

# TaxFacts

Washington State Department of Revenue

JULY 2011

## Welcome to the online Tax Facts

This twice-yearly publication summarizes changes and provides information about tax laws administered by the Department of Revenue. By making this document available online, we are able to provide more information than was possible in the paper version.

### Find articles of interest

We invite you to scroll through the pages, or click on the title in the Table of Contents to move directly to an article of interest. Click the Revenue icon in the top left corner to return to the contents page. Additional links within the articles will take you to our [website](#) where you can find more information on the topic.

### Keep a copy for your files

This format allows you to print the whole document or just print the pages with information related to your business. If you are going paperless, just download this document to your computer.

### Stay informed

Tax Facts is published each July and December. [Back issues of Tax Facts](#) are available on our website.

## Contents

### 2011 Legislative tax updates

Employee meals.....	2
Real estate brokerage commissions.....	2
Sales tax exemption for manufacturing machinery & equipment (M&E) clarified.....	2
Sales of medical cannabis remain subject to sales tax.....	2
Quarterly taxpayers required to file and pay electronically.....	2
B&O tax deduction for health and social welfare organizations.....	2
Stirling converter manufacturers.....	3
Property management B&O tax deduction.....	3
Nonresident sales tax exemption.....	3
Master license service.....	3
B&O tax deduction for mental health service providers.....	3
High tech R&D credit voluntary donation program.....	3
Secure payment of delinquent taxes.....	3

### Tax news

Revenue adds business licensing service.....	4
New online business guide.....	4
Tax simplification project.....	4

Notice to auto repair facilities.....	5
Tracking reseller permits even easier.....	5
Quarterly taxpayers required to file and pay electronically.....	6
Federal diplomatic tax exemption card.....	6
Changes to sales tax exemption on solar and other renewable energy systems program.....	7
Single factor receipts apportionment reconciliation form.....	7
Close Everett office, open Bothell Office.....	7

### New laws, rules and notices

Rule making.....	8
Special notices.....	9
Washington tax decisions.....	9

### Filing your return

Tax return tips.....	10
----------------------	----

### Tools and resources

Plan for and pay your taxes video.....	11
E-file is even easier with online tutorials.....	11
Update your business information.....	12
Join our distribution lists.....	12
Free tax workshops.....	12



# 2011 Legislative tax updates

The 2011 Legislature made several changes to taxes and programs administered by the Department of Revenue. Following is a brief summary of some of the bills affecting excise taxes. For more information, please refer to the bill at <http://apps.leg.wa.gov/billinfo/>.

## **Employee meals**

*Effective July 1, 2011*, Senate Bill (SB) 5501 (Chapter 55, Laws of 2011) provides an exemption from sales tax, use tax, and business and occupation tax for restaurant operators on employee meals when the meals are provided to employees without a specific charge. Previously such meals were taxed based on the value of the meals. This exemption extends only to “restaurants” and excludes grocery stores, mini-markets, and convenience stores or businesses making sales through vending machines or through mobile sales units such as catering trucks or sidewalk vendors of food or beverage items. [Special Notice](#)

## **Real estate brokerage commissions**

*Effective July 22, 2011*, Senate Bill (SB) 5083 (Chapter 322, Laws of 2011) addresses the basis for determining taxable income for businesses providing real estate brokerage services in this state. The legislation provides when a real estate commission on a particular transaction is divided among real estate firms at the closing of the transaction, each firm receiving part of the commission must pay business and occupation (B&O) tax only upon its respective share of the total commission.

[Special Notice](#)

## **Sales tax exemption for manufacturing machinery & equipment (M&E) clarified**

*Effective April 11, 2011*, House Bill (HB) 1347 (Chapter 23, Laws of 2011) clarifies that for the purposes of the manufacturing machinery and equipment sales and use tax exemption (commonly referred to as the “M&E exemption”), public service businesses (for activities taxable under the state public utility tax) and state agencies are not manufacturers. The bill also clarifies that the production of class A or exceptional quality bio-solids by a wastewater transfer/treatment facility is considered a manufacturing activity.

The bill also defines printing newspapers or other materials as a manufacturing activity for purposes of the M&E exemption. This bill is effective retroactively to any tax period open for assessment or refund of taxes. [Special Notice](#)

## **Sales of medical cannabis remain subject to sales tax**

*Effective July 22, 2011*, Engrossed Second Substitute Senate Bill (ESSB) 5073 (Chapter 181, Laws of 2011) makes changes to laws governing the medical use of cannabis. This law does not affect the taxability of sales of medical cannabis to consumers. Such sales remain subject to retailing B&O tax and retail sales tax. [Special Notice](#)

## **Quarterly taxpayers required to file and pay electronically**

*Effective July 22, 2011*, Engrossed House Bill (EHB) 1357 (Chapter 24, Laws of 2011) requires quarterly taxpayers to file and pay their business excise taxes electronically. The change goes into effect with the Quarter 2, 2011 excise tax return, due July 31. For more information on this new legislation, visit <http://dor.wa.gov/mandatory-file> or call 1-877-345-3353.

## **B&O tax deduction for health and social welfare organizations**

*Effective July 22, 2011*, Engrossed Substitute House Bill (ESHB) 1902 (Chapter 163, Laws of 2011) provides a business and occupation (B&O) tax deduction for health and social welfare organizations for amounts received as compensation for providing child welfare services under a government-funded program. A deduction from B&O tax is also provided to taxpayers for amounts received from the state of Washington for distribution to a nonprofit health or social welfare organization eligible to deduct the distribution. These deductions apply to amounts received on or after August 1, 2011. [Special Notice](#) coming soon.



# 2011 Legislative tax updates

## **Stirling converter manufacturers**

*Effective July 22, 2011*, Senate Bill (SB) 5526 (Chapter 179, Laws of 2011) reduces the B&O tax rate to 0.275 percent for the manufacturing of solar energy systems using stirling converters and for wholesale sales of such solar energy systems by the manufacturer. The bill defines “stirling converter” as a device that produces electricity by converting heat from a solar source using a stirling engine. The bill also adds stirling converters manufactured in Washington to the type of equipment eligible for higher incentive payments under the Renewable Energy System Cost Recovery Program. [Special Notice](#) coming soon.

## **Property management B&O tax deduction**

*Effective August 24, 2011*, Senate Bill (SB) 5289 (Chapter 26, Laws of 2011 1st Special Session) replaces the existing B&O tax exemption under RCW 82.04.394 (for certain payments received by qualifying property management companies related to on-site personnel) with a new deduction for certain property management companies for amounts received for wages, benefits, and payroll taxes paid to, or for, personnel performing on-site functions. [Special Notice](#) coming soon.

## **Nonresident sales tax exemption**

*Effective July 1, 2011*, Senate Bill (SB) 5763 (Chapter 7, Laws of 2011) modifies the nonresident retail sales tax exemption (RCW 82.08.0273) to explicitly disallow nonresidents from claiming the exemption if they reside in a jurisdiction that imposes a value added tax, gross receipts tax on retailing activities, or similar generally applicable tax, and the rate of the tax is 3 percent or more. The statute previously excluded only residents of jurisdictions imposing a retail sales or use tax of 3 percent or more.

## **Master licensing service**

*Effective July 1, 2011*, Substitute House Bill (SHB) 2017 (Chapter 298, Laws of 2011) transfers administration of the Master License Service (MLS) program from the Department of Licensing to the Department of Revenue (DOR). MLS staff will join DOR by July 1, 2011.

## **B&O tax deduction for mental health service providers**

*Effective August 24, 2011*, Second Engrossed Substitute House Bill (2ESHB) 1224 (Chapter 19, Laws of 2011 1st Special Session) provides a B&O tax deduction for health or social welfare organizations for amounts received as compensation for mental health services provided under a government-funded health program. The bill also provides regional support networks a B&O tax deduction for pass-through amounts. Amounts qualifying for a deduction are those received from the state for distribution to a health or social welfare organization that is entitled to deduct the distribution. These deductions apply to amounts received on or after August 1, 2011. [Special Notice](#) coming soon.

## **High tech R&D credit voluntary donation program**

*Effective June 6, 2011*, Engrossed Substitute House Bill (ESHB) 2088 (Chapter 13, Laws of 2011 1st Special Session) authorizes persons eligible for the high technology research and development B&O tax credit to contribute all or any portion of the credit to the “Opportunity Expansion Program,” which provides funding for state institutions of higher education to implement innovative programs to increase the number of bachelor’s degrees in certain programs of study. [Special Notice](#) coming soon.

## **Notice of lien to secure payment of delinquent taxes**

*Effective January 1, 2012*, House Bill (HB) 1239 (Chapter 131, Laws of 2011) provides that in lieu of filing a tax warrant with a superior court, the Department of Revenue may file a notice of lien for any real property in which the taxpayer has an ownership interest if the total amount of the warrant exceeds \$25,000, and DOR determines that issuing the notice of lien would best protect the state’s interest in collecting the amount due on the warrant.



# Tax news

## Revenue adds business licensing service

The state's Master License Service, used by businesses for registering and renewing state and local business licenses and certifications, moves to the Department of Revenue on July 1, 2011. With the transfer, its name will change to Business Licensing Service (BLS). The move was approved in the 2011 legislative session and aligns with the governor's recent Executive Order to have state agencies streamline services for small business.

Revenue staff members are committed to making the transition seamless for partners and businesses. By consolidating business registration, license renewal, and taxpaying services in a single agency, our state moves another step toward a "one-stop" business services website, which remains a priority for many business groups. The updated BLS also adds a toll-free number, 800-451-7985, and gets a new website at [business.wa.gov/BLS](http://business.wa.gov/BLS).

## New online business guide

As a result of the Governor's small business executive order, a new consolidated [online business guide](#) has been developed. This new guide takes information that has been available through a variety of small business licensing, registration and certification guides in to one integrated online resource. This guide is divided in to four primary sections; Plan, Start, Run, and Grow. The guide will be available July 1. Links to the guide will also be available on the websites of key state agencies that regulate business and [business.wa.gov](http://business.wa.gov).

## Tax simplification project

The Governor directed the Department of Revenue to work with stakeholders to identify ways to simplify the tax code and reduce the burden and costs to small businesses. This direction was provided in Executive Order 10-05 (Items 3 and 5).

Revenue Director Suzan DelBene met with small businesses, local government officials, and other interested stakeholders to:

- Identify administrative challenges that businesses currently face
- Identify ways to reduce the complexity of the tax system
- Develop findings and recommendations for the Governor

On June 30, 2011, the Department of Revenue completed:

- Developing a list of options to reduce the burden on small businesses
- Evaluated the options
- The communication of findings and recommendations to the Governor

The report is available our [website](#) under *News and announcements*, click on [Tax simplification report](#).



# Tax news

## Notice to auto repair facilities

Under Washington's Auto Repair Law, customers are entitled to:

1. A written estimate for repairs which will cost more than \$100, unless waived or absent face-to-face contact (see item 4).
2. Return or inspection of all replaced parts, if requested at the time of repair authorization.
3. Authorize orally or in writing any repairs which exceed the estimated total pre-sales tax cost by more than 10%.
4. Authorize any repairs orally or in writing if the customer's vehicle is left with your facility without face-to-face contact between the customer and repair facility personnel.
5. A copy of the invoice clearly and accurately listing all work done and parts supplied. A repair facility that fails to comply with these requirements may not file a possessory or chattel lien for the amount of unauthorized parts or labor upon the motor vehicle or component.

This general summary is not intended to cover all legal implications of the law. It is provided annually by the Department of Revenue, as required by [RCW 46.71.090](#).

## Updates make using, tracking reseller permits even easier

By now, just about everybody in retail in our state knows that reseller permits replaced self-issued resale certificates in 2010. The results have been positive with more controls ensuring that sales tax gets paid fairly and that misuse is greatly reduced. What may not be as well known are some of the changes that were made to the reseller permit program during the 2010 legislative session. Some of the changes made were:

- Permits for contractors can now be auto renewed by the department. Previously, contractors had to reapply each time their permit expired. Instead, the Department will automatically renew permits to contractors that meet certain criteria.
- Contractor permits will be valid for two years instead of one.
- The requirement for sellers to retain a physical copy of a buyer's permit is eliminated if the seller validates its customers' permit numbers using the department's Reseller Permit Verification Service at least annually. This service will provide businesses with a verification code that is used as supporting documentation along with the permit number.

For more information about reseller permits visit [dor.wa.gov/resellerpermit](http://dor.wa.gov/resellerpermit).



# Tax news

## Quarterly taxpayers required to file and pay electronically

Beginning Quarter 2, 2011, quarterly taxpayers are required to file and pay their business excise taxes electronically. (Engrossed House Bill 1357)

This change was authorized by the legislature to extend the cost savings achieved in 2009 when monthly taxpayers were required to file and pay electronically. Detailed information about E-file and a list of the electronic payment options are available on our website at [dor.wa.gov/mandatorye-file](http://dor.wa.gov/mandatorye-file).

Taxpayers who are unable to file and pay electronically may request a waiver. Reasons a waiver may be granted include:

- No computer
- No internet access
- No bank account or credit card

Mail waiver requests to:

Electronic Filing and Payment Team  
Department of Revenue  
PO Box 47476  
Olympia, WA 98504-7476

E-file, our online filing tool, offers many benefits, such as 24/7 access to tax returns and payment systems, instantaneous delivery of returns with confirmation, and automatic error checking. To see an overview of the My Account registration and E-file process, see the [Preview of My Account and E-file](#) web page.

## Federal diplomatic tax exemption card

Beginning on or around June 16, 2011, the Department of State will begin to issue a newly designed Diplomatic Tax Exemption Card. The exemption cards are used to authorize the exemption from sales, occupancy, restaurant/meal, and other similar taxes, on the official and personal purchases of foreign diplomatic and consular missions and their members in the United States.

The new design will no longer use its current "blue/yellow stripe" feature. The new card incorporates security features to defeat attempts to manufacture counterfeit cards. These features include:

- The use of animal images to convey the level of exemption the cardholder is authorized to receive.
- Description of the cardholder's level of entitlement to tax exemption privileges presented on both sides of the card.
- Laser engraved personalized data.
- Tactile micro-text.

The Department of State anticipates that all existing Diplomatic Tax Exemption Card issuances will be replaced with the newly designed document no later than August 31, 2011. Therefore, vendors should continue to accept the existing document until that date. More information on exemption cards can be found on our website: [Foreign diplomats tax exemption program](#), Special notice.



# Tax news

## Changes to sales tax exemption on solar and other renewable energy systems program

Beginning July 1, 2011, certain purchases of machinery and equipment used directly in generating electricity from solar energy will no longer be exempt at the point of sale, but will require the buyer to pay the sales tax to the seller and installer, and then apply to the Department of Revenue for a refund equal to 75 percent of the tax paid. This refund program applies to:

- Solar energy systems that produce more than 10kW of electricity
- Qualified renewable energy systems that produce at least 1kW of electricity

### The refund program expires July 1, 2013.

There are no changes to the exemption for purchasers, sellers, and installers of solar energy systems that are capable of producing no more than 10kW of electricity. The exemption for such systems also expires July 1, 2013.

## Single factor receipts apportionment reconciliation form

As of June 2010 taxpayers who apportion their income must use what is called “single factor receipts” apportionment. Reconciling apportioned income to actual income is required by October 31 yearly. Use the form [Annual Reconciliation of Apportionable Income](#), which is online at [dor.wa.gov](http://dor.wa.gov). For Single Factor Receipts Apportionment information see Emergency WAC 458-20-19402 , and for Economic Nexus information visit [dor.wa.gov/economicnexus](http://dor.wa.gov/economicnexus).

## Revenue to close Everett office, open Bothell office to the public

The Washington State Department of Revenue is closing its Everett office and relocating the staff to its Bothell location. The Everett office will close Aug. 26. The Bothell office will open its new customer service counter on Monday, Aug.30.

Consolidating the two offices will reduce the agency’s future operating costs, while allowing continued face-to-face assistance to taxpayers north of Seattle, said Director Suzan DelBene.

The Bothell office is located at 19800 North Creek Parkway, Suite 101. The phone number to the office is (425) 984-6400. For directions, a mailing address or the fax number, visit our website at [dor.wa.gov](http://dor.wa.gov) and click on Contact us.



# New laws, rules and notices

## Rule making

Below is a listing of the Department of Revenue's recent tax rule adoptions and repeals. For specific information on the rule changes, to obtain a copy of a newly adopted rule, or for more information regarding how these rules may affect you, go to [dor.wa.gov](http://dor.wa.gov) and click on *Find a rule or law*, then under *Rule making* click *Adoptions and repeals*.

Questions? Call our Telephone Information Center at 1-800-647-7706.

### Excise tax rules (WACs) adopted or amended:

- 458-20-144 Printing Industry
- 458-20-19401 Minimum Nexus Thresholds for Apportionable Activities
- 458-20-19402 Single Factor Receipts Apportionment-Generally
- 458-20-19403 Single Factor Receipts Apportionment-Royalties
- 458-20-19404 Financial Institutions-Income apportionment
- 458-20-10001 Adjudicative Proceedings-Brief Adjudicative Proceedings-Certificate of Registration (Tax Registration Endorsement) Revocation
- 458-20-102 Reseller Permits
- 458-20-102A Resale Certificates
- 458-20-270 Telephone Program Excise Tax Rates

### Changes to interpretive/policy statements

We issue interpretive and policy statements, such as Excise Tax Advisories (ETAs) to explain how tax applies to a specific set of facts or to address specific issues. These statements are issued or cancelled periodically based primarily on changes in the tax law. Statements that are cancelled can no longer be relied upon for tax application.

### Excise tax advisories (ETAs) adopted:

- 3164.2011 Public utility pole attachment contracts. *Issued January 18, 2011.*
- 3076.2011 Deductibility of interest received on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties. *Issued January 21, 2011*
- 3165.2011 Dry stack storage. *Issued February 18, 2011*
- 3016.2011 Automobile towing and roadside assistance services. *Issued February 28, 2011*
- 3084.2011 Retail sales tax – charges for towing damaged or inoperable vehicles for repair. *Issued February 28, 2011*
- 3163.2011 Qualifying equipment under the data center exemption. *Issued March 15, 2011*
- 3112.2011 Processing perishable meat products. *Issued April 29, 2011*
- 3161.2011 Apportionment of income by stockbrokers and security houses. *Issued May 13, 2011*
- 3159.2011 Internet protocol (ip) enabled telecommunications service taxability, sourcing, and allocation. *Issued May 20, 2011.*
- 3166.2011 5% Substantial underpayment penalty may apply to non-qualifying purchases under the deferral program. *Issued June 2, 2011*
- 3403.2011 Low-density light and power utility deduction. *Issued June 3, 2011*



# New laws, rules and notices

## Special notices

The following Special Notices were issued in the last month. These notices discuss current issues as well as changes resulting from new legislation. They are available online at [dor.wa.gov](http://dor.wa.gov) under [Get a form or publication](#). You may also call 1-800-647-7706 to have a copy sent to you.

### Cannabis, medical

Sales of medical cannabis remain subject to sales tax. *Issued May 31, 2011*

### Employee meals

Restaurants providing complimentary meals to employees. *Issued May 24, 2011*

### Manufacturing

Sales and use tax exemption for qualifying manufacturing machinery and equipment clarified. *Issued June 7, 2011*

### Real estate brokers

Real estate brokerage commissions. *Issued June 2, 2011*

### Renewable energy industry/solar energy

Sales tax exemption on solar and other renewable energy systems changes to program. *Issued June 7, 2011*

## Washington tax decisions

For specific information on recently issued Washington Tax Decisions (WTDs), or for more information regarding how these decisions may affect you, go to [dor.wa.gov](http://dor.wa.gov), click on *Find a rule or law*, then click on a link under the heading Washington Tax Decisions (WTDs).



# Filing your return

## Tax return tips

If you have been assigned a monthly, Quarterly or Annual reporting frequency, you must file a tax return even if you had no business activity and owe no taxes.

If you are an active non-reporting business and had business activity grossing over \$28K or were required to collect sales tax you must file a return.

## Completing and filing your return online

E-file, the Department's online filing tool, is even easier now. Tutorials posted on the most commonly used pages provide filers with a step-by-step guide on how to complete the return. The tutorial also illustrates how you can customize your online return to show only the fields you need.

E-file offers automatic error checking and immediate delivery with a confirmation number. E-file also automatically calculates the Small Business B&O Tax Credit.

To use E-file, go to our website at [dor.wa.gov](http://dor.wa.gov) and click *File my taxes online*.

## Completing and filing a paper return

Use the paper return we mailed to you or download a return from our website. Use black ink when completing the return. If you are mailing a check with your return, the payment must be received by the Department by the return due date or penalties and interest may apply.

All monthly and quarterly filers are required to file and pay electronically.

## Local sales/use tax changes

To find a location code and tax rate, see the [Local Sales and Use Tax Rates and Changes Flyer](#) available on our website or included with your paper tax return. Select [Find taxes and rates](#) from our home page, then select [List of sales and use tax rates](#).

You can also find the correct tax rate and location code using our online [Tax rate lookup tool](#).

## Small business B&O tax credit

Don't forget to check if you qualify to take the [Small Business B&O Tax Credit](#). Instructions and a chart to calculate the credit are included with your tax return (E-file does this automatically).

## Calculate the litter tax

Retailers, wholesalers, and manufacturers of certain products owe litter tax on the value of the product or the gross proceeds from the sales of these products. ([WAC 458-20-243](#))

Need help? Call for assistance at 1-800-647-7706.



# Tools and resources

## Plan for and pay your taxes video (English and Spanish)

To help new businesses understand their tax reporting responsibilities, an online video called *Plan for and pay your taxes* was created. This project was a joint effort sponsored by the departments of Revenue, Labor and Industries, and Employment Security.

### The video provides basic information that includes:

- Which taxes do I have to pay?
- What rate will I pay?
- How often – and when – must I file?
- How do I file and pay?

For businesses looking for more information, there are links and contact numbers at the end of the video. The video is available on our [website](http://dor.wa.gov) – in English at [dor.wa.gov](http://dor.wa.gov) and in Spanish at [dor.wa.gov/espanol/](http://dor.wa.gov/espanol/).

## E-file is even easier with our online tutorials

If you have yet to discover the advantages of filing online, now's the time. The Department recently added page-specific tutorials to E-file that will help the novice filer complete and submit a tax return with confidence.

The tutorials address the most common questions new filers have. They also teach you how to customize your return so it shows only the fields you have to complete. To view the tutorial, just click the Tutorial icon near the upper right corner of the E-file page.

There are many advantages to filing electronically. E-file offers an automatic review to check for errors or missing information. It also offers guaranteed delivery and a confirmation code – no more last minute dashes to the Post Office. Also, when you file online, your return is stored for you in your account. You have 24/7 access to electronically filed returns.

To access E-file, go to our website at [dor.wa.gov](http://dor.wa.gov) and click on *File my taxes online* (E-file). If you don't have an online account with us, click on *Register now* and follow the prompts.



Website: [dor.wa.gov](http://dor.wa.gov) 1-877-345-3353



# Tools and resources

## Update your business information

With the upcoming legislative session, there may be changes that affect your business. The Department works hard to notify businesses when these changes occur, but we can't reach you if we don't have your current contact information.

If you have an online account with the Department, we request that you [log on](#), select *Manage business account* and choose *Update business information*. If you don't have an online account, you can update your information by calling 1-800-647-7706.

## Stay informed. Join our distribution lists

If you have an interest in a particular issue, chances are there is an email distribution list that will provide you with the most recent updates. Distribution lists can also provide you with filing reminders, changes to excise tax rates, news releases and many other topics. Just choose the information or service you're interested in and join the list.

To sign up for one of our distribution lists, go to our website at [dor.wa.gov](http://dor.wa.gov) and click on *Doing business*. Under *My account*, click on *More services*, then click on *Email notifications* and follow the directions.

## Free tax workshops

We offer workshops free of charge throughout the state. To view the schedule or for more information, visit our website at [dor.wa.gov](http://dor.wa.gov), click on *Workshops and education* from the left side menu. Once you find the workshop that's right for you, register online or call us to sign up.

## Contact

**Bellingham (360) 594-4840**

**Bothell (425) 984-6400 *Opens Aug 30***

**Everett (425) 356-4800 *Closes Aug 27***

**Kent (253) 437-3440**

**Port Angeles (360) 417-9900**

**Richland (509) 734-7526**

**Seattle (206) 727-5300**

**Spokane (509) 327-0200**

**Tacoma (253) 382-2000**

**Olympia (800) 647-7706**

**Vancouver (360) 256-2060**

**Wenatchee (509) 663-9714**

**Yakima (509) 454-5160**