

## **Department of Revenue & Industrial Hemp Program Questions and Answers**

### **1) Do I need to Register with Department of Revenue and obtain a business license to participate in the industrial hemp research project?**

**Answer:**

It depends on the activities you will conduct in Washington. In general, industrial hemp is an agricultural product, therefore, persons who grow industrial hemp qualify as farmers.

- If you intend to only grow (no processing) and wholesale industrial hemp (sell to someone who will resell the industrial hemp) then you are not required to register with the Department of Revenue or obtain a business license. Your income from these activities is exempt from business and occupation (B&O) tax under RCW 82.04.330.
- If you intend to process industrial hemp and you estimate that you will make more than \$12,000 per year, then you are required to register with the Department of Revenue and Obtain a business license.
- If you intend to make retail sales of industrial hemp (sales to end consumers), then you are required to register with the Department of Revenue and obtain a business license because these sales are subject to retail sales tax and the B&O tax under the retailing classification.

A business license can be obtained by completing a [Business License Application](#).

### **2) What taxes might I owe if I decide to grow or process industrial hemp?**

**Answer:**

It depends on the specific activities you conduct in Washington. In general, tax would apply as follows:

- If you only grow and make wholesale sales (sales to someone who will resell the industrial hemp) then your income is exempt from taxes in Washington.
- If you process industrial hemp and then sell the hemp you would owe business and occupation (B&O) tax on both the value of the industrial hemp processed and on the income from the sale of the hemp. However, in this situation, you would take a deduction for the lower of the two taxes, so that you only pay B&O tax once.
- If you make retail sales of industrial hemp (to consumers), you would owe B&O tax under the Retailing classification and you would be required to collect and remit retail sales tax on such sales. However, industrial hemp products sold as food for humans are exempt from sales tax.

If you have specific questions concerning the application of taxes to your activities and would like a binding written ruling you may write to the Department of Revenue at [rulings@dor.wa.gov](mailto:rulings@dor.wa.gov).

### **3) Are there any tax breaks or exemptions available to growers or processors of Industrial Hemp?**

#### **Answer:**

Yes, Industrial Hemp is considered to be an agricultural product; therefore, persons who grow industrial hemp are entitled to the same exemptions as any other farmer. These include:

#### **B&O Exemption for Wholesale Sales:**

As mentioned above persons that only grow and make wholesale sales of industrial hemp are exempt from business and occupation tax. RCW 82.04.330.

#### **Sales Tax Exemption for Replacement Parts**

A person growing industrial hemp (a farmer) who has sales of more than \$10,000 of agricultural products in a tax year, can purchase replacement parts and repair labor for machinery and equipment used primarily in growing, raising or producing agricultural products exempt from sales tax. To make such purchases, the farmer must provide the vendor with a completed [\*Farmers' Certificate for Wholesales Purchases and Sales Tax Exemptions\*](#).

#### **Purchases of feed, seed, seedlings, fertilizer, spray materials, or agents for enhanced pollination.**

Persons growing industrial hemp (farmers) may purchase feed, seed, seedlings, fertilizer, spray materials (pesticides) and agents for enhanced pollination (bees) without paying sales tax; such sales are considered to be wholesale transactions. The farmer must provide the vendor with a completed [\*Farmers' Certificate for Wholesales Purchases and Sales Tax Exemptions\*](#).

#### **Purchases of fuel to be used on the farm**

Persons growing industrial hemp (farmers) may purchase fuel (diesel, biodiesel and aircraft fuel) to be used on their farm for agricultural purchases exempt from sales tax. The farmer must provide the vendor with a completed [\*Farmers' Certificate for Wholesales Purchases and Sales Tax Exemptions\*](#). (RCW 82.07.865)

#### **Sales Tax Exemption on Manufacturing Machinery and Equipment**

Persons who process industrial hemp into other products may qualify for a sales tax exemption on purchases of machinery and equipment used directly in the manufacturing of their product. For more information on this exemption please see the Chapter 2 in our [\*Tax Guide for Manufacturers\*](#).

#### **Property Tax – Open Space Act**

Agricultural Land can qualify for the Open Space Act, which allows agricultural land to be valued at its current use rather than at its highest and best use for property tax purposes. For more information, please see the [\*attached brochure\*](#).

If you have specific questions concerning any exemptions and would like a binding written ruling you may write to the Department of Revenue at [rulings@dor.wa.gov](mailto:rulings@dor.wa.gov).

If you have general tax questions, you may call the Department of Revenue at (800) 647-7706.

