http://dor.sd.gov/ 1-800-829-9188

Agriculture Machinery, Attachment Units, and Irrigation Equipment

The purpose of this Tax Fact is to explain how South Dakota state and local taxes apply to Farm Machinery, Attachment Units, and Irrigation Equipment. It is not intended to answer all questions that may arise. The information contained in this fact sheet is current as of the date of publication.

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South Dakota imposes sales or use tax on most products and services sold. However, certain items *used exclusively* for agricultural purposes are subject to 4.5% excise tax instead of the sales tax. This excise tax is referred to as "Ag Excise tax" in this publication.

Purchasers are responsible for paying the Ag Excise tax directly to the state of South Dakota if the retailer does not collect the tax. The purchaser reports the Ag Excise tax as use tax on the tax return.

"Agricultural purposes" means the producing, raising, growing, or harvesting of food or fiber upon agricultural land. See definitions on page 9.

South Dakota Taxes and Rates	
Ag Excise Tax – applies to all sales or purchases of farm machinery, attachment units or irrigation equipment *used exclusively* for agricultural purposes. Purchasers are responsible for the Ag Excise tax if the retailer does not charge the tax. Ag Excise tax does not apply to vehicles subject to Motor Vehicle Excise tax.	**4.5%**
State Sales and Use Tax – applies to all sales or purchases of taxable products and service. Sales tax does not apply to products or vehicles subject to the Ag Excise or Motor Vehicle Excise taxes.	**4.5%**
Municipal Sales and Use Tax – applies to all sales of products and services that are subject to the state sales or use tax if the purchaser receives or uses the product or service in a municipality that imposes a sales or use tax. Sales tax does not apply to items subject to Ag Excise or Motor Vehicle Excise taxes.	**1 to 2%**
Motor Vehicle Excise Tax – applies to the purchase of most motor vehicles.	**4%**

Farm Machinery and Attachment Units

→ ***Used Exclusively* for Agricultural Purposes**

The sale or lease of farm machinery and attachment units *used exclusively* for agricultural purposes is subject to the 4.5% Ag Excise tax.

- The rental of devices to apply fertilizers and pesticides for agricultural purposes is not subject to tax when tax was paid on the purchase of the equipment.
- Conservation districts do not owe tax on the purchase of equipment or the rental receipts of district owned agricultural devices.

Repair parts, repair services, maintenance supplies and services to farm machinery and attachment units *used exclusively* for agricultural purposes are exempt from the Ag Excise tax and the sales and use tax.

> To be exempt from tax, a repair part to farm machinery, attachment units, or irrigation equipment must replace a part the manufacturer assigned a specific or generic part number.

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

→ ***Not Used Exclusively* for Agricultural Purposes**

The sale or lease of machinery and attachment units *not used exclusively* for agricultural purposes is subject to the state and applicable municipal sales tax. Repair parts, repair services, and maintenance supplies and services for machinery and attachment units *not used exclusively* for agricultural purposes are subject to the state and applicable municipal sales tax.

If you sell taxable products or services in South Dakota, you must obtain a sales or use tax license from the South Dakota Department of Revenue.

Apply for a sales tax license online at www.sd.gov/taxapp.

Irrigation Equipment

→ ***Used Exclusively* for Agricultural Purposes**

The sale or lease of irrigation equipment *without* installation that is *used exclusively* for agricultural purposes is subject to the 4.5% Ag Excise tax.

Repair parts, repair services, and maintenance supplies and services for irrigation equipment *used exclusively* for agricultural purposes are exempt from the Ag Excise tax and the sales and use tax.

Installation of irrigation equipment and on-site repair of irrigation equipment *used exclusively* for agricultural purposes is subject to the following taxes:

- 2% contractors' excise tax applies to the total receipts including labor, equipment, parts, and all tax collected.
- 4.5% Ag Excise tax is due on all new and used equipment installed.
- No Ag Excise tax or sales or use tax is due on the repair parts or maintenance supplies if the system is used exclusively for agricultural purposes.

Trade-Ins

Tax is due on the trade difference.

For example, you sell a tractor for $250,000. You accept the farmer's current tractor valued at $100,000, as a trade-in. The 4.5% Ag Excise tax is due on $150,000. ($250,000 - $100,000 = $150,000)

Equipment taken in on trade is subject to tax when sold or pulled from inventory for use.

You cannot deduct the trade-in amount when the contract is subject to contractors' excise tax.

→ ***Not Used Exclusively* for Agricultural Purposes**

The sale or lease of irrigation equipment *without* installation that is *not used exclusively* for agricultural purposes is subject to the state and applicable municipal sales tax.

Repair parts, repair services, and maintenance supplies and services for irrigation equipment that do not include installation are subject to the state and applicable municipal sales tax.

Installation of irrigation equipment and on-site repair of irrigation equipment is subject to the following taxes:

- 2% contractors' excise tax applies to the total receipts including labor, equipment, parts, and all tax collected.
- State and applicable municipal sales or use tax is due on all new and used equipment, repair parts, and maintenance supplies.

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

Examples of items that are not farm machinery, attachment units, or irrigation equipment			
corral panels (individual panels)	garden tractors	lawn mowers	tools
feed bunks	grain bins	radios	toy/model tractors
fencing materials	grain storage facilities	shop equipment	truck box and hoist

Motor vehicles or equipment otherwise licensed or taxed by the state are not farm machines. Automobiles, trucks, recreational vehicles, and motorcycles are NOT farm machinery.

Snowmobiles must be titled and are subject to motor vehicle excise tax. Snowmobiles are not farm machines.

Items that are installed and become part of real property such as milking, automatic feeding systems, or grain drying systems, are subject to the state and applicable municipal sales or use tax. Contractors installing these systems are also subject to the 2% contractors' excise tax.

Grain Equipment

Equipment that is installed and becomes real property such as grain drying and conditioning equipment, augers, air systems, elevators, conveyors, catwalks, and distributors, are subject to the state and applicable municipal sales or use tax. Persons paid to install this equipment owe the 2% contractors' excise tax on their gross receipts in addition to the state and applicable municipal sales or use tax on the cost or fair market value of the materials. Repair parts and maintenance supplies for installed equipment is subject to the state and applicable municipal sales or use tax. In addition, the installation of the repair is subject to contractors' excise tax.

Grain Dryers - Portable grain dryers are farm machinery. These dryers are typically on wheels and are easily moved from one location to another. Portable dryers are not attached to grain bins or foundations or wired in. Portable grain dryers and grain dryers that can be moved from bin to bin are subject to the 4.5% Ag Excise tax when *used exclusively* for agricultural purposes. Repairs, parts, and maintenance to portable grain dryers *used for exclusive* agricultural purposes are exempt from Ag Excise tax and sales tax.

Portable grain dryers that are *not used exclusively* for agricultural purposes, such as at a co-op or elevator, are subject to the state and applicable municipal sales tax. Parts, repairs, and maintenance to portable grain dryers *not used exclusively* for agricultural purposes are subject to sales tax.

Grain storage bins are subject to the state and applicable municipal sales or use tax. Persons paid to erect grain bins owe the 2% contractors' excise tax on their gross receipts in addition to the state and applicable municipal sales or use tax, on the cost or fair market value of the materials.

Delivery and Handling Fees

The retailer's charge for delivery is subject to the same state and municipal tax rate as the product or service sold. If the product or service sold is not taxable, the delivery charge is not taxable.

Delivery charges include any charges for transportation, shipping, postage, handling, crating, and packing.

If the retailer hires a transportation company and bills the customer for the transportation service, the retailer's receipts for the transportation charge are subject to the same tax as the product sold.

When a shipment contains taxable and nontaxable products, sales 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 compared to the total sales or a percentage of the weight of the taxable products compared to the total weight of all products in the shipment.

Example – Delivery and Handling

Jones Auto sells and delivers the following items to Fred's Farm Store in Pierre: 2 tires for resale for $1000 and 1 tire display rack for use by Fred for $1000. Jones bills Fred $2000 plus $200 delivery. Fred gave Jones an exemption certificate for the two tires.

* Jones charges state sales tax plus Pierre municipal sales tax on $1,100 ($1000 for the display rack plus $100 delivery). Determine taxable delivery by dividing the taxable products by the total sale ($1000 / 2000 = 50%). 50% of the delivery is taxable ($200 x 50% = $100).

All-terrain vehicles with three or more wheels *used exclusively* for agricultural purposes are subject to the 4.5% Ag Excise tax. The repairs and maintenance for these vehicles are exempt from Ag Excise tax and sales tax. The seller must obtain an exemption certificate indicating the vehicle and repairs are for agricultural use.

The purchase of and repairs to all-terrain vehicles that are *not used exclusively* for agricultural purposes are subject to the state and applicable municipal sales or use tax.

All-terrain vehicles must be titled and may be licensed and registered. Proof that sales tax or Ag Excise tax was paid on the vehicle must be provided at time of titling. Contact your County Treasurer for titling.

GPS equipment that controls farm machinery or attachment unit that are *used exclusively* for agricultural purposes is subject to the 4.5% Ag Excise tax. A GPS added new or that replaces an existing GPS on a farm machine *used exclusively* for agricultural purposes, is subject to the 4.5% Ag Excise tax. Repairs and maintenance to the GPS *used exclusively* for agricultural purposes are exempt from tax.

GPS equipment used for information that does not control farm machinery used exclusively for agricultural purposes is subject to the state and applicable municipal sales or use tax.

Mounted Equipment and Motor Vehicles

A dealer may add mounted equipment to a motor vehicle prior to a sale of the vehicle or may include the equipment with the sale but add the equipment later. Alternatively, a customer may purchase the mounted equipment from a separate dealer.

The tax that applies depends on when the customer buys the equipment.

- Mounted equipment sold with the vehicle or included in the sale price of the vehicle is subject to the motor vehicle excise tax and is not subject to Ag Excise or sales tax. The equipment may be installed before or after the sale. This applies to new or used motor vehicles and new or used mounted equipment.
- Mounted equipment sold separately from the vehicle and added after the sale of the motor vehicle, is subject to sales or use tax. Sales or use tax also applies to installation charges. However, if the equipment qualifies as a farm machine or attachment unit that will be *used exclusively* for agricultural purposes, the sale and installation is subject to the 4.5% Ag Excise tax.

Examples – Mounted Equipment

1. Smith buys a truck chassis for $12,000. Smith then buys a hay grinder and has it mounted on the truck.
   - The $12,000 is subject to 4% motor vehicle excise tax.
   - The hay grinder and installation charges are subject to the 4.5% Ag Excise tax.
2. James buys a truck chassis for $12,000 and a hay grinder for $8,000 from a dealer. Both are listed on the motor vehicle purchase agreement. The Dealer installs the hay grinder on the truck. James pays $20,000.
   - The truck and hay grinder are subject to the 4% motor vehicle excise tax.

Examples of mounted equipment are truck boxes, hoists, digger equipment, cherry pickers, and livestock loading chutes.

Repairs to mounted farm machinery and attachment units *used exclusively* for agricultural purposes are exempt from tax whether it is mounted on a licensed truck or farm machine at the time of purchase or later.

Mounted Vehicles that are Farm Vehicles

Motor vehicles subject to the motor vehicle excise tax are not subject to the Ag Excise tax or sales tax. However, certain farm vehicles are not subject to motor vehicle excise tax even though the vehicle may be pulled on the roads and highways.

Typically, these farm vehicles are *used exclusively* for agricultural purposes and are subject to the 4.5% Ag Excise tax. If these vehicles are *not used exclusively* for agricultural purposes, they are subject to the state and applicable municipal sales or use tax.

Examples of farm vehicles:

- Hay grinders
- Feed mixers
- Grain cleaning machines
- Livestock loading chutes

Self-propelled equipment used to spread fertilizer that a farmer buys for use on their farm is subject to the 4.5% Ag Excise tax and is exempt from title and licensing. When a commercial business buys this equipment, it is titled and licensed and is subject to the motor vehicle excise tax. Self-propelled equipment that is titled and licensed is not considered farm machinery *used exclusively* for agricultural purposes and the repairs are subject to the state and applicable municipal sales or use tax.

Sourcing—Which State or City Tax Applies?

Products or Services Sold

Ag Excise tax or sales tax applies where the customer takes possession of the product.

Products purchased, repaired, or serviced that are picked up at the seller's business are taxed at that location.

Products the seller delivers, with their vehicle or by a delivery company, are taxed at the delivery address.

When a customer hires a shipping company and the shipping company provides the seller documentation showing the delivery address, the seller will owe tax at the delivery address. If the seller does not have a delivery address, the seller will owe tax based on the customer's address.

Out-of-state customers who pick up taxable products or services in South Dakota are subject to South Dakota Ag Excise tax or South Dakota sales or use tax.

Products or services delivered to locations outside South Dakota are not subject to South Dakota Ag Excise or sales tax.

The seller must have documentation showing the delivery address.

Examples – Where does tax apply?

1. A repair shop picks up a truck in rural Minnehaha County, repairs the truck at its shop in Sioux Falls, then delivers the repaired truck to the customer in rural Minnehaha County.
   * The repair service, including any pickup and delivery charges, is subject to the state sales tax. No municipal tax applies because the product was delivered to the customer outside city limits.
2. Smith buys an ATV in Sioux Falls and hires Speedy Transport to deliver the ATV to Mitchell. Smith provides the dealer with the delivery information.
   * The dealer should collect and remit state and Mitchell municipal sales tax because the ATV was delivered to Mitchell. If Smith provided an exemption certificate indicating the ATV was only for agricultural purposes, the ATV would be subject to the 4.5% Ag Excise Tax.

Leases

Ag Excise tax or sales tax applies to the lease payment based on where the equipment is delivered to the lessee. If the lessee moves the equipment to a new location and notifies the lessor of the new location, the following lease payments are subject to tax based on the new location.

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.

Resale Purchases

Dealers or repair shops may purchase certain products or services for resale. The dealer must issue the supplier or service provider an exemption certificate.

Products and services a dealer may purchase for resale include:

- Repair parts, repair services, and maintenance supplies or services for a customer's vehicle or equipment.
- Detailing, and customizing of a customer's vehicle or equipment.
- Products for resale to customers.
- Repair parts, repair services, and maintenance items or services to farm machinery and attachment units that will be *used exclusively* for agricultural purposes that a dealer has in inventory for sale or lease or that is under a lease contract.
- Repair parts and repair services for machinery or other products the dealer has in inventory for sale.
- Customizing of equipment that is in inventory for sale.

Products and services a dealer should not purchase for resale include:

- Maintenance items and services for vehicles and equipment, other than farm machinery, the dealer owns, uses, or has in inventory for sale or lease.
- Repair parts, services, and maintenance for equipment, other than farm machinery, or other products the dealer has in inventory for lease or that is under a lease contract.
- Equipment and supplies the dealer or repair shop will use or consume in their business.

Repair and replacement parts remain with the property for an indefinite period and include items such as tires, headlights, body parts (fenders, hoods, etc.), hoses, belts, spark plugs, and batteries.

Maintenance items include items such as oil, windshield washer fluid, antifreeze, and filters.

The dealer is responsible for use tax on these items and services if sales tax was not paid on the purchase.

A dealer may buy repair parts or maintenance supplies in large quantities. The dealer may purchase the items without sales tax. It is the dealer's responsibility to report sales or use tax on the items used in non-agricultural equipment or on their equipment or vehicles.

Wholesalers and Retailers - Parts and Supplies

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

Examples – Repairs (Dealer inventory)

1. A dealer takes a used tractor in trade. The dealer replaces the tires before the used tractor is sold.
   - The dealer does not owe use tax on the new tires taken from inventory because they are a repair part for a farm machine that will be *used exclusively* for agricultural purposes.
   - The 4.5% Ag Excise tax applies to the total receipts from the sale of the used tractor.
2. A dealer's employee changes a headlight, oil, and filter, and repairs a chipped windshield on a truck that is in inventory for sale. The truck is not farm machinery.
   - The dealer owes use tax on the oil and filter because these are maintenance items.
   - No use tax is due on the headlight or material used to fix the windshield chip because these are repairs.
   - The dealer does not owe sales or use tax on their employee's labor.

Examples of products a dealer or repair shop can purchase for resale:

- Automotive parts
- Cement
- Filters
- Grease
- Lacquer
- Lubricants
- Oil
- Paints
- Tire Patches

Examples of taxable products:

- Auto shop equipment
- Brochures
- Brushes
- Carburetor and brake cleaner
- Computers, software, computer support services
- Consulting services
- Contract labor or temporary help
- Floor dry
- Furniture
- Grinding compounds
- Hand tools
- Janitorial supplies
- Mops and brooms
- Office supplies
- Paint brushes, sprayers, remover
- Training
- Promotional items
- Rags
- Sandpaper
- Services (parts locator)
- Soap
- Tape
- Technician testing services
- Uniforms
- Wash rack supplies
- Welding shop equipment
- Wiping rags

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 obtaining and keeping exemption certificates.

Use Tax

All supplies and services purchased that are not being resold to a customer are subject to sales or use tax.

If you buy taxable products or services that are used, stored, or consumed in South Dakota without paying sales tax, you owe use tax. If you buy a taxable item in another state and pay another state's sales tax at a lower rate, you owe use tax based on the difference in tax rates when you use or store the product in South Dakota.

If you buy farm machinery, attachment units or irrigation equipment that is *used exclusively* for agricultural purposes and you did not pay the retailer the 4.5% Ag Excise tax, you are responsible for remitting this tax directly to the state of South Dakota. The Ag Excise tax is reported as use tax on your sales tax return.

You do not owe use tax on items purchased to resell to customers.

Adding a charge to a repair bill to cover costs of the supplies you consume does not remove your use tax liability on the supplies you use in running your business. If you add a charge for these items, you will owe use tax on the supplies and you will owe sales tax on the amount you bill your customer.

Example
XYZ Repair charges an additional 5% for shop supplies on all repair invoices issued to customers to cover the cost of rags, cleaners, masking tape, etc. used.

* XYZ must pay sales tax on these supplies at the time of purchase and must report sales tax on the 5% charge to the customer.

Use tax is due when you receive the taxable product or service. You owe use tax on items you purchased with the intent to resell when you remove it from inventory to use.

Promotional items: You owe sales or use tax on products such as calendars, key chains, pens, caps, t-shirts, and jackets that you give to customers or employees.

Donations: If you donate or give away taxable items, you owe sales or use tax on your cost of the items, unless given to a tax-exempt entity. For example, if you change the oil in a church van at no charge, you owe use tax on your cost of the filter and the oil used. However, if you change oil for a public school at no charge, you do not owe use tax.

It is ***your responsibility*** to identify taxable purchases when you provide an exemption certificate to a seller. You must either instruct your vendors to charge you tax on the taxable items or report the use tax on line 2 of your sales tax return at the time you make the purchase.

Failure to identify and account for the use tax due from taxable purchases made from licensed vendors you provided an exemption certificate to, may result in a penalty of 50% of the use tax due in accordance with SDCL 10-45-61. This penalty is in addition to any use tax, penalty and interest due to late reporting and paying.

Warranties, Insurance, and Service Contracts

Manufacturer's Warranty – Parts and labor furnished to fulfill a manufacturer's warranty obligation are not subject to sales tax. Your receipts from the manufacturer for warranty work are not taxable. You do not owe use tax on parts taken from inventory to complete a manufacturer's warranty work. Receipts from the customer or manufacturer for items the warranty does not cover are taxable.

Payments received for deductibles, parts or repair services for farm machinery, attachment units, or irrigation equipment *used exclusively* for agricultural purposes are not subject to the Ag Excise tax or sales tax.

Implied Warranty

If you make repairs at no charge to a customer's product after the sale and those repairs are not covered by a written warranty, you owe use tax on the cost of all parts installed in the customer's product. You do not owe use tax on your employee's labor.

You do not owe use tax on the cost of repair parts or employee's labor for repairs to farm machinery, attachment units, or irrigation equipment *used exclusively* for agricultural purposes.

Extended Service Contracts (Extended Warranty) – The charge for an extended warranty or service contract is subject to sales or use tax if the parts and/or service the warranty or service contract covers are subject to sales tax.

Extended warranties or service contracts for farm machinery, attachment units, and irrigation equipment *used exclusively* for agricultural purposes are not subject to sales tax or the agricultural excise tax because repairs and repair services for this equipment are not subject to sales tax.

Extended service contracts that cover repairs to real property, such as installed irrigation systems, are subject to the contractors' excise tax.

Extended service contracts for licensed motor vehicles that cover unexpected repair costs are subject to the motor vehicle excise tax when sold at the time of the vehicle purchase. If sold later, these extended service contracts are subject to sales tax.

Sales tax applies to the extended warranty where the buyer receives the warranty. Sales tax applies at the business location of the seller if the purchaser receives the extended warranty at that location. If the purchaser does not receive the warranty at the location of the business, the place of sale is the purchaser's address.

Mechanical Breakdown Insurance – Insurance policies are not warranty or service contracts. Insurance premiums are not subject to sales tax; however, they are subject to insurance premiums tax. Charges made to the insurance company for parts and labor are subject to sales tax, except for charges for repair parts and service for farm machinery, attachment units, and irrigation equipment *used exclusively* for agricultural purposes which are exempt from tax.

If you do not know if a service contract is insurance or not, you may contact the South Dakota Department of Labor and Regulation, Insurance Division at 605-773-3563 and ask if the company that sells the contract is a licensed insurance company, or call the Department of Revenue at 1-800-829-9188.

Service or Maintenance Contracts – The charge for a service contract that is for repair parts or maintenance items and services on farm machinery, attachment units, or irrigation equipment *used exclusively* for agricultural purposes is exempt from sales and use tax. Amounts paid by the customer for deductibles, parts, or labor for the repair or maintenance of farm machinery, attachment units, or irrigation equipment *used exclusively* for agricultural purposes are not subject to sales or use tax.

Service contracts that provide for sales taxable services or parts are also subject to sales tax. The sales tax applies to the charge for the service contract. No sales or use tax is due on parts and labor used to fulfill the contract. However, any charge to the customer for deductibles, parts, or labor is subject to the state and applicable municipal sales or use tax.

Manufacturer Warranty on Tangible Personal Property	
If the manufacturer's warranty states:	**Sales or Use Tax Due**
No cost to customer for parts	No sales or use tax due on the parts
Customer is responsible for a percentage of parts and labor	Sales tax due on the amount charged the customer
Customer pays a deductible for parts or labor	Sales tax due on the amount charged the customer
Customer is responsible for the repair labor	Sales tax due on the amount charged the customer
The manufacturer furnishes you the repair part at no charge	No sales or use tax due on the repair part
The manufacturer pays you for the repair part	No sales or use tax due on the repair part
The manufacturer pays you for the repair labor	No sales or use tax due on the repair labor
No Ag Excise tax, sales or use tax due on repair parts or services to farm machinery, attachment units, or irrigation equipment *used exclusively* for agricultural purposes.	

Miscellaneous

Auctions - The sale of all farm machinery at auction is subject to the 4.5% Ag Excise tax, regardless of use. Repair parts sold at auction are exempt from sales tax if there is documentation to show they have a part number. If the part is sold in a lot with taxable items, the entire lot is subject to sales tax. The part must be itemized to be exempt from sales tax.

Commissions for Loans - Commission or fees you receive for arranging a loan between the buyer of your product and a lending institution are not subject to sales tax. This includes fees received for arranging loans for a customer's purchase of equipment.

Diesel Exhaust Fluid (DEF) - The sale of DEF *used exclusively* for agricultural purposes as a maintenance item is exempt from sales tax. DEF used in vehicles such as pickups and semis for over the road is subject to state and applicable municipal sales tax.

Electricity for Irrigation Equipment - The sale of electricity to power irrigation pumps *used exclusively* for agricultural purposes is exempt from sales tax.

Waste or Tire Disposal Fees - The retailer's charge to the customer for disposing of waste, including tire disposal fees, is subject to sales tax.

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.

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.

Sale of a Lease Contract - When the lessor sells a lease to another leasing company, it is a sale for resale. The selling company will owe tax on all lease payments it collected. Provided the purchasing company provided an exemption certificate, no tax is due on the sale of the lease. If the purchasing company does not provide an exemption certificate, the selling company will owe sales tax on the sale of the lease in addition to any lease payments it collected.

The purchasing company will owe tax on the remaining lease payments as they are collected. Any rate changes after the sale of the lease are the responsibility of the company that purchased the lease.

TALC - The sale of talc is exempt from sales tax as a maintenance item when *used exclusively* for agricultural purposes. Talc is a lubricant for seed meters that makes the planter work more efficiently. It enhances seed flowability to help provide an even stand the field.

See next page for definitions and contact information.

Definitions

Agricultural purposes means 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 land is defined under SDCL 10-6-31.3. For tax purposes, land is agricultural land if it meets two of the following three criteria:
(1) At least 33 1/3% of the total family gross income of the owner is derived from the pursuit of agriculture as defined in subdivision (2) of this section or it is a state-owned public shooting area or a state-owned game production area as identified in § 41-4-8 and it is owned and managed by the Department of Game, Fish and Parks;
(2) Its principal use is devoted to the raising and harvesting of crops or timber or fruit trees, the rearing, feeding, and management of farm livestock, poultry, fish, or nursery stock, the production of bees and apiary products, or horticulture, all for intended profit pursuant to subdivision (1) of this section. Agricultural real estate also includes woodland, wasteland, and pasture land, but only if the land is held and operated in conjunction with agricultural real estate as defined and it is under the same ownership;
(3) It consists of not less than 20 acres of unplatted land or is a part of a contiguous ownership of not less than 80 acres of unplatted land. The same acreage specifications apply to platted land, excluding land platted as a subdivision, which is in an unincorporated area. However, the board of county commissioners may increase the minimum acre requirement up to 160 acres.

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 whole goods number by the manufacturer instead of a part number. Attachment units do not include motor vehicles or equipment otherwise licensed or taxed by the State of South Dakota.

A **farm machine** is a mechanical unit used directly and principally upon agricultural land for the purpose of producing agricultural products. Farm machinery does 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.

Lease or rental means any transfer of possession or control of tangible personal property for a fixed or indeterminate term for con-sideration. A lease or rental may include future options to purchase or extend.
The transaction is ***not*** a lease or rental if:

The title transfers after completion of all payments; this is a sale and not a lease.

The contract has a purchase option that is greater than $100 or 1% of the total payments, whichever is greater; this contract is a sale of tangible personal property and not a lease.

An operator is provided to ensure the equipment performs as designed; this is a service and not a lease of property. An operator shall do more than maintain, inspect, or setup the property.

You may report the sales tax on any sale that requires payments over a period more than 60 days from the date of sale, on the actual payment received each reporting period.

Contact Us

If you have any tax questions, please contact the **South Dakota Department of Revenue.**

Call toll-free: 1-800-829-9188

Email: bustax@state.sd.us

Website: http://dor.sd.gov/

Mailing address and office location: South Dakota Department of Revenue
445 East Capitol Ave
Pierre, SD 57501