

Tax Relief for California Agriculture

Since 2001, the state of California has provided partial sales and use tax exemption for farm equipment, machinery, diesel fuel used in farming and food processing, off-road timber harvesting equipment and machinery, and race horse breeding stock. Assembly Bill 426 provided needed tax equity for California farmers and ranchers. This measure, easily the most significant tax change for the agricultural community since the Williamson Act farmland conservation program, also provided a full sales and use tax exemption for certain uses of liquefied petroleum gas or propane.

Prior to the enactment of AB 426, California was the only state to charge the full sales and use tax on the gross price of farm equipment and machinery, even if there was a trade-in. This put our state's farmers and ranchers at a competitive disadvantage. Now, our farmers are also on a more equitable basis with those in 38 other states who do not pay any sales tax on farm equipment. As a result, they have been able to keep their unit costs down, affording consumers more food at lower cost.

The partial sales and use tax exemption on [farm equipment, machinery and parts](#) applies to "qualified persons" who are farmers, ranchers and those providing custom services such as soil preparation, crop harvesting, veterinary services, or farm labor and management.

An item is considered farm equipment or machinery under the law if it is used "primarily or exclusively in commercial agricultural production or harvesting." The biggest exception would be any vehicle or trailer designed to carry persons or property on the road, so pickup trucks, flatbed trucks, goose-neck trailers and the tires and parts for these vehicles do not qualify. Also, all-terrain vehicles must be used exclusively for agricultural purposes.

The partial tax exemption for [diesel fuel](#) applies to the sale or purchase of No. 1-D or No. 2-D fuel, standard D 1655 fuel when sold for use in agricultural aircraft, and EPA-rated diesel, commonly known as "federal fuel." The partial exemption only applies if the diesel will be used for farming, food processing or contract hauling related to farming or food processing.

The full sales and use tax exemption on certain sales or purchases of [propane](#) finally brought tax equity to rural Californians who cannot have this life-sustaining energy source delivered through a main, line or pipe. Deliveries of propane into a tank that holds 30 gallons or more is exempt from tax if it is used for household use in a primary residence, including homes, apartments, condominiums, mobile homes and farmworker housing.

A [State Board of Equalization publication](#) (PDF) provides more detailed tax saving information for farmers and ranchers.

Resources: Partial sales/use tax exemption certificates

- [Qualified sales and purchases of Liquefied Petroleum Gas \(LPG\)](#)
- [Partial exemption certificate qualified sales and purchases of farm equipment and machinery](#)
- [Qualified sales and purchases of diesel farm equipment and machinery](#)
- [Timber harvesting equipment and machinery](#)
- [Racehorse breeding stock](#)

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- [Tax Tips for the Agricultural Industry](#) (PDF)