

## **BREAKS FOR VIRGINIA FARMERS RELATING TO SALES TAXES**

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When a farmer considers federal income taxes, state income taxes, self-employment taxes, sales taxes, and property taxes, over half of a dollar that the farmer earns could easily go towards taxes. Therefore, any tax break comes as welcome news. For quite some time now, Virginia farmers have been able to exempt farm supplies and equipment from sales taxes. However, because of a provision in the American Jobs Creation Act of 2004, farmers, as well as other taxpayers, might be able to take advantage of another tax break that relates to sales taxes.

First, let me explain the sales tax exemption for Virginia farmers just in case some of you are unaware or have forgotten about its provisions. Virginia Code Section 58.1-609.2(1) says that the Virginia retail sales and use tax shall not apply to purchases of certain items necessary for use in agricultural production for market. Included in this list of sales tax exempt items are farm supplies, livestock, farm machinery, and all other tangible personal property that is to be attached to farm real estate except for structural construction materials. The Virginia Tax Administrative Code (23VAC10-210-50) specifically declares that the following are "structural construction materials" and therefore subject to sales taxes: silos, barns, sheds, storage bins (not portable), greenhouses (including plastic covered houses), permanent fencing, fuel oil storage tanks, electrical wiring (except for wiring running from special purpose equipment to an on-off switch), plumbing (except as part of special purpose equipment), cattleguards, farrowing houses, and bulk tobacco curing barns.

To claim the sales tax exemption, farmers can simply present Form ST-18 to their vendors. A blank Form ST-18 can be obtained from Virginia's Tax Website at [http://www.tax.virginia.gov/web\\_pdfs/busForms/fst18xx1\\_99.pdf](http://www.tax.virginia.gov/web_pdfs/busForms/fst18xx1_99.pdf).

The other possible tax break relating to sales tax is for federal income taxes. This possible tax break is not just available to farmers, but it is available to taxpayers in general. For the tax years 2004 and 2005, taxpayers can now choose to deduct one of the following as an itemized deduction: 1) state and local income taxes paid, 2) state and local sales taxes paid as supported by purchase receipts, or 3) estimated state and local sales taxes paid based upon tables determined for your state. In the past, only state and local income taxes paid were allowed as an itemized deduction. In Virginia, most taxpayers will still be better off deducting state and local income taxes, but if purchases of large items such as a new vehicle were made during the year, Virginia taxpayers will likely be better off deducting actual state and local sales taxes paid instead.

Since farm supplies are exempt from sales tax, Virginia farmers should have paid very little, if any, sales taxes for their ordinary farm expenses. If they did pay sales taxes on ordinary farm expenses, those taxes are directly deductible along with the other farm expenses. Structural components for farm real estate improvements are about the only thing for which Virginia farmers should be paying sales taxes. Sales taxes paid on these structural components are capitalized and depreciated along with the other costs of the improvement. Do not attempt to deduct sales taxes paid on farm related purchases as an itemized deduction on Schedule A. Schedule A is intended for non-business or personal items.

If you are a Virginia farmer and not currently taking advantage of the sales tax exemption on farm-related purchases, you will be able to cut your farm expenses by 4.5% by using this exemption. If you are a general taxpayer who has made or will make a purchase of a high cost personal item during 2004 or 2005, then you might be able to reduce your income tax liability by claiming the actual sales taxes paid. One thing is for sure, with so much of your earnings going towards taxes, every little bit of taxes saved will help.

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