Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE JUNE 2, 2011

Real Estate Brokerage Commissions

Introduction

Senate Bill 5083 (Chapter 322, Laws of 2011) addresses the basis for determining taxable income for businesses providing real estate brokerage services in this state. Such businesses are referred to in this notice as “real estate firms.” This bill also updates terms and definitions for consistency with real estate licensing laws.

What the legislation does

The legislation provides that 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.

As a result, when commissions are paid at the closing of a transaction to any real estate firm, including a real estate firm that is not representing any party to the transaction, the paying real estate firm can deduct the amount of the commission from its gross income as the recipient real estate firms must pay B&O tax on the amount they receive.

The legislation also clarifies that a real estate firm located outside the state of Washington that has nexus with Washington owes B&O tax on its share of commission from transactions in Washington.

Effective date

The legislation is effective July 22, 2011.

For more information

Visit our website at dor.wa.gov, send an email to dorcommunications@dor.wa.gov, or call the Department’s Telephone Information Center at 1-800-647-7706.