

Business and Occupation Tax

JULY 2011

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year, 2008, B&O tax collections totaled over \$2.8 billion, representing over 16 percent of the taxes deposited into the state general fund.

Many Washington cities also tax businesses on their gross income. To find out if your city has a B&O tax, call your city business license office.

ABOUT THE STATE BUSINESS AND OCCUPATION TAX

Almost all businesses located or doing business in Washington are subject to the state B&O tax, including:

- Corporations
- Limited liability companies (LLCs)
- Partnerships
- Sole proprietors
- Nonprofit organizations

A sale does not have to occur for a business to owe B&O tax.

Example: Extracting or manufacturing goods for your own use is an activity that generates a B&O tax liability.

Unlike many other states, Washington does not have an income tax. Washington's B&O tax is calculated on gross income. There are no deductions for labor, materials, or other costs of doing business. However, your business may qualify for certain exemptions, deductions, or credits permitted by law.

DO I NEED TO REGISTER MY BUSINESS?

Register your business with us if you:

- Gross \$12,000 or more per calendar year.
- Collect or pay any other taxes, including retail sales tax.
- Are required to obtain a specialized license, including a renewable license.
- Are a buyer or processor of cedar or specialty wood products.

For more information, see our publication *Do You Need to Register Your Business?* on our web site at dor.wa.gov.

WHEN DO I PAY MY TAXES?

The state B&O tax is calculated and paid when you file an excise tax return. Businesses file tax returns monthly, quarterly, or annually. After you register your business, we determine your reporting frequency based on the estimated annual tax liability and the type of business.

B&O TAX CLASSIFICATIONS AND RATES

WHAT ARE THE B&O TAX RATES?

B&O tax rates and classifications vary according to the type of business activity. Businesses may report under one or more tax classifications.

Example: A floor covering store may sell carpet directly to a homeowner or speculative builder for their own use (taxed under the Retailing classification) and may also sell carpet to a custom contractor, who will then resell it to the home buyer (taxed under the Wholesaling classification).

WHAT ARE THE MAJOR B&O TAX CLASSIFICATIONS?

Following are brief descriptions of the major B&O tax classifications:

RETAILING

Sales of goods and certain services to consumers are retail sales. There are numerous services defined as retail sales. See our *Retail Sales Tax* fact sheet at dor.wa.gov for additional information.

Businesses making retail sales are subject to the B&O tax under the Retailing classification, even when the sales are exempt from retail sales tax. For example, certain food sales are exempt from retail sales tax, but the income from food sales is taxable under the Retailing B&O tax classification.

WHOLESALING

Wholesalers sell goods and certain services to businesses that will resell them to others. Retail sales tax is not collected on wholesale transactions.

Reseller Permits

Free reseller permits are issued by the Department to businesses that buy qualifying items for resale without using or consuming them. Wholesalers must collect and keep a copy of a valid reseller permit on file from each buyer that makes purchases without paying sales tax. Permits are generally good for four years. Contractors, however, are issued reseller permits that are good for one year. Those who make qualifying purchases for resale, but do not have a reseller permit, may take a *Taxable amount for tax paid at source* deduction on their return or request a refund. Complete information about this sales tax deduction and the reseller permit are on our web site at dor.wa.gov/resellerpermit.

MANUFACTURING

The Manufacturing B&O tax classification is used by businesses that manufacture items in Washington, regardless of where the product is sold. Thus, products manufactured in Washington but sold and delivered out-of-state are still subject to the Manufacturing B&O tax. Manufactured products used by the manufacturer and not sold (or are used prior to sale) are also subject to tax under this classification.

The Manufacturing B&O tax is based on the value of products, which is usually determined by the selling price. In cases where there is no sale, the value is the selling price of similar products. If the manufacturer sells and delivers the manufactured product within the state, the income is also reported under either the Wholesaling or Retailing B&O tax classifications. A Multiple Activities Tax Credit (MATC) is available so B&O tax is not paid twice on the same product.

SERVICE AND OTHER ACTIVITIES

This classification is for businesses that provide personal and professional services or for activities not otherwise classified. Any activity that is not specified under a particular classification of the B&O tax must report under this *catch-all* category. Services that fall under this category include, but are not limited to:

- Consulting or management services
- Medical services
- Legal services
- Beautician services
- Computer programming

In addition to the major B&O tax classifications, there are several specialized tax classifications. Not all classifications appear on the paper excise tax return. Some classifications appear only on the return available through electronic filing.

MAJOR CLASSIFICATIONS

B&O Tax Classification	Tax Rate
Retailing	0.00471
Wholesaling	0.00484
Manufacturing	0.00484
Service and other activities	0.015, 0.018

SPECIALIZED CLASSIFICATIONS As of July 2009

Extracting, extracting and processing for hire; commissions of insurance agents/brokers; printing and publishing; child care, royalties; warehousing, radio and television broadcasting, public road construction, government contracting, treatment of chemical dependencies; retailing of interstate transportation equipment; and services provided to firms that can salmon products	0.00484
Cleanup of radioactive waste for US Government	0.00471
Manufacturing/selling commercial aircraft and components, Repair of commercial aircraft. July 1, 2007 - July 1, 2024	0.002904
Extracting timber and manufacturing timber/wood products. Effective July 1, 2007, sales of standing timber to be severed within 30 months July 1, 2007 - July 1, 2024 (additional surcharge 0.00052)	0.002956
Manufacturing/wholesaling aluminum	0.002904
Manufacturing/wholesaling of solar energy systems	0.00275
Travel agents, tour operators, stevedoring, freight brokers, licensed boarding homes, aircraft repair, manufacturing of computer microchips or semiconductor materials	0.00275
Processing meat (at wholesale), processing soybeans, canola, and dry peas, manufacturing wheat into flour; raw seafood, fresh fruit, vegetables and dairy products; warehousing/reselling of prescription drugs, and manufacturing biodiesel/alcohol fuel	0.00138
Gambling contests of chance (less than \$50,000 a year), public/nonprofit hospitals	0.015
Gambling contests of chance (\$50,000 a year or greater), pari-mutuel wagering	0.0163

You are responsible for determining which B&O tax classification(s) to report your income under. If you are unsure which classification(s) to use:

- Check our web site at dor.wa.gov. Click on *File and pay taxes*, then *Before I file*, then *Tax classifications*.
- Send an e-mail to communications@dor.wa.gov.
- Write to us for tax reporting instructions. (See address on back.)
- Call 1-800-647-7706.

EXEMPTIONS, DEDUCTIONS, AND CREDITS

Although Washington's B&O tax applies to almost all business income, various exemptions, deductions, and credits are available.

EXEMPTIONS

Some of the most common activities that are not subject to B&O tax are listed here. Income from exempt activities does not need to be reported on your tax return. This list is not all-inclusive.

■ Farming

Wholesale sales by farmers of agricultural products (WAC 458-20-210).

■ Nonprofit and social service organizations

- Fundraising sales from certain nonprofit organizations (does not include the regular operation of a business enterprise such as a bookstore, thrift shop, or restaurant) (WAC 458-20-169).
- Child care provided by churches.
- Receipt of certain government grants.
- Nonprofit boarding homes.

■ Government

- County, city, school, and fire district income (except utility or enterprise operations that compete with other businesses and are over 50 percent funded by user fees).
- State and federal grants received by political subdivisions where no significant services are performed in return.

■ Financial

State and federally chartered credit unions.

■ Miscellaneous exemptions

- Sale or rental of real estate other than lodging.
- Small timber harvesters whose gross income is less than \$100,000 per year.
- Processing fresh fruits and vegetables or wholesale sales of these products by the processor selling to purchasers who transport the goods out of this state.
- Manufacturing dairy and seafood products or wholesale sales of these products by the manufacturer selling to purchasers who transport the goods out of this state.

DEDUCTIONS

Unlike exemptions, deductions must first be reported on your tax return as part of your gross income, then taken as a deduction. The most common B&O deductions are listed below. This list is not all-inclusive.

Note: Businesses cannot deduct costs of doing business, including, but not limited to:

- Wages and salaries
- Product costs
- Delivery or travel costs

■ Advancements/reimbursements

Amounts received as advancements or reimbursements when the customer or client alone is liable to pay for the goods and services. The person making the payment cannot have primary or secondary liability, other than as agent, to pay for the goods and services. (WAC 458-20-111)

■ Returns/allowances/cash discounts

When the customer returns the product and the entire selling price is refunded or credited. Bona fide discounts taken by the buyer. (WAC 458-20-108)

■ Bad debts

Amounts previously reported and determined to be uncollectible. The debt must also be written off for IRS purposes. (WAC 458-20-196)

■ Casual sales

Amounts received for sales of tangible personal property by persons not usually selling such items. **Note:** The seller must collect and remit the sales tax. (WAC 458-20-106)

■ **Accommodation sales**

Amounts received by a business for selling goods at cost to a like business to fill an existing order. (WAC 458-20-208)

■ **Interstate and foreign sales**

Amounts received from goods delivered to customers outside of Washington. Transportation of persons or goods across state or international boundaries. Documentation is necessary.

Note: Manufacturers and extractors who sell outside of Washington must report under the manufacturing or extracting classifications. This deduction is not valid for these classifications. Service providers must render the service outside state boundaries.
(WAC 458-20-193, -193C, -194)

CREDITS

Credits are granted by the Legislature for specific purposes or are amounts that have been paid to the Department that are not due. Credits are subtracted from the B&O tax due on your tax return. If the Department determines you have overpaid your taxes, you will be issued a credit memorandum for that amount. This can be applied to any tax due for up to five years. When the credit is used, a copy of the memorandum must be attached to the return.

The major B&O tax credits are:

■ **Multiple activities tax credit (MATC)**

When a business performs more than one taxable activity for the same product, such as manufacturing and selling a product at wholesale, it reports each activity under the proper B&O classification. The business can then take the MATC so B&O tax is only paid once on the same amount.

This also applies to a business that has paid a gross receipts tax to another state or an out-of-state city. A Multiple Activities Tax Credit, Schedule C, must be completed each time the credit is claimed. (WAC 458-20-19301)

■ **Small business B&O tax credit**

Available for businesses whose combined B&O tax liability for all classifications is less than:

- \$71 for monthly taxpayers
- \$211 for quarterly taxpayers
- \$841 for annual taxpayers

The Small Business B&O tax credit is taken after other B&O tax credits allowed under Chapter 82.04 RCW have been applied. It may not exceed the amount of B&O tax due, and unused portions may not be carried into the next reporting period.

Other B&O tax credits are available for qualifying businesses. They include:

■ **High technology B&O tax credit**

An annual credit up to \$2 million is allowed for businesses that perform research and development in certain areas in Washington AND meet the minimum expense requirements. For additional information, see our Special Notice, *High Technology Business and Occupation Tax Credit Changes* available at dor.wa.gov.

■ **Commute trip reduction credit**

Available to employers and property managers who provide financial incentives for using commute trip reduction methods. See our Special Notice, *Commute Trip Reduction Credit Program - 2005 Updates* available at dor.wa.gov.

■ **Rural county B&O tax credit for new employees**

Provides a credit for qualified businesses located in eligible areas against B&O tax for each new employment position filled and maintained. See our *Rural County Business and Occupation Tax Credit for New Employees* publication available at dor.wa.gov.

E-FILE

FILING B&O TAXES ELECTRONICALLY

We provide an easy way to file taxes online. E-file is the fastest, most accurate and secure way to file taxes. Returns filed electronically are processed more quickly and are checked for errors or omissions before they are filed. E-file is located on the our web site at dor.wa.gov.

E-file offers a guided filing process, automatically calculating taxes due. E-file also provides online tools to streamline the filing process for each taxpayer, secure messaging to ask questions, and access to the latest tax laws and rules.

SECURE INFORMATION AND PAYMENT CONNECTIONS

When filing electronically, a secure, encrypted connection is established. Tax information remains confidential, yet accessible to you any time. Payment can be made through electronic funds transfer, E-check and credit card.

STAY CURRENT ON TAX INFORMATION AND DEADLINES

Businesses that register with E-file have access to our free listserv. This optional service will automatically send:

- Reminders to file
- Information on enhancements to the E-file application
- Notification of system maintenance

To file tax returns online, visit dor.wa.gov, and click on *File and pay taxes*. New users create a logon ID and password by clicking *Register now* and following the simple steps. Have your nine-digit tax registration number (UBI) and eight-character access code (PAC CODE) ready. These are located on the mailing label of your paper return. Once registered, click on *File return* to begin electronic filing.

ADDITIONAL INFORMATION

For more information, or for assistance setting up your E-file account, call 1-877-345-3353.



OTHER HELPFUL HINTS

- The B&O tax is a cost of doing business and should not be billed to your customer as a separately stated item (as is the sales tax).
- Taxes must be paid on all accrued sales made during the reporting period, even if you have not received payment, unless you keep your books strictly on a cash basis.
- If your business information changes (address, telephone, business activities, etc.), you can:
 - Make the changes on our web site by logging on to *My account*. Then click on *Manage business account* in the left navigation bar.
 - Call 1-800-647-7706.
 - Visit or call one of our local offices.
- If you realize you've made a mistake on your tax return, file an amended return. For information about amending a return, go to dor.wa.gov and click on *File and pay taxes* on the left menu. Scroll to bottom of the page and click a link under *File or amend my return*.

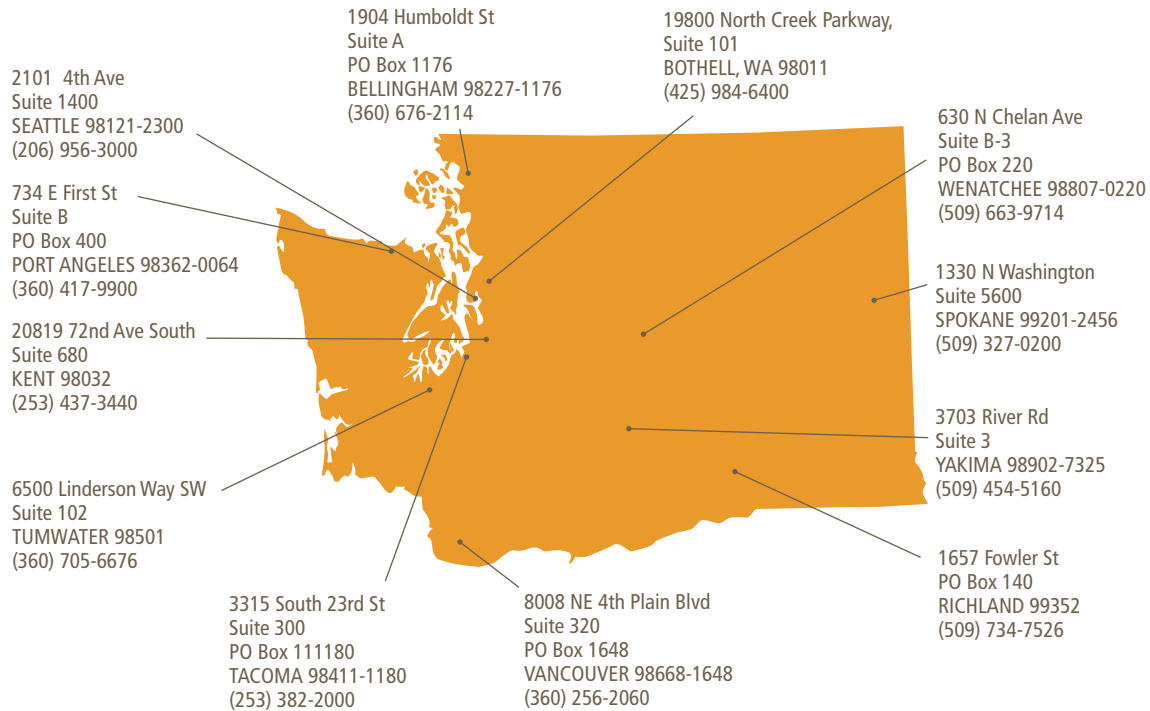
NEED MORE INFORMATION?

We have a number of resources available to assist you.

- Access our web site at dor.wa.gov for all the resources noted in this publication, as well as tax returns, up-to-date information on tax changes, and answers to frequently asked questions.
- Call or visit any of our 12 local offices. See the back page for locations and numbers.
- Contact our toll-free Telephone Information Center for numerous automated services or to ask your questions at 1-800-647-7706.
- Write to us at:
Washington State
Department of Revenue
Taxpayer Information and Education
PO Box 47478
Olympia, WA 98504-7478
FAX: (360) 705-6655

DEPARTMENT OF REVENUE TAXPAYER ASSISTANCE

LOCAL OFFICE LOCATIONS



TELEPHONE INFORMATION CENTER

1-800-647-7706

WEBSITE

dor.wa.gov

MAILING ADDRESS

Washington State Department of Revenue
PO Box 47478
Olympia, WA 98504-7478

For tax assistance or to request this document in an alternate format, visit <http://dor.wa.gov> or call 1-800-647-7706. Teletype (TTY) users may call (360) 705-6718.

The information contained in this fact sheet is current as of the date of this publication and provides only general information. It does not alter or supersede any administrative regulations or rulings issued by the Department.

