ia.us/tax](http://www.statc.ia.us/tax). The Code and rules are available in the Tax Research section and the forms are available in the Tax Forms section.

Sincerely,  
David L. Casey, Manager  
Audit Services Section  
Compliance Division