



New Tax Interpretation Aids Farm Solar Power

By George Runner

As an elected member of the California State Board of Equalization, I have the unique privilege of serving as a taxpayer advocate for the citizens of California.

California is the only state in the nation that has an elected tax board that is directly accountable to voters. The five-member board on which I serve administers more than 30 tax programs and fees, including sales and use tax, tobacco tax, fuel taxes and timber yield taxes. My fellow board members and I hear appeals relating to these taxes and fees, as well as state personal income tax appeals that originate from the Franchise Tax Board.

Each day, my staff and I work hard to ensure that taxpayers are treated fairly when dealing with California tax bureaucracies. Whether the issue is a tax appeal or an audit, we want to see taxpayers treated with the respect they deserve.

The district I represent is comprised of more than 9 million Californians and more than half of the state's land mass. The district spans much of inland California—from the Oregon border to Southern California—and includes the entire Central Valley. As you might suspect, tax issues impacting California farmers are of great interest and concern to me.

One of the issues my office has worked on this past year relates to the agricultural exemption for farm equipment. Current California law provides a partial sales and use tax exemption for equipment and machinery primarily used in agricultural activities. Farmers who purchase this equipment need not pay the state General Fund portion of the sales tax, but must still pay local sales taxes.

The definition of farm equipment and machinery is fairly broad and includes, among other things, agricultural heating and cooling equipment, livestock systems, irrigation systems and wind machines.

This seems straightforward enough, but someone must decide which specific equipment qualifies for the exemption, and which does not. The Board of Equalization makes these calls.

Given the high cost of farm equipment, the financial impact of even a seemingly small decision can have a huge impact on taxpayers.

Here's a real-life example: A growing number of California farmers are purchasing solar panels to help lower their irrigation system energy costs. Given that diesel generators receive a tax exemption, it came as a complete surprise when they were told that their new solar systems would not qualify for the same tax exemption.

This initial interpretation hinged on the fact that California law requires that these new solar systems be directly connected to utility distribution lines rather than to the irrigation systems they are purchased to power. Because there was no direct connection, farmers were initially denied the tax exemption.

Considering our state policymakers' enthusiasm for alternative and renewable energy solutions, this interpretation seemed simply absurd.

It is at times like this that taxpayers need a friend they can call for help. When I learned of this issue, I directed the staff to take a closer look. Working closely with the impacted farmers and the California Farm Bureau, my office was able to provide additional information to bring about a more reasonable outcome for California farmers.

I'm pleased to report that the Board of Equalization staff has released an opinion clarifying that the tax exemption can be applied to solar equipment if the taxpayer can "demonstrate that the solar facility is specifically designed to provide power to qualifying machinery."

Now that we've found a pathway to ensure this tax exemption is available, it's important for farmers to ensure they will qualify for the exemption before they make a purchase. However, farmers who have already purchased a solar system and paid the full tax should be aware that they may file a claim for refund for up to three years after a purchase.

I look forward to working with staff, the Farm Bureau and other interested parties to ensure that this information is available in a clear and concise manner.

As always, my office stands ready and willing to assist taxpayers who encounter problems with the board or other state tax agencies. Please do not hesitate to contact me should you need assistance.

Elected in November 2010, George Runner represents more than nine million Californians as a member of the State Board of Equalization. For more information, visit www.boe.ca.gov/Runner.