

# Agricultural Production

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Sales Tax  
Fact Sheet

## Agricultural production

Agricultural production includes the following activities *when they result in a product that will ultimately be sold at retail*:

- **Agriculture** - cultivating soil; planting, raising and harvesting crops; rearing, feeding and managing animals
- **Aquaculture** - cultivating plants and animals in water, including hydroponics and fish farms
- **Floriculture** - cultivating flowering plants
- **Horticulture** - cultivating fruits, vegetables and plants
- **Maple syrup harvesting**
- **Silviculture** - the care and cultivation of forest trees.

Agricultural production *does not* include processing agricultural products at places such as co-ops, grain elevators, dairies or meat packers, or raising animals for your own use.

## Animals

Sales and purchases of the following animals are not taxable:

- **Agricultural animals** - cattle, sheep, swine, goats, poultry, honey bees, fish or any other animals raised for sale
- **Fur-bearing animals** - mink, fox, fitch, chinchilla, karakul, marten, nutria or fisher that are second generation or later raised in captivity for sale
- **Cervidae** - members of the deer and elk family raised for producing fiber, meat and animal byproducts for sale or as breeding stock. Cervidae must be fenced in and registered with the Board of Animal Health.
- **Ratitae** - ostriches, emus and rheas raised for producing fiber, meat and animal byproducts for sale or as breeding stock
- **Llamas** - members of the genus llama raised for producing fiber, meat and animal byproducts for sale or as breeding stock
- **Horses** - Horses and all materials such as feed, bedding and horseshoes used or consumed in raising, breeding and keeping horses are not taxable. This includes *all horses*, even if they are working stock or pets.

Sales and purchases of animals used for research and development are *not taxable*.

Sales and purchases of farm working stock, including mules, oxen and herd dogs, are *taxable*.

Sales and purchases of pets are *taxable*. This includes farm dogs that are used for security purposes. Adoption fees for pets are taxable.

## Breeding

Breeding stock are not taxable if the offspring will not be taxable. For example, the sale of a breeder rabbit to a person who sells rabbits for food is not taxable, but the sale of a breeder rabbit to a person who sells rabbits for pets is taxable. The sale of dog or cat breeding stock is always taxable since the offspring are intended to be sold as pets.

Breeding and stud fees are not taxable.

## Artificial insemination

Semen used in agricultural production is not taxable. Liquid nitrogen used to process agricultural semen is not taxable. Disposable inseminating gloves and catheters are not taxable.

Supplies such as charts, office records, and reusable inseminating gloves and catheters are taxable.

## Feed

Feed, feed additives and feed supplements for agricultural animals are not taxable. This includes feed for pets raised for sale, farm working stock and breeding stock.

Feed for agricultural animals that are raised for your own consumption is taxable, except feed for poultry is exempt if the poultry is raised for human consumption.

Feed for pets is taxable.

## Veterinarian services

Veterinarian services, drugs and medicines for agricultural and other nontaxable animals are not taxable. Examples include calf boluses, dehorning paste, foot rot spray, mastitis tubes and terramycin powder.

Medications and supplies for pets are taxable. See Fact Sheet 144, Veterinary Practice, for more information.

## Materials consumed in production

Persons in the business of agricultural production may buy some items without paying tax. This applies to items used or consumed in the production process, whether or not they become part of the product produced.

Items such as feed, feed supplements, hay, and medications are not taxable when purchased for agricultural animals.

To buy items without tax, the purchaser *must* give the supplier a fully completed Certificate of Exemption, Form ST3.

## Chemicals

Chemicals applied to fertilize agricultural crops or control weeds, disease and insect infestation in agricultural crops are not taxable.

Chemicals used to control or eradicate animal diseases are not taxable. This includes insecticides, pesticides and rodenticides used in the eradication of insects, predators and other pests for the health and protection of agricultural and other nontaxable animals.

Chemicals used to clean or sanitize food processing machinery or equipment are not taxable. This includes chemicals used to clean the outside of the equipment but not the surrounding work surfaces.

Disinfectants that are not merely additives of detergents, and are applied to agricultural and nontaxable animals or used in disinfecting their environment are not taxable. For example, disinfectants applied to dwellings to control or eradicate animal disease or pests are not taxable.

Detergents or other chemicals used to clean any animal dwellings are taxable.

Chemicals used for odor control are taxable.

Fertilizers, herbicides and insecticides for home, garden or lawn use are taxable.

## Fuel and electricity – agricultural facilities

Fuels, electricity, gas and steam used or consumed in agricultural production are not taxable. Examples include electricity used to run a milking machine or fuel used to heat a chicken brooder.

Fuels, gas and electricity that are used to heat, cool, light and ventilate facilities in which agricultural animals are housed, are exempt from sales tax. Fuels, electricity, gas and steam used for general space heating, lighting farm buildings that do not house agricultural animals or to operate a yard light are taxable.

**Example 1.** A farmer houses swine in a confinement facility and purchases utilities to heat, cool, ventilate and light the facility. The utilities can be purchased exempt

from the sales tax. The exemption does not apply to space heating, cooling or lighting used or consumed in the nonproduction portions of the facility, such as office or administrative areas.

**Example 2.** A farmer who raises dairy cattle can purchase electricity to heat, cool, ventilate and light the barn exempt from sales tax under the agricultural production exemption. The agricultural production exemption would also apply to electricity purchased to power automatic feeding systems; feed grinders; tank heaters; and milking machines, milk coolers and milker washer units.

Refer to Revenue Notice 07-01, Utilities – Agricultural Production Animals, for more information.

## Fuel and electricity – grain drying

Fuels, electricity, gas and steam purchased by farmers for grain drying is exempt as part of the agricultural production process. Beginning February 4, 2008, the Department took the position that the agricultural production process for grain continues until the grain reaches a saleable state or until it can be acceptably commingled with other grain. Thus, fuels, electricity, gas and steam purchased by third parties, including grain elevator operators, for grain drying also qualifies for the agricultural production exemption regardless of when title to the grain passes.

Fuels, electricity, gas and steam used in the storage of grain including the aeration of grain to prevent spoilage, control insects or to reduce dust and sweating is not part of the agricultural production process and the use of fuels, electricity, gas and steam for those purposes are subject to sales tax.

Refer to Revenue Notice 08-01, Agricultural Production – Grain Drying, for more information.

Some agricultural buildings share utilities on one meter with a residential home or other non-qualifying buildings. These situations may require an energy study to determine the exemption percentage. Refer to Fact Sheet 129, Utilities Used in Production, to determine how to figure your exemption percentage.

## Petroleum products

Fuels, lubricants and antifreeze are not taxable if they are used or consumed:

- in production of agricultural products,
- to dry grain, or
- to construct, maintain or repair drainage ditches, tile drainage systems, grass waterways and erosion control structures.

## Packaging materials

Nonreturnable packaging materials (berry boxes, egg cartons, paper bags) are not taxable. Returnable containers, such as milk cans, used to package food products are not taxable.

Returnable containers used to package non-food items are taxable.

## Plants and seed

Plants and seed used in agricultural production are not taxable. For example, seed used to grow crops for sale or as feed for agricultural animals is not taxable.

Plants and seed used for home vegetable gardens, lawns or flower beds are taxable.

Tree seedlings purchased for windbreaks are taxable unless they are part of a federal program, as described on page 4.

## Nurseries and greenhouses

Nursery and greenhouse operations that grow trees, shrubs, perennials, annuals, potted plants and other plants for sale qualify for the agricultural production exemptions.

Plants and seeds used in nursery and greenhouse production are not taxable. Temporary coverings for greenhouses such as poly film, shade cloth, heat retention cloth, shade compounds, and ground cover also qualify for the agricultural production exemption.

See Fact Sheet 174, Nursery and Greenhouse Production, for more information.

## Machinery and equipment

New and used farm machinery is exempt from sales and use tax. Repair and replacement parts for farm machinery, except tires, are also not taxable.

Other equipment, such as trucks, trailers and storage bins that do not qualify for the exemption are taxable.

See Fact Sheet 106, Farm Machinery, for more information.

Accessory tools, equipment and other short lived items are *exempt if all three of the following requirements are met:*

- are separate, detachable units,
- produce a direct effect on the product, and
- have a useful life of less than twelve months when used continuously in production under normal conditions.

Examples of items that qualify are milk filter discs and mower sickle sections.

## Building materials

Materials and supplies used to construct, repair or maintain farm buildings, residences, and greenhouses that are real property are taxable. If a contractor buys the materials and uses them on a contract to improve real property, the contractor pays tax on the purchases and does not charge tax to the building owner.

*Farm machinery* that is installed and becomes part of real property qualifies for the exemption. This includes machinery such as barn cleaners, milking systems, automatic feeding systems, grain dryers and irrigation equipment. This exemption applies whether the farmer or a contractor installs the machinery. Repair and replacement parts for this machinery are not taxable.

See Fact Sheet 128, Contractors, for more information about construction contracts.

*Fencing* used in agricultural production is taxable, except fencing used only for confining farmed cervidae which qualifies for exemption as farm machinery. See Fact Sheet 106, Farm Machinery, for more information.

## Services

Some services that are usually taxable can be purchased exempt if the services are used for agricultural production. To claim exemption, you must provide a fully completed exemption certificate, Form ST3.

Examples of nontaxable services are:

- Spraying, tilling, fertilizing and tree trimming services for an apple orchard
- Exterminating and pest control services used to prevent or control insect infestation of growing crops or to control or eradicate predators and other pests for the health and protection of agricultural animals
- Disinfecting services used to control or eliminate disease or pests for the health and protection of agricultural animals
- Electronic surveillance services used to ensure that turkeys are in good condition and have water and food available

Service providers may buy materials or fuels used or consumed to provide nontaxable services without paying sales or use tax by giving the seller a fully completed Certificate of Exemption, Form ST3.

See Fact Sheet 112, Building Cleaning and Maintenance, 121, Lawn and Garden Care, Tree and Bush Service, and Landscaping, and Fact Sheet 114, Detective and Security Services, for more information.

## Federal and state programs

Feeds, seeds, trees, fertilizers, and herbicides purchased for use by farmers in a federal or state farm or conservation program are not taxable.

## Miscellaneous sales by agricultural producers

Most sales by agricultural producers are not taxable. However, there are some instances when sales tax must be collected. These taxable sales include:

- Hay bales to a contractor to be used for erosion control
- Manure to be used by the purchasers on their lawns or in their flower or vegetable gardens
- Animals used as farm working stock
- Animals that will be pets
- Snow blowers, hand tools, grain bins, fencing and other equipment that did not qualify for the farm machinery exemption when it was purchased

*Farm auction sales* are not taxable. Farm auctions are public auctions conducted by licensed auctioneers where substantially all of the property sold consists of property used in the trade or business of farming and non-business property such as household goods.

## Use tax

If you buy taxable items or services that are used, stored or consumed in Minnesota without paying sales tax, you owe use tax. If you buy taxable items and pay another state's sales tax at a lower rate, you owe use tax based on the difference in tax rates. See Fact Sheet 146, Use Tax for Businesses, for more information.

## Local sales and use taxes

If you are located or working in an area with a local tax, local sales or use tax may also be due. Local taxes are listed and explained in detail in Fact Sheet 164, Local Sales and Use Taxes.

## How to report sales and use tax

Report state and local sales and use taxes electronically over the Internet at [www.revenue.state.mn.us](http://www.revenue.state.mn.us). If you don't have Internet access, you can file by phone. Call **1-800-570-3329**. See the Sales and Use Tax Instruction Booklet for more information.

### References

M. S. 297A.61, Subd. 12, Farm Machinery  
M. S. 297A.61, Subd. 13, Aquaculture Production Equipment  
M. S. 297A.69,  
Subd. 3, Farm machinery repair parts  
Subd. 4, Farm machinery  
MN Rule 8130.1100, Utilities and residential heating fuels  
MN Rule 8130.5500, Agricultural and industrial production  
MN Rule 8130.8700, Veterinarians  
Revenue Notice 07-01, Utilities – Agricultural Production Animals  
Revenue Notice 08-01, Agricultural Production – Grain Drying  
Revenue Notice 08-05, Correction to Revenue Notice #08-01

### Fact sheets that may be of interest:

Fact Sheet 106, Farm Machinery  
Fact Sheet 129, Utilities Used in Production  
Fact Sheet 144, Veterinary Practice  
Fact Sheet 174, Nursery and Greenhouse Production