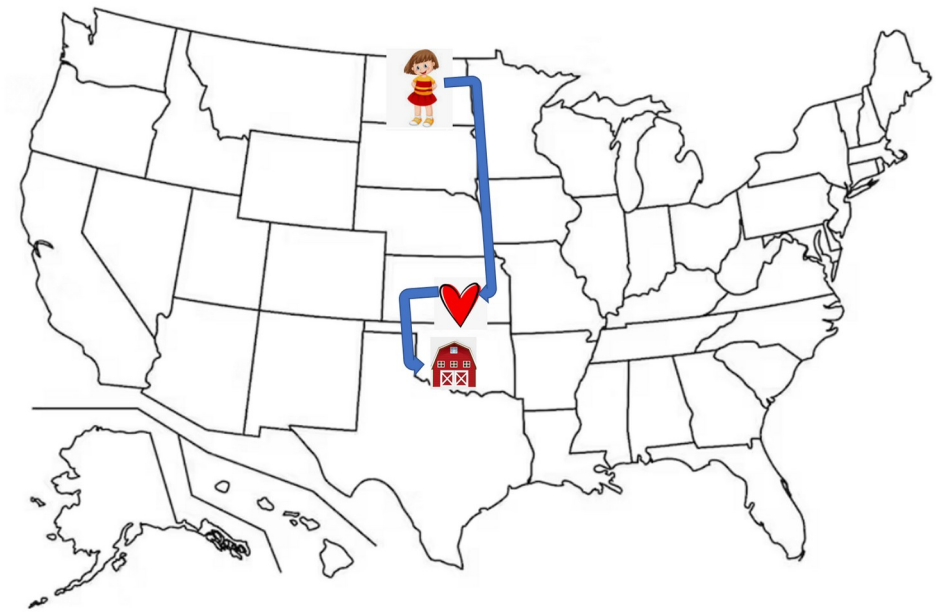


Agricultural  
Sales Tax  
Exemption in  
Oklahoma

# Brenda Neufeld, EA

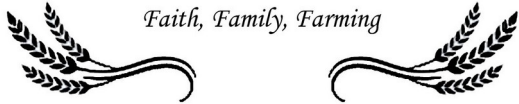
- Farm girl from North Dakota
- Met a farmer while at college in Kansas and fell in love
- Moved to Fairview in NW Oklahoma in 1986 and have farmed happily ever after!
- B.A. in Accounting and Business Administration





## NEUFELD TAX SERVICE

*Faith, Family, Farming*



Prepared farm tax returns since 1984 and in 2012, I opened my own practice I'm an Enrolled Agent, licensed to practice before the IRS

Accountant & Advisor to our Family Farm Partnership owned by my husband, Scott and our son, Caleb.

We are in full time production agriculture and raise wheat, sesame, beef cattle and ALFALFA Hay!



# EXTENSION

Oklahoma Agriculture Leadership Program – Class XIII



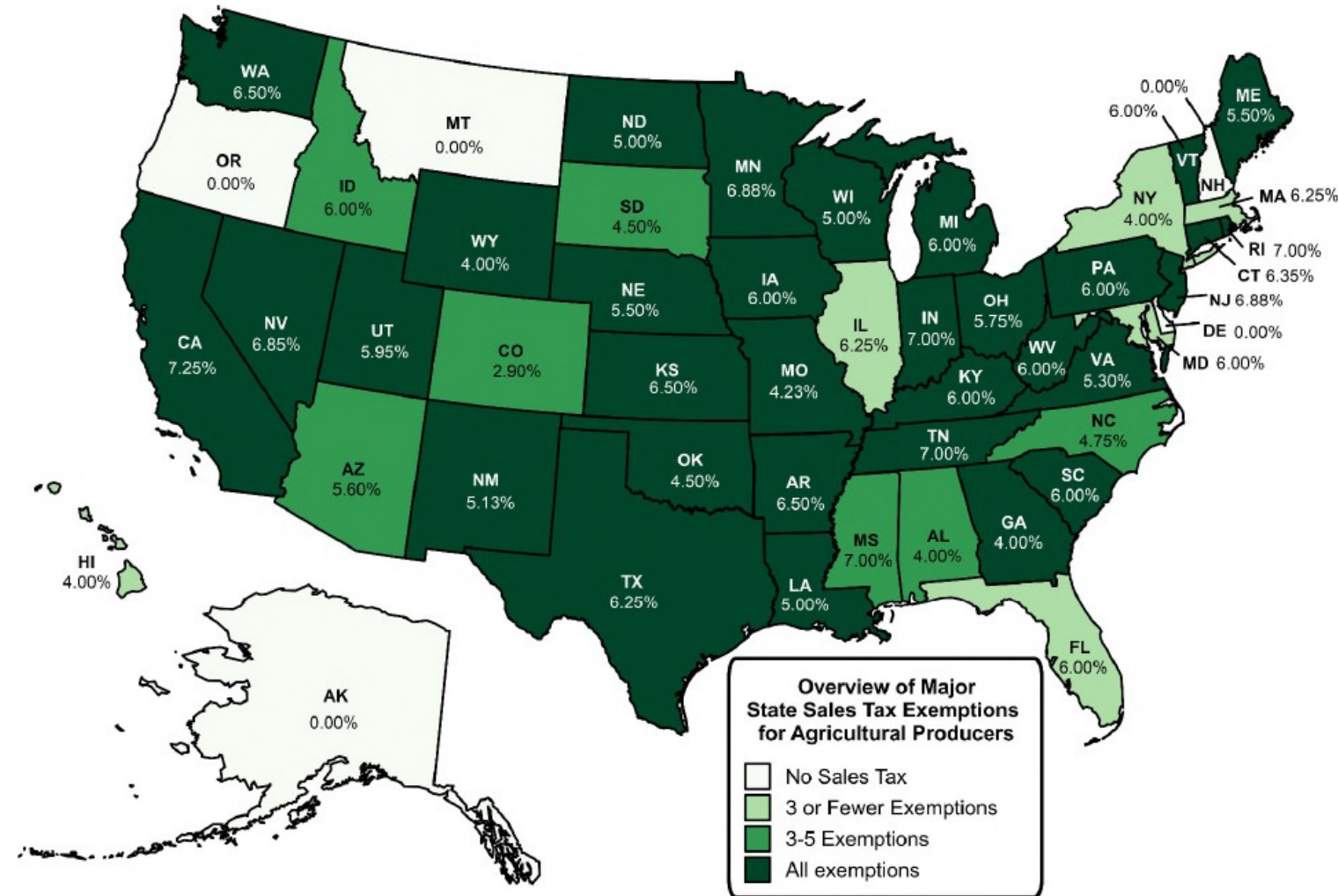
**Farm Service Agency**

U.S. DEPARTMENT OF AGRICULTURE

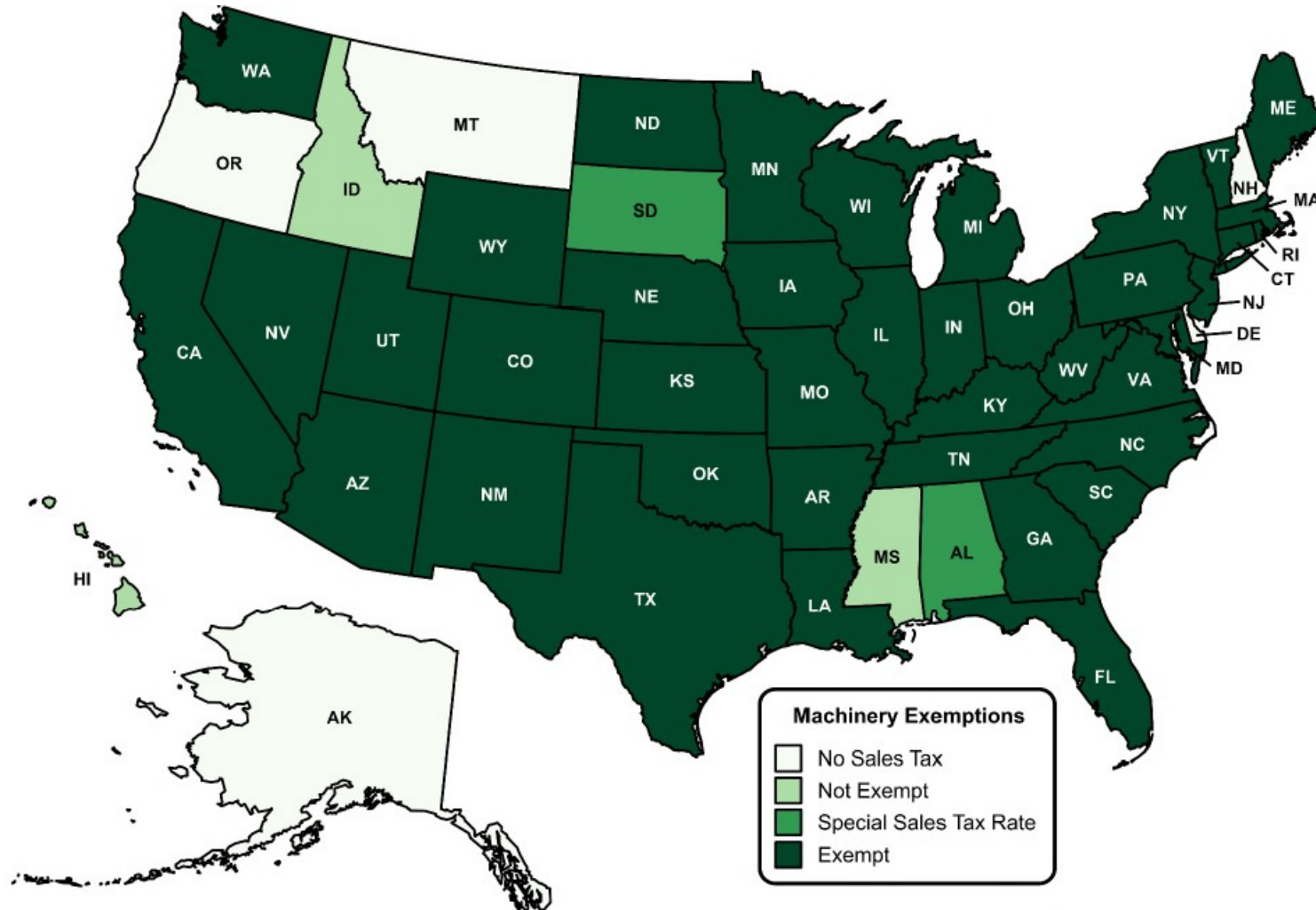
7 Years on the Oklahoma State Committee

Agricultural  
Sales Tax  
Exemption in  
Oklahoma

# Major State Sales Tax Exemptions for Agricultural Producers & State Sales Tax

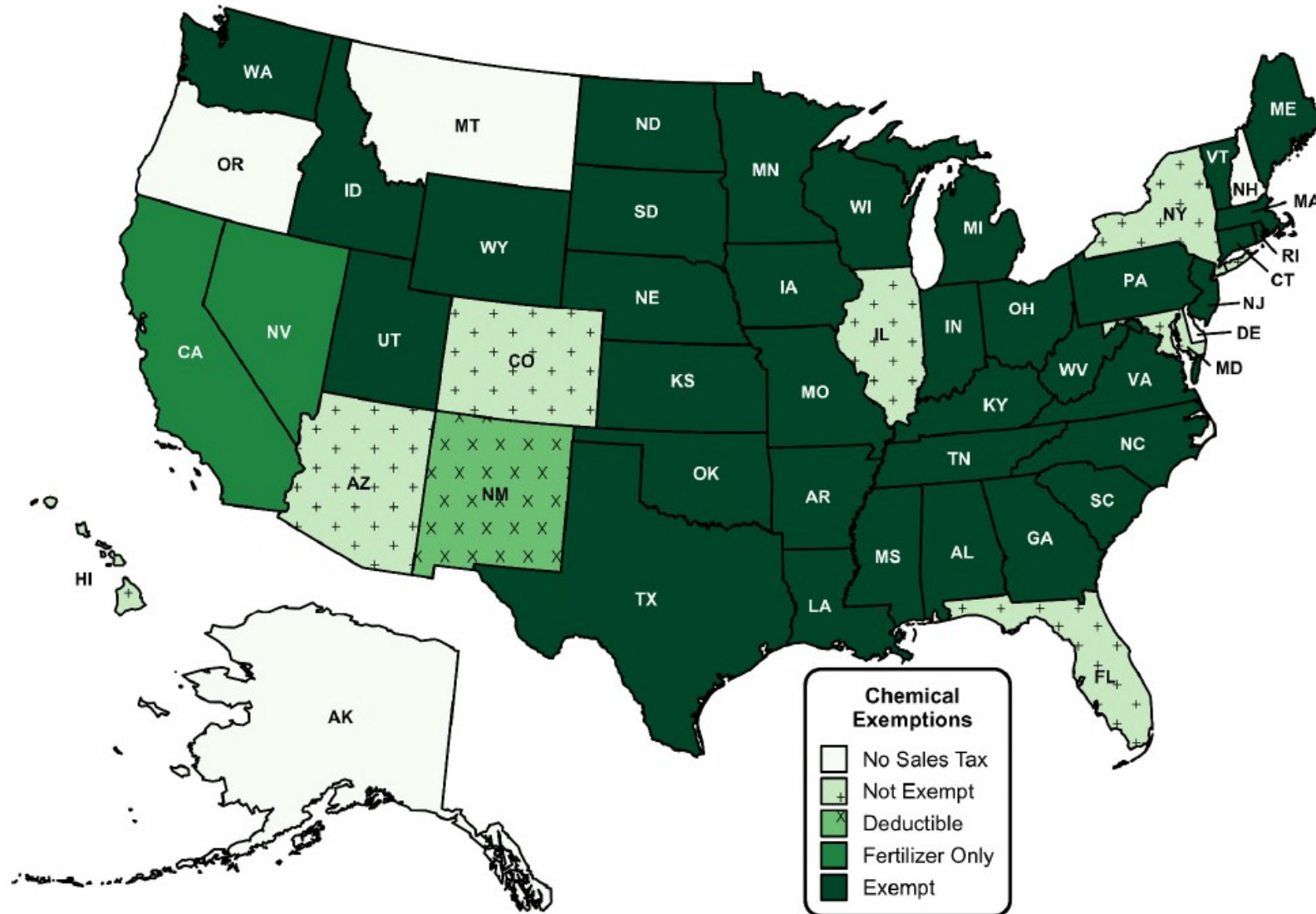


# Machinery Sales Tax Exemptions

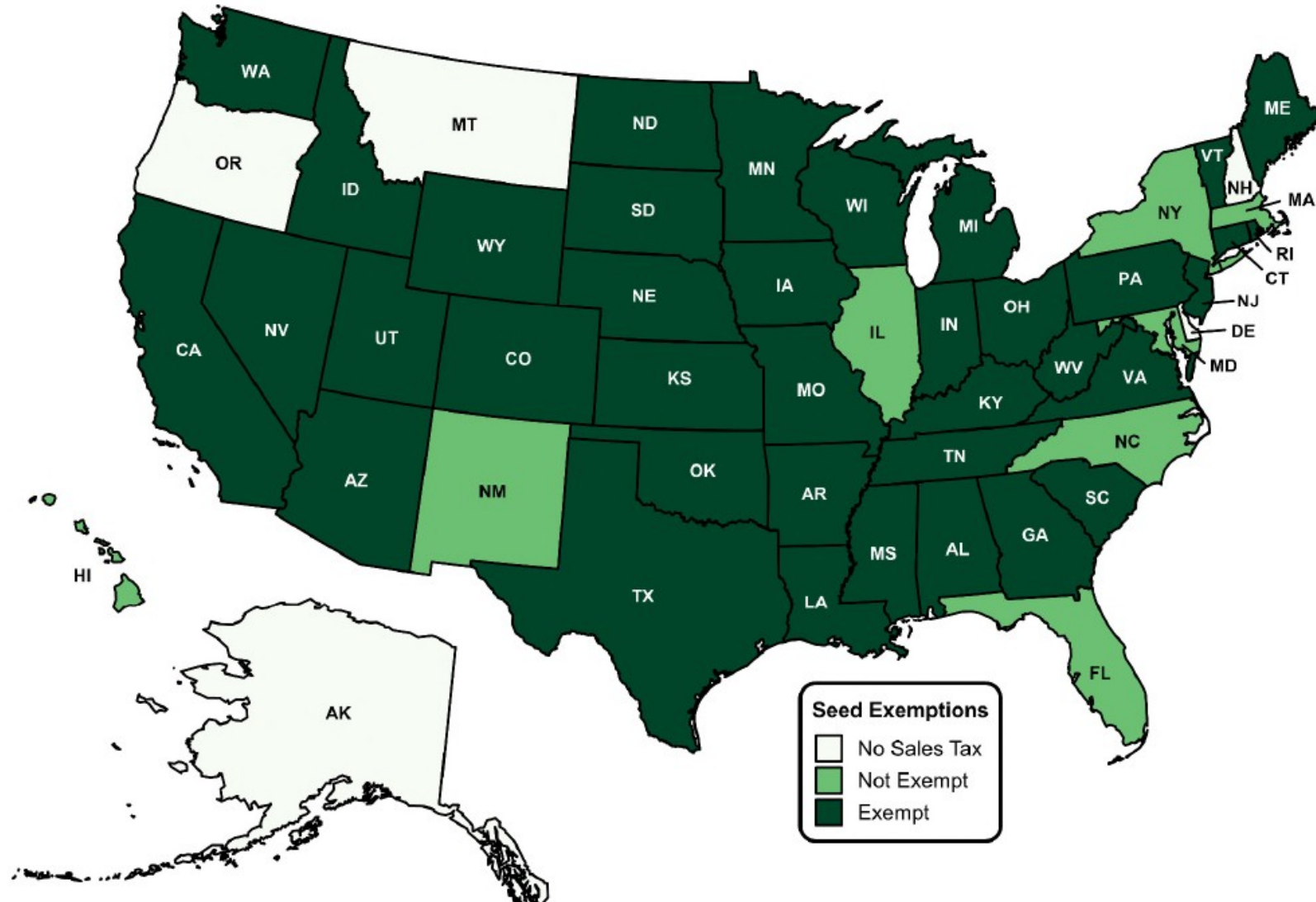


**Note:** Agricultural producers in Alabama purchase qualifying machinery at a reduced rate of 1.5%. While producers in South Dakota are also subject to a special sales tax rate for machinery, the current rate (4.5%) is equal to the general sales tax rate of the state.

# Chemical & Fertilizer Sales Tax Exemptions



# Seed Sales Tax Exemptions

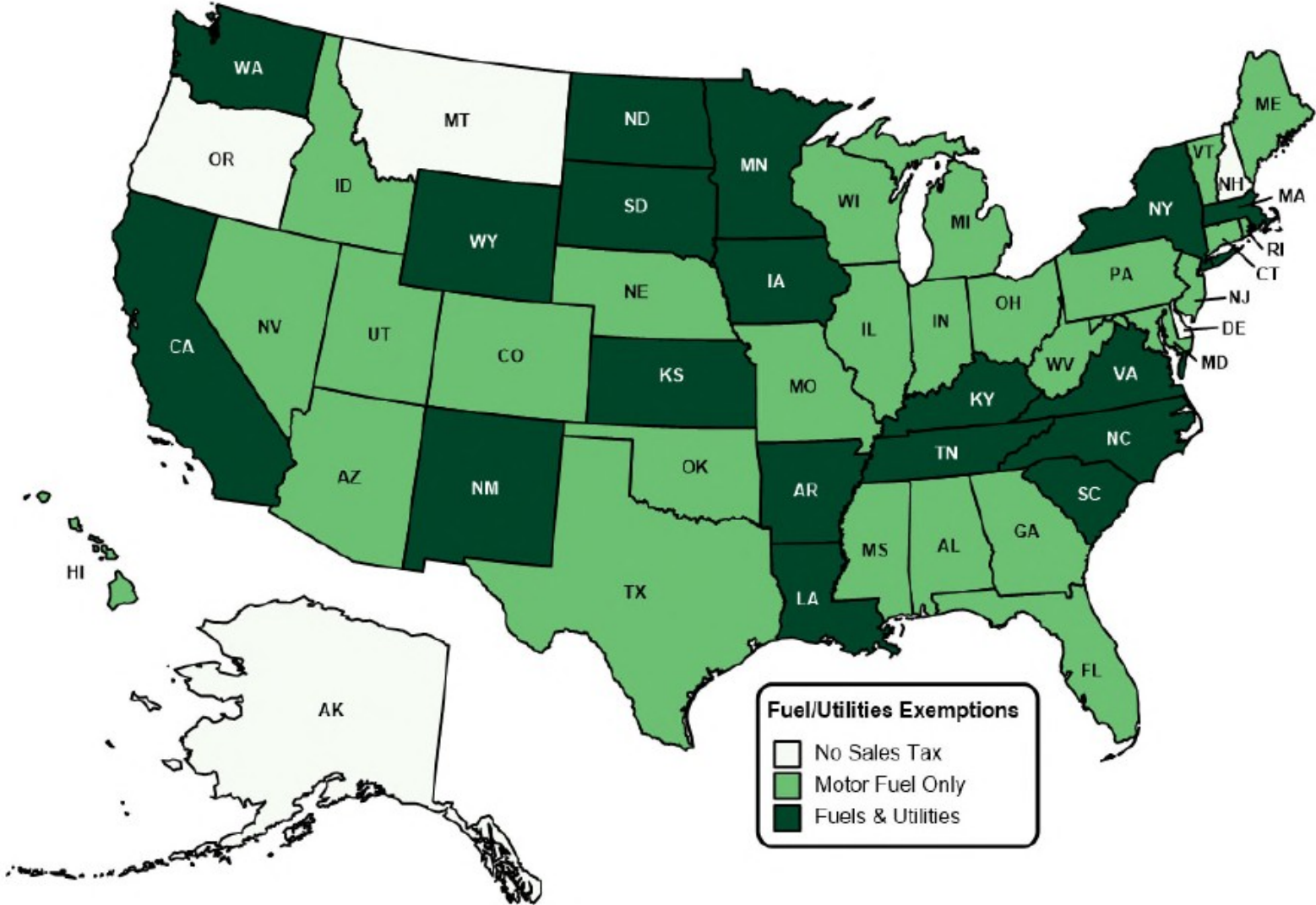








# Fuel & Utility Sales Tax Exemptions



# 9 States Without An Income Tax

States without an income tax often make up for the lack of these revenues in other ways, such as:

## WASHINGTON

- High gasoline taxes
- High state and local sales tax: 8.92%

## SOUTH DAKOTA

- Low sales tax: 4.5%

## NEVADA

- Imposes a gross receipts tax

## WYOMING

- Low property tax: 0.58%
- Low sales tax: 4%

## ALASKA

- No statewide sales tax but localities imposed sales taxes: 1.76%

## TEXAS

- High property tax: 1.81%
- Exempts non-prescription drugs from sales taxes

## FLORIDA

- Imposes a corporate income tax: 5.5%

## NEW HAMPSHIRE

- Tax on interest and dividend income

## TENNESSEE

- High sales taxes
- Highest beer tax

# These Sales Tax Exemptions are **VITAL** to Oklahoma Agriculture Producers!

- We provide food security to our nation
- We are price takers not price makers
  - Sell on the commodity market
  - Elevator or Sale Barn sets the price – not the producer
- We cannot pass additional costs on – we absorb it in our operations
  - Additional 10% on our highest input costs: Feed, Fert, Chem, Seed & Equip
- We allow manufacturers to purchase inputs sales tax exempt, this is really no different

**HOUSTON**

**WE HAVE A**

**PROBLEM**

**ABUSE!**



# Which Path is Right for You?

When it comes to structuring your business, independents have many options.

**SOLE  
PROPRIETOR**

Taxed the same on  
personal and  
business income

Less

No corporate  
protection of your  
personal assets

**LLC**

Not considered a  
distinct separate  
entity

Less

Offers some legal  
protection from debts  
and court judgements

**S CORP**

The business is not  
taxed itself, only  
the shareholders

More

Offers some legal  
protection from debts  
and court judgements

**C CORP**

The corporation is an  
individual taxpayer  
in the eyes of the IRS

More

Offers some legal  
protection from debts  
and court judgements

**PARTNERSHI  
P**

TAXES

PAPERWORK

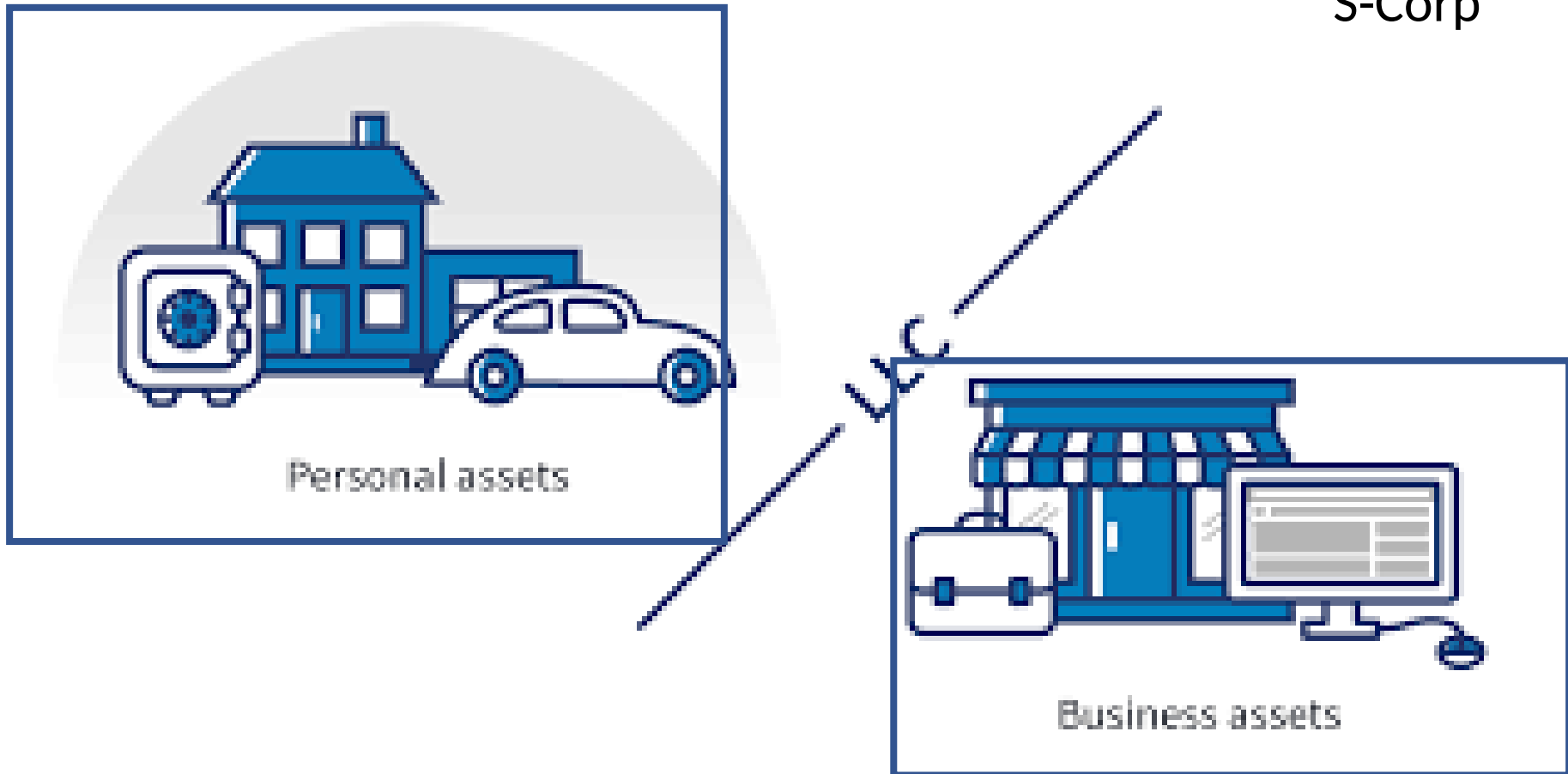
RISK



# What does an LLC do?

Limited **LIABILITY** Company

- Sole Proprietor
- Partnership
- S-Corp



# Ways of Reporting Farm Income for Income Taxes

- **Schedule F** – Active Farm Management
  - Sell Commodities
  - Pay Operating Expenses
  - Pay Self-Employment Taxes on Net Income
- **Form 4835** – Crop Share Rental Agreement
  - Sell Your Share of Commodities
  - Pay a Share of Operating Expenses
  - No Self-Employment Taxes – Classified as Rental Income
- **Schedule E** – Cash Rent Agreement
  - Rental Income based on a Set Price Per Acre
  - Minimal Operating Expenses if Any
  - Pays the Property Taxes

Applies to ALL  
Entity Types!

# How do we get compliance with laws?



Highway Speed Limits



Dyed Diesel Fuel



Sales Tax Exemption

**Fear of a Penalty / Probability of Getting Caught**

# How do we get compliance with laws?



Production Agriculture vs Hobby Farmer



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Business vs Personal Use



# Who should be allowed to use the sales tax exemption?

- For-Profit Business – Not personal or noncommercial use
- Defined as Production Agriculture
  - Files a Schedule F or Form 4835
  - FFA or 4-H Students / Vo-Ag Teachers
  - New Producers with a business plan – good for 1 year
- Minimum dollar amount of gross income for renewal

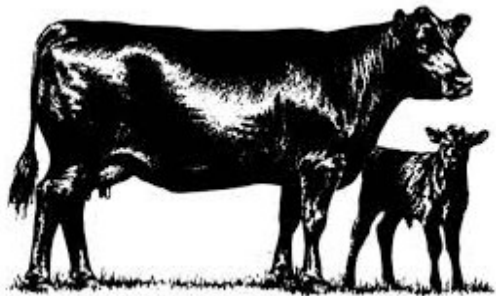
# \$5,000 of Gross Income ?



40 Acres x 30 Bushel per Acre x \$5 per Bushel = \$6,000

80 Acres x 30 Bushel per Acre x \$5 per Bushel = \$12,000

1/3 Share = \$4,000



5 Calves x \$1000 a head = \$5,000

# Who should enforce compliance?

- OK Tax Commission
  - OK is a “piggy back state” – Start with federal adjusted gross income number from your Federal Form 1040 so no detailed information – your Schedule F or Form 4835 never comes to them.
- County Assessor
  - Big City – No idea if they are really in production agriculture or not
  - Small Town – Doesn’t want to tell their friends & neighbors that they have a hobby and do not qualify
  - They need a solid measuring stick to use! **\$\$ Amount \$\$**



Profit or Loss From Farming

OMB No. 1545-0074

2020

Attachment Sequence No. 14

Department of the Treasury Internal Revenue Service (99)

Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065. Go to www.irs.gov/ScheduleF for instructions and the latest information.

Name of proprietor Social security number (SSN)

A Principal crop or activity B Enter code from Part IV C Accounting method: D Employer ID number (EIN) (see instr.)

E Did you "materially participate" in the operation of this business during 2020? F Did you make any payments in 2020 that would require you to file Form(s) 1099? G If "Yes," did you or will you file required Form(s) 1099?

Part I Farm Income - Cash Method. Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)

Table with columns for line numbers (1a-6d, 7-9) and descriptions of farm income items like sales of livestock, cooperative distributions, and CCC loans.

Part II Farm Expenses - Cash and Accrual Method. Do not include personal or living expenses. See instructions.

Table with columns for line numbers (10-32f) and descriptions of farm expenses like car and truck expenses, conservation expenses, and interest.

35 Reserved for future use. 36 Check the box that describes your investment in this activity and see instructions for where to report your loss.

Farm Rental Income and Expenses (Crop and Livestock Shares (Not Cash) Received by Landowner (or Sub-Lessor))

OMB No. 1545-0074

2020

Attachment Sequence No. 37

Department of the Treasury Internal Revenue Service (99)

Name(s) shown on tax return

Your social security number

Employer ID number (EIN), if any

A Did you actively participate in the operation of this farm during 2020? See instructions.

Part I Gross Farm Rental Income - Based on Production. Include amounts converted to cash or the equivalent.

Table with columns for line numbers (1-7) and descriptions of gross farm rental income items.

Part II Expenses - Farm Rental Property. Do not include personal or living expenses.

Table with columns for line numbers (8-34) and descriptions of farm rental property expenses like car and truck expenses, chemicals, and depreciation.





# Regulate & Educate



- Deductibility of expenses is not the same as buying it sales tax exempt
  - You can deduct percentages of business use for income taxes
  - You should pay sales tax on these items because they are not used **EXCLUSIVELY** for agriculture
    - Computers
    - ATVs
    - Guns



- Clearly defined who should have sales tax exemption card and for what – when they get the card – sign a form that they will use it appropriately – clearly defined responsibility!

- Randomly spot check for abuse. Penalty that prevents abuse.

# In Conclusion!

- Sales Tax Exemption is VITAL to OK Production Agriculture!
  - Available to those who need it
  - Not easy access for those who shouldn't have it
- Educate producers & retailers on what qualifies
  - EXCLUSIVELY related to production agriculture!
- Make it enforceable
  - Reduce judgement calls – something that can be verified
  - Some compliance checking

