

Special Notice

Intended audience: Heavy equipment rental dealers and local county assessors

Jan. 5, 2021

Property tax exemption for heavy equipment rental property

The 2020 Legislature passed Substitute Senate Bill (SSB) 5628 which creates the following:

- A property tax exemption for heavy equipment rental property owned by a heavy equipment rental dealer (effective for 2021 assessment year).
- Heavy equipment rental tax of 1.25% that will be imposed on each instate rental of heavy equipment rental property (effective Jan. 1, 2022).

What is heavy equipment rental property?

This bill creates a property tax exemption for all heavy equipment rental property owned by a heavy equipment rental dealer. To qualify for the property tax exemption the heavy equipment must meet the following criteria:

- **Mobile.** Equipment may not be permanently affixed to real property and may be moved among worksites if needed.
- **Customarily used for construction, earthmoving, or industrial applications.** This includes the constructing of new buildings or other structures, or the repairing, remodeling, or expansion of existing buildings or other structures, under, upon, or above real property; the repositioning of terrain using vehicles or vehicles or self-propelled equipment; and manufacturing or processing raw materials or other ingredients or components into new articles of tangible personal property.
- **Rented without an operator.**

Heavy equipment rental property, includes but is not limited to the following:

- Earthmoving equipment, including but not limited to backhoes, loaders, rollers, excavator, bulldozers, and dump trucks.

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- Self-propelled vehicles that are not designed to be driven on the highway.
- Industrial electrical generation equipment.
- Industrial material handling equipment.
- Equipment used in shoring, shielding, and ground trenching.
- Portable power and HVAC generation equipment.
- Attachments to heavy equipment rental property, including but not limited to buckers, augers, hammers for backhoes, hoses, fittings, piping, chains, tools (such as jack hammers and cement chippers), and portable power connections.
- Ancillary equipment, including but not limited to generators, ground thawing equipment, fluid transfer equipment, pumping equipment, portable storage, portable fuel and water tanks, and light towers.
- Equipment or vehicles not subject to the vehicle license fees and not required to be registered with the Department of Licensing.
- Heavy equipment rental property does not include small hand tools, chainsaws, and lawnmowers.

Who is considered a heavy equipment rental dealer?

A heavy equipment rental dealer means a person “principally” engaged in the business of renting heavy equipment rental property. “Principally” means that the dealer receives more than 50% of the dealer’s annual total revenue from the rental of heavy equipment rental property.

How to claim the exemption

Dealers must submit the following documents by April 30th to the County Assessor where the property is located.

- [Application for Exemption of Heavy Equipment Rental form.](#)
- Personal property tax listing form.

To ensure that the rental property receives a full exemption, both the exemption form and the personal property tax listing form will need to include a list of the heavy equipment rental property claimed. Once the Assessor receives the exemption form they will confirm that the dealer meets the 50% total revenue requirement to be a heavy equipment rental dealer, and will also verify that the list of property qualifies as heavy equipment rental property. If the Assessor finds that either the dealer does not meet the 50% revenue requirement, or the equipment claimed is not heavy equipment rental property, then the exemption may be denied in whole or in part. A dealer has a right to appeal a denied claim for exemption to the local county board of equalization.

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Questions and answers

Q: Does rented forestry and agricultural equipment qualify for the exemption?

A: Equipment used for forestry and agricultural applications may qualify as long as the equipment's customary use falls within the limitations of "construction, earthmoving, or industrial applications". For example a bulldozer used at a farm or logging site to reposition terrain would qualify as an earthmoving activity but a tractor and its implements used to harvest potatoes would not qualify because a tractors typical use does not fall under "construction, earthmoving, or industrial applications."

Q: Does a forklift rented to a grocery store qualify for the exemption?

A: Yes. Forklifts of all different sizes fall under the type of equipment "customarily" used for industrial applications. Forklifts, rented without an operator, would qualify as both a self-propelled vehicles not designed to be driven on the highway, and as industrial lift equipment. The fact that it is rented to a grocery store has no bearing on whether or not it is exempt.

Q: What is included as "Ancillary" equipment?

A: Ancillary equipment should be limited to equipment that is necessary to ensure the operation of the heavy equipment or directly supplements the use of the equipment. All exempt ancillary equipment must still be "mobile", "customarily used for construction, earthmoving, or industrial applications" and "rented without an operator".

Q: What is considered a small hand tool?

A: A small hand tool is an item that is held in the hand and operated without electricity or any other power. These items do not qualify as heavy equipment rental property.

Q: What equipment should be listed on the Application for Exemption of Heavy Equipment Rental form?

A: The exemption form should only list property that is considered "Heavy Equipment Rental Property" as defined in RCW 84.36.597. If non-qualifying equipment is listed on the exemption form the Assessor has the discretion to grant the exemption in whole or in part.

Q: Who is considered an "affiliated" business?

A: An affiliated business (or party) is someone having either a direct or indirect ownership interest in the business of more than 5%. This includes those who are related to each other because of a third person, or group of people who are affiliated holding interest of more than 5%. If a piece of heavy equipment rental property is rented to an affiliated party, then that piece of equipment is not eligible for a property tax exemption in the year following the rental.

Q: What if a dealer has heavy equipment rental property located in multiple counties on January 1?

A: The dealer will need to file an exemption form in each county where the heavy equipment

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rental property is located on January 1 along with the personal property tax listing in that county. However, the requirement for exemption is based on the total annual revenue of the dealer which includes rentals in all counties. If the dealer meets the 50% revenue requirement, then the property is exempt regardless of which county it is located in.

Q: What if property is rented to consumers outside this state, do these sales count towards the dealer's 50% annual total revenue?

A: The exemption is based on the dealer's annual total revenue and should include all rentals of heavy equipment rental property regardless of the location of the rental.

Q: Would a rental dealer in their first year of business qualify for the exemption?

A: No. In order to qualify for the exemption, a dealer will need to have sales in the year immediately preceding the year in which it is applying for an exemption. When applying for the exemption the dealer is required on the exemption form to list both their total annual revenue and the total annual revenue from the rental of qualifying heavy equipment rental property for the preceding year.

Q: Are there penalties for submitting false or misleading claims for the exemption?

A: Yes. If a heavy equipment rental property dealer received an exemption based on erroneous information provided by the dealer, the taxes must be collected for a period not to exceed the past 5 years. The penalties are as follows:

- (a) 25% of the total tax due
- (b) 50% of the total tax due if the dealer was previously assessed a penalty
- (c) A penalty as provided in RCW 84.40.130(2) if the dealer submitted a false or misleading claim for exemption with intent to defraud.

More information

[Substitute Senate Bill 5628](#)

[RCW 84.36.597](#)

[RCW 84.48.010](#)

[RCW 84.40.038](#)

[RCW 84.40.130](#)

Questions?

If you have questions or need additional information, please contact your [local County Assessor's office](#) or call the DOR Property Tax Division at 360-534-1400.

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