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# Agricultural Services

The purpose of this Tax Fact is to explain how South Dakota state and local taxes apply to Agricultural Services. 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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## Agricultural Services

### South Dakota Taxes and Rates

Services that involve the preparation of soil, crop planting, cultivating and protecting, crop harvesting, or crop preparation for market are exempt from sales tax. These services are exempt from sales tax whether a farmer or a service provider provides the service.

Other services that provide information for farming, but do not provide the actual farming, are subject to sales tax.

**Bundled Transactions:** If you sell multiple services or products as a package for a single price (i.e. the charge for each item is not separately stated or disclosed) and any of the products or services are subject to sales tax, then the full charge is subject to the sales tax.

If you separately state or disclose the charge for each product or service included in a package, taxes apply to each item as if you sold it separately.

Unless a product or service is specifically exempt by law, the service provider will owe tax on their purchase of products or services they use or consume in performing the exempt service.

For example, if a service tells you when to change the oil in your tractor (which is an exempt maintenance service), but also provides data on where your tractor is located (which is a taxable service), the entire fee is taxable. If the charge for each service is itemized, then you may exempt the maintenance service.

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

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](http://www.sd.gov/taxapp).**

**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 tax or use tax if the purchaser receives or uses the product or service in a municipality that imposes a sales tax or use tax.

**1 to 2%**

**Motor Vehicle Excise Tax** – Applies to the purchase of most motor vehicles.

**4%**

### Examples of exempt services:

- Fertilizing, including aerial application
- Orchard or tree shelter cultivation
- Custom harvesting
- Hay mowing, raking, baling, or chopping
- Grain cleaning, drying and/or grinding

### Examples of taxable services:

- Aerial Imaging
- Agricultural Consultations
- Farm and Ranch Accounting
- Farm Inspections
- GPS Mapping
- Precision Farming Services
- Profitable Crop Marketing
- Resource evaluations
- Soil Sampling
- Testing: Soil, Water, or Crop
- Yield Mapping

## Fertilizers and Pesticides

The application of fertilizer or pesticide that is for the growing, raising, or protection of crops is exempt from sales tax.

Fertilizer bought in quantities of 500 pounds or more and pesticides bought to use exclusively for agricultural purposes are exempt from sales tax.

Products or substances used with the application or use of pesticides for agricultural purposes are also exempt. These products include adjuvants, surfactants, ammonium sulfate, inoculants, drift retardants, water conditioners, seed treatments, foam markers, and foam dyes.

Self-propelled equipment used to spread fertilizer that a farmer buys for use on their farm is subject to the 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.

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.

Airplanes are registered through the Division of Aeronautics. Please call Aeronautics at (605) 773-3574 for questions concerning airplane registration. 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 state and applicable municipal sales tax.

Tanks, pumps, and any other equipment and supplies the applicator uses are subject to state and applicable municipal tax. Taxable items include masks, gloves, flags, special uniforms, computers, and computer programs.

### Examples of Pesticide Application:

- Spraying dairy barns and adjoining feedlots for pests
- Poisoning prairie dogs in pastures
- Spraying fields for weed control

## Grain Drying, Cleaning, and Grinding

Receipts from grain drying, cleaning, grinding, or fumigation are exempt from sales tax. Custom operators may perform these services on agricultural land or at commercial operations, such as a co-op or grain elevator.

A commercial business does not owe sales or use tax on dyed fuel used in farm machinery when providing an exempt agricultural service on agricultural land. Dyed fuel used at a co-op or grain elevator is subject to sales or use tax.

Farm machinery and attachment units used exclusively for agricultural purposes are subject to the Ag Excise tax. If this equipment will be used on agricultural land and on commercial land, the equipment is subject to state and applicable municipal sales tax.

### Example:

*The farmer's elevator has a mobile grain cleaner. They use the grain cleaner at the elevator's location and at various farms to clean grain onsite.*

- The grain cleaning service is exempt from sales tax.
- Because the cleaner is used on commercial land, the cleaner is subject to the state and applicable sales tax.
- Fuel used in the cleaner at the elevator's location is subject to state and applicable sales tax. However, fuel used at the farm locations is exempt from sales tax.

## Harvesting

Custom harvesting services are exempt from sales tax.

Grain hauling is a transportation service exempt from sales tax.

Farm machinery and attachment units used exclusively for agricultural purposes are subject to the Ag Excise tax. Repairs and maintenance to farm machinery and attachment units used exclusively for agricultural purposes are exempt from the Ag Excise tax and sales tax.

Sales or use tax is due on supplies used in these services, such as twine or bags.

### Examples of Customer Harvesting Services:

- Corn or sunflower picking
- Combining wheat, oats, and other crops
- Hay mowing and baling
- Bagging grain, silage, or other farm produce

## Precision Farming Services

Precision farming services are subject to the state and applicable municipal tax based on where the customer receives the service.

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

A business that sells precision farming services and exempt fertilizers or application services must itemize the taxable precision farming services. If the taxable services are not itemized on the invoice, the entire receipts will be subject to sales tax.

**Precision farming services may include sampling soil, mapping fields, analyzing results and providing recommendations.**

### Examples:

- 1. Jim contacts the local farmers co-op to determine how to increase his potential yields. The co-op contracts with a precision farming service and sends soil samples to the service provider. The precision farming service tests the soil, maps the fields showing the optimum application of nutrients to each section of the field, and sends the results to the co-op. The co-op provides this information to Jim and bills for this service.*
  - The co-op may purchase the precision farming services for resale.
  - The co-op owes sales tax on the receipts for this service.
- 2. Dave contacts the same co-op 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 co-op. The co-op recommends a lower volume of fertilizer, which Dave buys from the co-op and applies with his own equipment.*
  - The co-op may purchase the precision farming services for resale.
  - The co-op owes sales tax on the receipts for the precision farming services.
  - The co-op does not owe 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.

## Productions Specialists

Specialists may 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 specialist's services are subject to state and applicable municipal tax.

## Testing - Lab Fees

The testing of feed, soil, or water is subject to state and applicable municipal tax.

## Market Advisory Services

Fees received for market analysis, market information, online market prices and projections are subject to state and applicable municipal tax.

Computers and other equipment sold or leased to the customer are subject to the state and applicable municipal tax. The service provider will owe state and applicable municipal 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 state and applicable municipal sales tax.

## Veterinary and Animal Specialty Services

Veterinary and animal specialty services are subject to the state and 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. See also [Veterinarian Tax Fact](#).

## Livestock Breeding

Artificial insemination (AI) of livestock is exempt from sales tax. Including the following:

- Cattle and swine semen.
- Liquid nitrogen and containers used in the semen packing and shipping process.
- Services performed as part of the AI service, such as vaccinations, specialized boarding, and pregnancy testing

All equipment, supplies, and drugs (except cattle and swine semen) used in the AI process are subject to sales or use tax when purchased by the service provider.

### Livestock Includes

- Buffalo
- Cattle
- Goats
- Horses
- Mules
- Sheep
- Swine

## Machinery and Equipment Used by Service Providers

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

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.

**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.**

If tax is not paid when the machinery or equipment is purchased, the purchaser is responsible for remitting the applicable tax directly to the state. See also [Agriculture Machinery, Attachment Units, and Irrigation Equipment Tax Fact](#).

## Fuel

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.**

## 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:

*Jones Auto sells and delivers the following items to Fred's Farm Store in Pierre:*

- a) 2 tires for resale for \$1000*
- b) 1 tire display rack for use by Fred for \$1000.*

*Jones bills Fred \$2000 plus \$200 delivery. Fred gives 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 ( $\$200 \times 50\% = \$100$ ).

# Sourcing - Which State or Municipal 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.

## 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

A service provider is typically the user or consumer of all products and services they purchase and should pay sales or use tax on all purchases. However, a service provider may buy other services or products for resale in some instances.

A service provider may purchase other services for resale if the following three criteria are met:

1. The service is purchased for a current customer;
2. The service is delivered or resold to the customer without alteration or change; *and*
3. The service provider does not use the service in any manner.

Engineers, architects, and surveyors may purchase any service for resale when the purchase is made for a specific client and is used in the performance of their contract, even if the above three criteria are not met.

### Examples:

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 a lawn mower in Sioux Falls and hires Speedy Transport to deliver the lawn mower to Mitchell. Smith provides the dealer with the delivery information.*
  - The dealer should collect and remit state and Mitchell municipal sales tax because the lawn mower was delivered to Mitchell.

### Examples:

1. *A farmer contracts with a grain elevator to have grid soil testing of two fields. The grain elevator contracts with a specialist to gather the soil samples and do the testing. The results are given to the grain elevator, who in turn, gives the results to the farmer.*
  - The elevator owes sales tax on the soil testing services.
  - The elevator may purchase the specialist services for resale because the service is for a specific customer, passed on unchanged, and is not used by the elevator.
2. *A Precision Farming Service sells GPS equipment and mapping software. They also provide soil testing, mapping, and consulting services.*
  - Because they are selling the GPS equipment and mapping software, they can purchase it for resale.



## Resale Purchases (cont.)

A service provider may purchase a product for resale if they are actually selling that product to a customer. All products the service provider uses or consumes in providing their service are subject to sales or use tax.

### Products and services a service provider should not purchase for resale include:

- Maintenance items and services for vehicles and equipment, other than farm machinery, the provider owns.
- Repair parts, services, and maintenance for equipment, other than farm machinery, or other products the dealer leases.
- Equipment and supplies the provider will use or consume in their business.

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

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

## 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 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 your 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.

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.

### 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.

**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.**

## 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, hay grinders, and cultivators are considered agricultural purposes. The harvesting of timber on land within the state is considered an agricultural purpose.

**Agricultural land** is defined under [SDCL 10-6-31.3](#). For tax purposes, land is agricultural land if 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. 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. In addition, to be classified as agricultural land for tax purposes, the land shall meet one of the following criteria:

(1) In three of the previous five years, a gross income is derived from the pursuit of agriculture from the land that is at least ten percent of the taxable valuation of the bare land assessed as agricultural property, excluding any improvements. If there is a crop share arrangement or cash rent agreement, the gross income from the land of both the landlord and tenant shall be combined and used to meet this requirement. Alternatively, at least two thousand five hundred dollars of the owner's gross income is annually derived from the pursuit of agriculture; or

(2) The land consists of not less than twenty acres of unplatted land or is a part of a management unit of not less than eighty 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 one hundred sixty acres.

For the purposes of this section, the term, management unit, means any parcels of land, whether adjoining or not, under common ownership located within this state and managed and operated as a unit for one or more of the principal uses listed in this section. No parcel of land within a management unit may be more than twenty air miles from the nearest other parcel within the management unit. If requested by the director of equalization, the owner shall provide supporting documentation of the land contained in the management unit.

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 consideration. 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 questions, please contact the **South Dakota Department of Revenue**.

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

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