

This Tax Facts is designed to explain how sales and use tax applies to farm equipment, attachment units, irrigation equipment, agricultural service, and other agricultural products. If this Tax Facts does not answer your specific question, please call the Department's toll-free Helpline at 1-800-829-9188 between 8:00 AM – 5:00 PM CST, Monday through Friday.

Information found in this document rescinds and replaces all previously written information on this subject. All readers and users of this publication are responsible for keeping informed about changes in tax laws and regulations by reading the department's newsletters, press releases, Tax Facts, and other documents published by the Department of Revenue.

## Tax Rates

The sale or lease of farm machinery, farm machinery attachment units, and irrigation equipment used exclusively for agricultural purposes is subject to 4% state tax, no municipal tax.

Repair parts and services and maintenance items and services for farm machinery, attachment units, and irrigation equipment that is used exclusively for agricultural purposes are exempt from sales and use tax. To be exempt, the part must replace a farm machinery, farm machinery attachment unit, or irrigation equipment part that has a specific or generic part number assigned to it by the farm implement manufacturer.

The sale or lease of machinery, attachment units, and irrigation equipment that is not used for agricultural purposes is subject to the 4% state tax, plus applicable municipal tax.

Repair parts and services and maintenance items and services for leased machinery, attachment units, and irrigation equipment that is not used for agricultural purposes is subject to 4% state tax, plus applicable municipal tax.

## Definitions

**Agricultural purposes** mean the producing, raising, growing or harvesting of food or fiber upon agricultural land, including dairy products, livestock and crops. The services of custom harvesters, chemical applicators, fertilizer spreaders, and cultivators are considered agricultural purposes. Agricultural purposes do not include commercial operations such as Christmas tree farms and flower nurseries.

An **attachment unit** is any part or combination of parts having an independent function, other than a replacement part or parts, which when attached or affixed to a farm machine or other piece of agricultural equipment is used for agricultural purposes. Attachments are not repair or replacement parts. Attachments are assigned a wholegoods number by the manufacturer instead of a part number, and they are subject to tax.

A **farm machine** is a mechanical unit used directly and principally upon agricultural land for the purpose of producing agricultural products. Machinery and attachment units do not include motor vehicles or equipment otherwise licensed or taxed by the State of South Dakota.

**Irrigation equipment** includes pumps, pipe fittings, valves, sprinklers, and other equipment necessary to the operation of an irrigation system.

## Trade-Ins

If farm machinery, attachment units, or irrigation equipment are traded toward the purchase of farm machinery, attachment units, or irrigation equipment, credit will be given for the value of the trade in. Tax will apply to the total purchase price of the farm machinery, attachment units, or irrigation equipment, including any delivery charges, less the amount allowed for the trade-in.

### **Example:**

John trades a tractor in on a new tractor. The dealer agrees to sell the tractor for \$86,000 less \$40,000 for the used tractor. The dealer delivers the tractor to John's farm for \$100. The trade difference of \$46,000 plus the \$100 delivery charge is subject to the 4% tax.

Equipment taken in on trade is subject to tax when sold. The cost of repairs may not be deducted from the selling price of the equipment.

### **Example:**

A tractor is taken in on trade. Repairs costing \$3000 were put into the tractor. The tractor is sold for \$30,000. The \$30,000 is subject to tax.

## Delivery and Handling Fees

Delivery and handling charges are subject to the same state and municipal tax rate as the merchandise when delivered to a customer in South Dakota. If the product is not taxable, the delivery and handling charges are not taxable.

Delivery charges are the charges by the retailer for preparation and delivery to a location designated by the purchaser of tangible personal property or services. Delivery charges include transportation, shipping, postage, handling, crating, and packing.

If a retailer hires a transportation company and bills the customer for the transportation service, the retailer must include the transportation charges in their taxable receipts.

Charges to deliver farm machinery equipment after it is repaired are not subject to sales tax, because the repair service is not subject

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to sales tax.

If both taxable and nontaxable products are in the same shipment, tax is due on the portion of the delivery charge for the taxable products. This is determined by using a percentage of the sales price or weight of the taxable property compared to the total sales or total weight of all property in the shipment.

### Examples

1. An implement dealer in Pierre sells a disk to a farmer in Sully County. The dealer delivers the disk to the customer. Tax is due on the charge for the disk and the delivery charge.
2. An implement dealer in Sioux Falls sells a tractor for resale to a dealer in Watertown and charges for delivery. The Watertown dealer provides the seller with an exemption certificate. No tax is due on the tractor or delivery charge.

## Examples of Farm Machinery and Attachment Units

The sale or lease of the following farm machinery and attachment units is subject to 4% state tax, no municipal tax when purchased for exclusive agricultural use.

bale accumulators	hay crushers
bale loaders	hay mowers
bale stackers	land levelers
balers	lime spreaders
barn cleaners (portable)	loaders
chutes (portable)	manure spreaders
combine corn heads	plows
combine headers	post drivers
combines	post hole diggers
corn listers	potato planters and harvesters
corn pickers	power feed wagons
corn planters	rakes
corn shellers	rear mounted blades
corrals (portable-complete units)	rock pickers
creep feeders (portable)	rod weeders
cultivators	rotary cutters
disks	rotary hoes
elevators (portable)	seed cleaners
farm wagons	seeders
feed grinders	silage blowers
feed mills	silage unloaders
feed mixers	sprayers/dusters (crop/livestock)
feed racks (portable)	stack movers
fertilizer spreaders	stackers
forage harvester heads	stalk cutters
forage harvesters	swathers
grain augers (portable)	terracing equipment
grain cleaners	tillage hitches
grain drills	tractors
harrows	windrowers
hay cages	
hay conditioners	

**All-terrain vehicles** of three or more wheels used exclusively for agricultural purposes is considered farm machinery.

**GPS equipment** is farm equipment when its primary purpose is for use in a tractor to control the tractor or other farm machinery. GPS equipment that is used for information and does not control other farm equipment is not farm machinery or attachment unit.

### Grain Dryers

**Portable grain dryers for use on agricultural land** that are easily moved from one location to another are agricultural equipment taxed subject to 4% state tax. These dryers are typically on wheels and are not attached to grain bins, foundations, or wired in. Repairs, parts, and maintenance to portable grain dryers for agricultural use are exempt from sales tax.

**Portable grain dryers for use off agricultural land**, such as at a coop or elevator, are subject to 4% state plus applicable municipal tax. Parts, repairs, and maintenance to portable grain dryers for non agricultural use are subject to sales tax.

**Grain dryers that are or will be installed** in grain bins or other real property are not agricultural equipment and are subject to 4% state plus applicable municipal sales or use tax. Repair parts and maintenance is subject to 4% state plus applicable municipal sales or use tax. In addition, the installation of a grain dryer and the repairs to an installed dryer are subject to contractors excise tax.

**Mounted equipment** purchased and installed on a vehicle that will be licensed for highway use at the time of purchase is subject to the 3% motor vehicle excise tax. However, mounted equipment purchased and installed after the motor vehicle is licensed is considered agricultural equipment if the equipment is for exclusive agricultural use. Mounted equipment does not include a truck box and hoist.

**Self propelled equipment used to spread fertilizer** that is purchased by farmers for use on their farm is farm machinery subject to the 4% state tax and is exempt from title and licensing. When purchased for commercial use this equipment must be titled and licensed and is subject to the motor vehicle excise tax. Repairs to and parts for equipment that is titled and licensed are subject to the 4% state sales tax and applicable municipal sales tax.

Purchasers of farm machinery, attachment units, and irrigation equipment for agricultural purposes must complete an exemption certificate if there is doubt as to the intended usage.

If a seller is in doubt whether or not an item is agricultural equipment please contact the department at 1-800-TAX-9188 or by letter. A description and picture of the equipment in question should be included with written requests.

## Installation of Irrigation Equipment

The gross receipts from installation of irrigation equipment are subject to the 2% contractors' excise tax. Gross receipts include the charges for the equipment, sales or excise tax, and the installation labor.

The contractor is responsible for the 2% contractors' excise tax on their total gross receipts, 4% tax on the cost of the irrigation equipment used exclusively for agricultural purposes, and 4% tax plus applicable municipal use tax on the cost of equipment from the well down. Irrigation equipment that is not for agricultural use is subject to 4% sales tax plus applicable municipal tax.

### Electricity for Irrigation Equipment

The sale of electricity to power irrigation pumps exclusively for agricultural purposes is exempt from sales tax.

### Non-Agricultural Machinery

Machinery that is not used exclusively for agricultural purposes and items that do not qualify as farm machinery are subject to the 4% state sales tax, plus applicable municipal tax.

Examples of items that are not farm machinery, attachment units, or irrigation equipment are:

corral panels (individual panels)	lawn mowers
feed bunks	radios
fencing materials	shop equipment
garden tractors	tools
grain bins	toy/model tractors
grain storage facilities	truck box and hoist

- Items which are installed and become part of real property.
- Entire milking, automatic feeding systems, or grain drying systems, an integral portion of which will be installed and become part of real property, are subject to the 4% state sales tax, plus applicable municipal tax. Contractors installing these systems are also subject to the 2% contractors' excise tax.
- Grain storage bins are subject to the 4% state sales tax, plus municipal tax. Persons erecting grain bins are responsible for remitting the 2% contractors' excise tax on the gross receipts in addition to the 4% state sales or use tax, plus applicable municipal tax, on the cost or fair market value of the materials. **Grain dryers** that can be moved from bin to bin are farm machinery when sold for agricultural use.
- Motor vehicles or equipment otherwise licensed or taxed by the state.
- Automobiles, trucks, recreational vehicles, and motorcycles are NOT farm machinery.
- Snowmobiles must be titled and are subject to motor vehicle excise tax. Sales tax does not apply to the sale of snowmobiles. Snowmobiles are not agricultural equipment.

### Lease and Rental

Payments received on leased farm machinery, farm machinery attachment units, and irrigation equipment are subject to 4% tax. No municipal tax applies.

Leased equipment is subject to sales tax based on where it is delivered to the lessee. If the leased equipment is moved to a new location and the lessor has been notified of the new location, the following lease payments will be subject to sales tax based on where the equipment is located.

#### Repairs to Leased Equipment

The repair to or maintenance of leased farm machinery and irrigation equipment used primarily for agricultural purposes is exempt from sales or use tax.

Repair, maintenance, or replacement parts to leased items, other than farm machinery and irrigation equipment used primarily for agricultural purposes, are subject to sales or use tax.

#### Sale of Lease Contract

When a lease is sold to another leasing company, it is a sale for resale and the company that purchased the lease is responsible for the tax. Any rate changes after the sale of the lease are the responsibility of the company that purchased the lease.

**Lease or rental means** any transfer of possession or control of tangible personal property for a fixed or indeterminate term for consideration. A lease or rental may include future options to purchase or extend. Lease or rental does not include:

- A transfer of possession or control of property under a security agreement or deferred payment plan that requires the transfer of title upon completion of the required payments;
- A transfer of possession or control of property under an agreement that requires the transfer of title upon completion of required payments and payment of an option price does not exceed the greater of one hundred dollars or one percent of the total required payments; or
- Providing tangible personal property along with an operator for a fixed or indeterminate period of time. A condition of this exclusion is that the operator is necessary for the equipment to perform as designed. An operator shall do more than maintain, inspect, or setup the tangible personal property.

Contracts that contain purchase options that do not exceed the greater of one hundred dollars or one percent of the total required payments are considered sales of tangible personal property. For any sale made under a contract where payment of the principal sum is extended for more than 60 days from the date of sale, only the portion of the sale amount that has actually been received by the retailer during each reporting period is subject to sales tax.

Rental of devices to apply fertilizers and pesticides for agricultural purposes are not subject to tax if tax was paid on the purchase of the equipment. Conservation districts do not owe tax on the purchase of equipment or the receipts from the rental of agricultural devices owned by the conservation district.

A business that rents or leases equipment can purchase such equipment exempt from tax. A lessor must apply for and obtain a tax permit from the Department of Revenue. The lessor must provide an exemption certificate to the supplier to purchase products exempt from the tax.

For more information view the Lease and Rental Tax Facts on our website at [www.state.sd.us/drr](http://www.state.sd.us/drr) or request a copy by calling the department at 1-800-TAX-9188.

### Repair Parts and Service

Repair parts and maintenance items for farm machinery, farm machinery attachment units, and irrigation equipment are exempt from sales and use tax. The labor to install these items is also exempt from sales and use tax whether part of a repair job or routine maintenance.

To be exempt, the part must replace a farm machinery, farm machinery

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attachment unit, or irrigation equipment part that has a specific or generic part number assigned to it by the farm implement manufacturer.

Additions to equipment or customization of equipment, such as a special paint job, are not repairs and are subject to the 4% state sales tax, plus applicable municipal tax. This may include items such as addition of an air conditioner or radio, or painting of a logo on the equipment.

### Examples of parts or maintenance items are:

Antifreeze	Tires
Batteries	Nuts and bolts
Belts	Oil
Detailing or cleaning	Paint (that is not customized)
Filters	Windshield washer fluid
Hoses	

If items are bought in large quantities and may be used for equipment other than agricultural equipment an exemption certificate should be obtained from the purchaser to document the purchase is for agricultural equipment.

Repair and replacement parts and maintenance for machinery that is NOT used primarily for agricultural purposes are subject to the 4% state sales tax, plus applicable municipal sales tax. For example, repairs to a tractor used in road construction work are subject to sales tax.

Taxable repair services are subject to sales tax where the repaired item is received by the customer. Repairs completed out-of-state that are delivered to a South Dakota location are subject to South Dakota sales tax. Repairs completed in South Dakota that are delivered to an out-of-state location are not subject to South Dakota sales tax.

### ATV Repairs

The repair and parts for all-terrain vehicles of three or more wheels used primarily for agricultural purposes are exempt from sales tax if an exemption certificate is obtained indicating the repair and part are for agricultural equipment.

### GPS Equipment

The exemption is for parts that must replace farm or irrigation equipment parts. If the GPS system is not a replacement of an original item, then the GPS system is subject to tax.

### Repair of Irrigation Equipment

Repair parts that replace parts that have a part number assigned by the irrigation equipment manufacturer are not subject to sales or use tax. When irrigation equipment is brought to your shop to repair and you do not install the repaired equipment in the irrigation system, the repair is not subject to sales, use, or contractors' excise tax.

When the repair is to equipment that is installed, the gross receipts for the repair are subject to the 2% contractors' excise tax. The contractor will not owe sales or use tax on the parts, but will owe the 2% contractors' excise tax on the receipts from the parts and labor.

### Auctions

Parts for agricultural equipment sold at auction are exempt from sales tax if there is documentation to show they have a part number.

If the parts sold in a lot with taxable items, the entire lot is subject to sales tax. The parts must be itemized to be exempt from sales tax.

### General Supply Items

Regular supply items that are not repair parts are subject to use tax at the time of purchase even though an additional charge may be added to a repair bill to cover costs of the supplies. Such items are used or consumed in the operation of the business and are not resold. Examples of supplies are rags, cleaners, and masking tape.

Charges to the customer for supply items are included in the taxable receipts. If the bill is for a repair service that is exempt from sales tax, the charge for the supply items is also exempt.

### Manufacturer's Warranty

A manufacturer's warranty is included in the price of the farm or irrigation equipment. Since there is no additional charge, this warranty is not subject to sales tax.

Charges for warranties or extended warranties that cover parts and repairs on farm or irrigation equipment are exempt from sales tax. Payments received from the customer for deductibles, parts or repair service for agricultural or irrigation equipment that are not covered under the warranty or extended service contract are not subject to sales tax.

Parts and labor furnished by a dealer to fulfill a warranty obligation of the manufacturer are not subject to sales tax provided the customer is not charged for such parts or labor. The dealer's receipts from the manufacturer for warranty work are not taxable. The dealer does not owe use tax on parts taken from inventory used to complete manufacturer's warranty work.

### Implied Warranty

Parts that replace a farm machinery or irrigation equipment part assigned a specific or generic part number by the manufacturer of the farm machinery or irrigation equipment are not subject to sales tax. The dealer does not owe use tax on the cost of parts installed on farm machinery or irrigation equipment.

### Service or Maintenance Contracts

If the service contract is for parts or repairs on machinery or equipment, including irrigation equipment, which are clearly identifiable as used primarily for agricultural purpose, the charge for the contract is exempt from sales and use tax. To qualify as a part, the item must replace a farm machinery or irrigation equipment part that has a specific or generic part number assigned to it by the farm machinery or irrigation equipment manufacturer. Tires and batteries are parts when assigned a part number.

Service or maintenance contracts for farm machinery, farm machinery attachment units, and irrigation equipment used primarily for agricultural purposes are not subject to sales or use tax. Maintenance items used to for these contracts are not subject to sales or use tax. Amounts paid by the customer either for deductibles or parts or labor not included in the service contract are not subject to sales or use tax.

## Insurance

Premiums paid for insurance policies sold by independent insurance agents are not service contracts. Insurance premiums subject to the insurance premium tax are not subject to sales tax.

Parts that replace a farm machinery or irrigation equipment part assigned a specific or generic part number by the manufacturer of the farm machinery or irrigation equipment are not subject to sales tax. The dealer will not owe use tax on the cost of parts installed on farm machinery or irrigation equipment.

If you have any doubt whether the service contracts you are selling are recognized as insurance or not, ask the company you are doing business with to advise you of the status of their contracts.

## Purchases for Resale

Farm implement dealers must give an exemption certificate to their suppliers in order to purchase services and supplies exempt from tax.

State law requires exemption certificates to be complete and accurate. The buyer will be held responsible for properly completing an exemption certificate.

For additional information on exemptions view Exemption Certificates Tax Facts on the department's website, [www.state.sd.us/drr](http://www.state.sd.us/drr) or by calling the department at 1-800-TAX-9188.

## Parts and Supplies Wholesalers and Retailers

Implement dealers and repair shops owe tax on items they use to operate their business. Wholesalers and retailers of parts and supplies must charge sales tax on the sale of parts and supplies sold to an implement dealer or repair shop when the parts and supplies are not resold by the dealer or repair shop. In addition, wholesalers and retailers owe use tax on supplies and equipment they consume rendering their service.

### **Examples of equipment and supplies used by implement dealers and repair shops subject to sales tax are:**

brushes	sandpaper
carburetor and brake cleaner	soap
floor dry	remover tape
grinding compounds	rack supplies
hand tools	welding shop equipment
paint remover	wiping rags
repair shop equipment	

Wholesalers and retailers that sell farm equipment parts, belts, hoses, oil, greases, lubricants, tire patches, filters and items that become part of the farm equipment, may accept an exemption certificate for these items when sold to dealers and repair shops. Such items are considered purchases for resale by the dealer or repair shop.

## Repair of Inventory

Sales tax does not apply to repairs, replacement parts, maintenance items and maintenance services on farm machinery, attachment units, and irrigation equipment for sale or lease in a dealer's inven-

tory.

The dealer may take parts from their inventory to repair dealer owned inventory without reporting use tax on these items. They may also sublet repairs to body shops, electrical repair shops, upholstery shops, etc. The dealer must provide the repair shop with an exemption certificate to purchase the repair service without tax.

### **Examples**

1. A dealer takes a used tractor in trade and to prepare it for sale replaces the tires. The dealer will not owe use tax on the new tires taken from inventory.
2. A tractor, which has been taken in on trade, is taken to a body shop for repair. The body shop repairs the tractor and bills the dealer. Because the implement dealer intends to resell the tractor, the dealer can provide the body shop with an exemption certificate and purchase the repair service without tax.

## Sales for Resale

A farm implement dealer may sell services or products for resale if the buyer provides an exemption certificate. It is the buyer's responsibility to know when a service or product qualifies as a sale for resale. The seller is responsible for maintaining a complete exemption certificate. For more information on sales for resale and exemption certificates view the Exemption Certificate Tax Facts on our website at [www.state.sd.us/drr](http://www.state.sd.us/drr) or request a copy by calling the department at 1-800-TAX-9188.

## Use Tax

Supplies, materials, or services purchased without an exemption certificate are subject to use tax if sales tax was not paid at the time of purchase. The state use tax rate is 4%, plus applicable municipal use tax, and is payable to the Department in the filing period in which the purchaser receives the supplies or services.

Tangible personal property delivered into South Dakota by the supplier or a transporter hired by the customer is subject to the South Dakota sales or use tax, even if the supplier charges another state's sales tax.

When a purchase is made out of state and possession is taken out of state the supplier may charge that state's sales tax. If the other state's sales tax is the same or more than South Dakota's tax, no South Dakota use tax is due. If it is less than South Dakota's, the difference is due in use tax. The state plus applicable municipal taxes must be added together to determine if additional tax is owed.

Use tax is also due on supplies taken out of retail inventory for the business' use. Use tax is due on these items in the filing period they are taken out of inventory.

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### Examples of products and services an implement dealer may purchase that are subject to use tax:

attorney services	paint remover
accountant services	personnel training
brake cleaner	promotional items
brochures	rags
carburetor cleaner	sandpaper
cleaning compounds	security services
computer support services	services (parts locator)
computers	shop equipment
consulting services	software
contract labor	solvent soap
furniture	subscriptions
grinding compounds	technician testing
Internet service	services
janitorial supplies	tools/hand tools
masking tape	uniforms
mops/brooms	wash rack supplies
office supplies	equipment
paint brushes/sprayers	welding shop tools

Oil testing that is done to help diagnose problems

Telephone support used by dealers or repair shops to help diagnose problems and determine necessary repairs.

exempt from sales tax. The pesticide used on these areas is also exempt from sales tax.

### Custom Harvesters

Custom harvesting services are exempt from sales tax. This includes the hauling of the grain or crop from the field to storage. Exempt custom harvesting services include hay mowing and baling and corn picking.

Fuel used in farm equipment for agricultural purposes by custom harvesters is exempt from sales tax.

### Grain Drying, Cleaning and Grinding

Receipts from grain drying, cleaning, grinding, or fumigation are exempt from sales tax, including services provided by commercial operations. Fuel used by a commercial business providing an exempt agricultural service on agricultural land is exempt from sales tax.

### Precision Farming Services

Precision farming services may include sampling soil, mapping fields, analyzing results and providing recommendations. Precision farming services are subject to the 4% state sales tax, plus municipal tax based on where the customer receives the service.

The precision farming service company may sell their services to a business that is reselling the service to a producer. The business purchasing the service must provide the precision farming service with an exemption certificate. The business selling to the producer is responsible for collecting and remitting the sales tax.

A business that purchases precision farming services to provide the producer with information that will help that business sell their products or services cannot purchase the precision farming services for resale. In this case, the business does not make an itemized charge to the producer for this service. The precision farming service provider should collect sales tax on this transaction. If sales tax is not charged the business purchasing this service will owe use tax.

The sale of fertilizers or application services for use on agricultural land is not subject to sales tax.

### Example

Jim contacts his local cooperative to determine how to increase his potential yields. The cooperative contracts with a precision farming service and sends soil samples to the service provider. The precision farming service has the soil tested, maps the fields showing the optimum application of plant nutrients to the various sections of the field and sends the results to the cooperative. The cooperative provides this information to Jim and bills for this service.

- The cooperative may purchase the precision farming services for resale.
- The cooperative is responsible for remitting sales tax on the receipts for this service.

Dave contacts the same cooperative and purchases the same service as Jim. However, after purchasing the service Dave decides to spend less on the fertilizer and discusses the application with the cooperative. The cooperative recommends a lower volume of fertilizer which Dave then purchases from the cooperative and applies with his own equipment.

- The cooperative may purchase the precision farming services

## Equipment bought outside South Dakota

Equipment bought outside South Dakota is subject to South Dakota Use Tax when brought into the state.

Credit will be allowed for any sales, use or gross receipts tax previously paid in the other state up to the amount of tax due in South Dakota.

## Agricultural Services

Services that involve the preparation of soil, crop planting, cultivating and protecting, crop harvesting, or crop preparation for market are exempt from sales tax. Some examples of exempt services are fertilizing, aerial application, orchard or tree shelter cultivation services, custom harvesting, hay mowing, raking, baling, or chopping, grain cleaning, drying and/or grinding.

These services are exempt from sales tax whether they are provided from one farmer to another or by a service provider.

### Custom Application

Custom Application is exempt from sales tax. Fertilizer purchased in quantities of 500 lbs. or more and pesticides purchased for application to crops are exempt from sales tax. Airplanes used in custom application are registered through the Division of Aeronautics (contact them at 605-773-3574 for more information). No sales tax is due on the aircraft. Parts and repairs to the aircraft, along with any items attached after the plane is registered are subject to the 4% state sales tax plus applicable municipal sales tax. Tanks and pumps used by the applicator, along with other equipment and supplies including items like masks, gloves, flags, special uniforms, computers and computer programs are subject to the 4% state sales tax, plus applicable municipal tax.

### Dairy Barn Spraying

The spraying of dairy barns and adjoining feedlots for pests is

for resale.

- The cooperative is responsible for remitting sales tax on the receipts for this service.
- The cooperative does not owe additional sales tax for the recommendations made for a lower fertilizer application because there was no charge for that service.
- The sale of the fertilizer is not subject to sales tax.

### Production Specialists

Specialists in various fields may be hired by businesses to gather information concerning soil or livestock and make recommendations about particular products. They may also monitor the use of products and assist the producer in developing management programs and profit analysis. The Specialists services are subject to sales tax.

A business that hires a production specialist to provide the producer with information that will help that business sell their products or services cannot purchase the production specialist's services for resale. In this case, the specialist is not hired for a specific client and the business does not make an itemized charge to the producer for this service. The production specialist should collect sales tax on this transaction, but if sales tax is not charged the business purchasing this service will owe use tax.

Services may only be purchased for resale if the service is purchased for a specific client, the service is passed to the client unchanged, and the service is not used by the business.

### Testing – Lab Fees

The testing of feed or soil is subject to sales tax.

A business that is reselling the testing to a producer may purchase the testing for resale. The business purchasing the service must provide the lab with an exemption certificate and is responsible for collecting and remitting the sales tax.

A business that purchases testing to provide the producer with information that will help that business sell their products or services cannot purchase the testing for resale. In this case, the business does not make an itemized charge to the producer for this service. The lab should collect sales tax on this transaction. If sales tax is not paid, the business purchasing this service will owe use tax.

### Market Advisory Services

Fees received for market analysis, market information, online market prices and projections are subject to 4% state sales tax, plus applicable municipal tax. Computers and other equipment sold or leased to the customer are subject to the 4% state sales tax, plus applicable municipal tax. The service provider will owe state and municipal use tax, on any equipment they furnish to the customer.

### Farm Management Services

Farm management services are exempt from sales tax. To qualify as a farm management service, the provider must make the decisions on the actual operation of the farm. The management service determines what crops are planted, when planting is done, when harvesting is done, and when crops are sold, etc. A service that reviews how a farm is managed and provides advice or consulting as to how the farm should be managed, but does not make the actual decisions, is providing a consulting service and is subject to sales tax.

### Veterinary and Animal Specialty Services

Veterinary and animal specialty services are subject to the 4% state sales tax, plus applicable municipal tax.

Included in the taxable services are animal hospitals and veterinarians for livestock, pets and other animal specialties, boarding kennels, horse training, and dog grooming.

Veterinary and animal specialty services are taxed where the service is delivered, which is generally where the animal is delivered to the customer. Animal boarding, training, and showing are subject to sales tax where the service is performed.

For more information view the Veterinarian Tax Facts on our website at [www.state.sd.us/drr](http://www.state.sd.us/drr) or request a copy by calling the department at 1-800-TAX-9188.

### Fuel for Agricultural Purposes

Fuel used for agricultural purposes is exempt from sales tax. This includes motor fuel, kerosene, tractor fuel, liquefied petroleum gas, natural and artificial gas, diesel fuels and distillate. Dyed fuel should be used in unlicensed agricultural equipment used to provide agricultural services on agricultural land.

Agricultural purposes include planting, cultivating and harvesting food or fiber, or feeding and tending livestock on agricultural land.

Penalties apply to anyone who uses tax-exempt (dyed) diesel fuel in a licensed motor vehicle operating on South Dakota highways and roads. Authorized personnel of the Department of Revenue, the Internal Revenue Service, and the Highway Patrol may withdraw fuel from licensed motor vehicles, machinery, equipment and storage facilities in sufficient quantities to test for compliance with the law. Any person who refuses to allow an inspection of equipment or fuel authorized by SDCL 10-47B-189 is guilty of a Class 2 misdemeanor.

### Agri Business

An agri business does not owe sales tax when providing exempt agricultural services. An agri business owes the 4% state sales tax, plus applicable municipal tax, on purchases of equipment used to provide agricultural services at their location.

Motor fuel used in unlicensed equipment is subject to 4% state sales tax, plus applicable municipal tax, because it is not used on agricultural land. This includes kerosene, tractor fuel, liquified petroleum gas, natural and artificial gas, diesel fuels, and distillate. Dyed diesel fuel should be used in unlicensed off-road equipment

Rental of devices to apply fertilizers and pesticides for agricultural purposes is not subject to tax if tax was paid on the purchase of the equipment.

If tax was not paid on the purchase and the equipment is used only on agricultural land, it is subject to 4% tax.

### Exempt Agricultural Products

The following items are exempt from sales tax in South Dakota:

- Seed legumes, seed grasses and seed grains, when twenty five pounds or more are sold in a single sale to be used exclusively for agricultural purposes (exemption includes seed for CRP land).
- Commercial fertilizers, either liquid or solid, when five hundred

## Agriculture Equipment and Services

pounds or more are sold in a single sale to be used exclusively for agricultural purposes.

- The sale of pesticides and any product or substance to be used in conjunction with the application or use of pesticides for agricultural purposes including, but are not limited to adjuvants, surfactants, ammonium sulfate, inoculants, drift retardants, water conditioners, seed treatments, foam markers, and foam dyes. Pesticides include herbicides, insecticides, fungicides, and rodenticides. Equipment for the application of pesticides and related products and substances is not exempt. Gross receipts from the rental of devices primarily used to apply pesticides for agricultural purposes are exempt if tax was paid on the original purchase. Pesticides must be registered with the Department of Agriculture. Insecticide fly tags are ectoparasiticides and are taxable.
- Livestock, or live poultry, ostriches, emus or rheas, when sales are part of a series of transactions to produce a finished product to be sold at retail.
- Live cattle, buffalo, sheep, goats, swine, poultry, ostriches, emus, rheas, and domesticated fur-bearing animals defined in chapter 40-35, used or to be used as breeding or product stock.
- Feeds and feed supplements for exempt animals: hay, bonemeal, salt, vitamins, etc. Feed for pheasants, partridges, and quail is exempt.
- Live nondomestic animals regulated by the animal industry board pursuant to §40-3-26 if the animal is to be used by a farmer or rancher who is regularly engaged in the breeding and raising of such animals, and feed for such animals.
- Horses and horse feed.
- Motor fuel, including kerosene, tractor fuel, liquefied petroleum gas, natural and artificial gas, diesel fuels and distillate, when used for agricultural or railroad purposes.
- Electricity used to power irrigation pumps and horsepower charge on electric motors powering irrigation pumps whenever the purchaser has made the purchase exclusively for agricultural purposes.
- Swine and cattle semen.

## Taxable Agricultural Products

### **Pets**

The sale of pets is subject to the 4% state sales tax, plus municipal tax. Pet feed is also subject to sales tax.

### **Medicines**

Medicines for livestock and pets are subject to the 4% state sales tax, plus applicable municipal tax.

Veterinarians may purchase medicines for resale. Medicines are applied directly to the animal by either injection, oral, or other methods and are registered with the Department of Agriculture as a remedy.

Medicine mixed with feed or feed supplements prior to being sold are not registered as remedies, but as feed supplements. Feed supplements for livestock are exempt from sales tax.

### **Endoparasiticides and Ectoparasiticides**

Endoparasiticides and ectoparasiticides are subject to sales tax. A parasiticide is a drug for external or internal use intended to prevent, destroy, repel, or mitigate parasites in or on animals. Examples include: Delice,

Tactic, Permethrin, Rabon, Levasole, TBZ, Ivermectins, Dectomax, Cydectin, flea and tick shampoos, Frontline, and Advantage.

### **Containers**

A producer may purchase containers exempt from sales tax when that container is used to package products that will be sold. Containers used to hold products that will not be sold are subject to sales or use tax at the time of purchase. If a producer uses a container that was purchased without tax and the product is not sold, use tax is due on the container. Examples of containers are twine and seed bags.

## Livestock Breeding

Livestock semen is exempt from sales tax. Liquid nitrogen and containers used in the semen packing and shipping process can be purchased exempt from sales tax. Fees charged for artificial insemination of livestock (including horses) are exempt from sales tax. However, fees charged for boarding livestock for artificial insemination purposes are subject to sales tax.

## Municipal Tax

Many municipalities in South Dakota have a sales and use tax in addition to the state sales tax. If the customer receives a product or service in one of these municipalities, the product or service is subject to that municipality's sales tax. A list of municipal tax rates is available on our website at [www.state.sd.us/drr](http://www.state.sd.us/drr) or by calling 1-800-TAX-9188.

In an effort to ease the burden retailers may encounter trying to identify which South Dakota addresses are inside a city with a sales tax, the department created a Geographic Information System (GIS) called **TaxMatch** that is easily accessible by computer over the Internet.

It can help users quickly find the correct tax rate and city tax codes for locations throughout South Dakota. Users enter any South Dakota address into the Tax Match system; the system then provides all the applicable tax codes and rates for that address.

For quick and easy access, look for the GIS icon on Business Tax's web site at [www.state.sd.us/drr2/businessstax/bustax.htm](http://www.state.sd.us/drr2/businessstax/bustax.htm). Industries that are already using TaxMatch successfully include newspapers, phone companies, and retailers who sell using the Internet and catalogs.

## International Sales

SDCL 10-45-93 exempts the sale of agricultural and industrial production equipment in international commerce if, under the terms of the sales agreement, physical delivery of the goods takes place in South Dakota. However, the exemption only applies if written evidence of the contract of sale is retained, and such contract indicates that the goods are to be shipped in international commerce to a point outside the United States not to be returned to a point within the United States.

## Exempt Entities

Accredited schools, non-profit hospitals, approved relief agencies, and government entities are exempt from sales and use tax. The seller must keep copies of payment documents received from the exempt purchaser in their records. Accredited schools and relief agencies have license numbers assigned by the department that should be provided to the seller.

## Required Records

Records, such as purchase and sales invoices, bills of lading, books of

all receipts and sales, cash register receipts, and other pertinent papers and documents, are required to be kept for at least three years and be available for inspection during business hours.

Businesses must keep adequate documentation to support that products are delivered outside city limits. Examples of documentation that shows delivery of products include: truck driver log books; directions to delivery point; contract carrier bills of lading; and shipping invoices.

## Talk to Us

If you have a tax problem or question, call the South Dakota Department of Revenue toll-free at 1-800-TAX-9188. Visit us on the web at [www.state.sd.us/drr](http://www.state.sd.us/drr), email us at [bustax@state.sd.us](mailto:bustax@state.sd.us) or write us:

**South Dakota  
Department of Revenue  
445 East Capitol Ave.  
Pierre, SD 57501-3185**

Aberdeen  
419 Moccasin Drive  
Aberdeen, SD 57401

Sioux Falls  
300 S. Sycamore, Suite 102  
Sioux Falls, SD 57110

Mitchell  
417 N. Main, Suite 112  
Mitchell, SD 57301-2600

Watertown  
1505 10th Ave. SE, Suite 1  
Watertown, SD 57201

Rapid City  
4447 S. Canyon Road, Suite 6  
Rapid City, SD 57702

Yankton  
1900 Summit Street  
Yankton, SD 57078-1951