

# Mitigation: Destination-based Sales Tax Impact on Businesses and Tax Reporting

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## Background

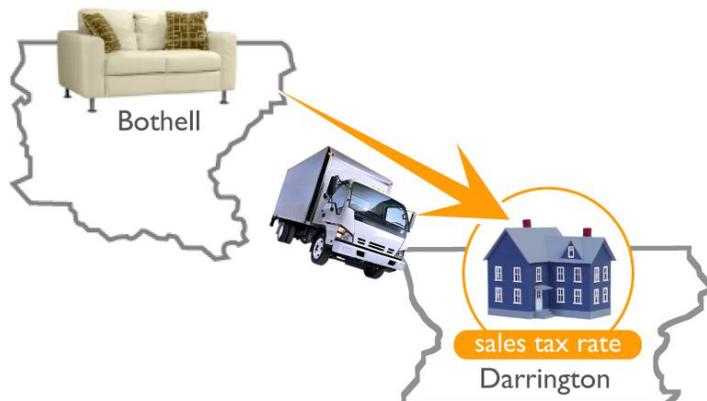
Under current law Washington retailers collect sales tax based on the jurisdiction from which a product is shipped or delivered - "origin-based" sales tax. [Chapter 6, Laws of 2007 \(SSB 5089\)](#) changes that. Starting **July 1, 2008**, Washington retailers must collect sales tax using the rate for the location where the customer receives the goods - "destination-based" sales tax.

However, if a business does not deliver merchandise, it will do business as usual. There is no change for over-the-counter sales where customers take home goods from the store location in Washington. There is also no change to sales to out-of-state customers. Other sales not affected by this change are:

- wholesale sales
- most services
- sales of motor vehicles, trailers, semi-trailers, aircraft, watercraft, modular homes, and manufactured and mobile homes
- florists (more than 50% of sales must be cut flowers and similar items)
- sales that are already destination based, such as construction activities

## Example of an impacted business and its tax reporting:

A furniture store is located in Bothell. Total monthly sales for the business are \$225,000. The furniture store sold \$220,000 in merchandise at the storefront location and delivered a \$5,000 couch to a resident in Darrington.



## Before July 1, 2008 - Reporting local taxes under origin-based sales:

If the customer buys a couch from the furniture store in Bothell and asks to have it delivered to her home in Darrington, the sales tax is based on the **tax rate in Bothell**. Over-the-counter sales of merchandise taken home from the furniture store location in Bothell are also taxed at the **Bothell tax rate**. Local sales tax revenue from both types of sales goes to the city of Bothell (location code 3120).

The furniture store completes the local tax portion of the return as follows:

III LOCAL CITY AND/OR COUNTY SALES AND USE TAX				
Local Sales Tax (Enter applicable rate of tax.)				Code 45
Total Taxable Amount must be the same as line 17, column 3, Taxable Amount				
Line No.	Location Code	Taxable Amount	Local Rate	Tax Due City or Co.
19	3120	225,000	.024	5,400
20				
21				
22				
TOTAL TAXABLE		225,000	TOTAL	5,400

## Starting July 1, 2008 - Reporting local taxes under destination-based sales:

If a customer buys a couch from the furniture store in Bothell and has it delivered to her home in Darrington, the sales tax is based on the **tax rate in Darrington**. The local sales tax revenue from this purchase goes to the city of Darrington (location code 3103).

However, over-the-counter sales of merchandise taken home from the furniture store location in Bothell continue to be taxed at the **Bothell tax rate**. This local tax revenue goes to Bothell (location code 3120).

The furniture store completes the local tax portion of the return as follows:

III LOCAL CITY AND/OR COUNTY SALES AND USE TAX				
Local Sales Tax (Enter applicable rate of tax.)				Code 45
Total Taxable Amount must be the same as line 17, column 3, Taxable Amount				
Line No.	Location Code	Taxable Amount	Local Rate	Tax Due City or Co.
19	3103	5,000	.020	100
20	3120	220,000	.024	5,280
21				
22				
TOTAL TAXABLE		225,000	TOTAL	5,380