

This rule was adopted on an emergency basis effective July 1, 2005. It may be used to determine tax liability until October 28, 2005, unless the Department adopts a permanent rule prior to this date.

AMENDATORY SECTION (Amending WSR 02-23-034, filed 11/13/02, effective 12/14/02)

WAC 458-20-165 Laundry, dry cleaning, linen and uniform supply, and self-service and coin-operated laundry services.

(1) **Introduction.** This (~~rule~~) section discusses the application of the business and occupation (B&O), retail sales, and use taxes to laundries, dry cleaners, laundry pickup and delivery services, self-service laundries and dry cleaners, and linen and uniform supply services. It also discusses the tax treatment of laundry services provided to nonprofit health care facilities and income received from coin-operated laundry facilities.

Chapter 514, Laws of 2005, changed the tax reporting responsibilities of persons operating self-service or coin-operated laundry facilities. Refer to subsection (6) of this section for further information.

(2) **What is a laundry or dry cleaning service?** A "laundry or dry cleaning service" is the activity of laundering, cleaning, dyeing, and pressing of articles such as clothing, linens, bedding, towels, curtains, drapes, and rugs. It also includes incidental mending or repairing. The term applies to services operating their own cleaning establishments as well as those contracting with other laundry or dry cleaning services. It also includes pickup and delivery laundry services performed by persons operating in their independent capacity and not as agent for another laundry or dry cleaning service.

(a) **Sales of laundry or dry cleaning services.** The gross proceeds of sale and selling price of laundry or dry cleaning services provided to consumers are subject to the retailing B&O tax and retail sales tax, respectively. No deduction is available for commissions allowed or amounts paid to another for the performance of all or part of the laundry or dry cleaning service. RCW 82.04.070 and 82.08.010. The retailing B&O and retail sales taxes also apply to sales of soap, bleach, fabric softener, laundry bags, hangers, and other tangible personal property to consumers.

The wholesaling B&O tax applies to the gross proceeds of sale from laundry or dry cleaning services performed for persons reselling these services. The seller must obtain a resale certificate from the buyer to document the wholesale nature of any sale as provided in WAC 458-20-102 (Resale certificates).

(b) **Place of sale.** For the purposes of determining a

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seller's responsibility to remit B&O tax and/or to collect and remit retail sales tax, the place of sale for laundry and dry cleaning services is the place the laundering or dry cleaning is performed. RCW 82.14.020(4) and 82.04.050. For example, a laundry or dry cleaning service located in Washington must collect sales tax from an Oregon resident who brings clothing items to the business for laundering or dry cleaning. In addition, the gross proceeds are subject to the retailing B&O tax. Even though the customer resides in Oregon, both taxes apply because the laundering or dry cleaning occurs in Washington.

(i) **Seller hiring third-party to perform services.** A customer may purchase laundry or dry cleaning services from a seller who hires another person to perform the actual cleaning activity. In such cases, the customer will drop off and pick up the clothing or other articles to be cleaned at the seller's business location. The place of sale with respect to this sale is the seller's location where the customer drops off and picks up the articles.

(ii) **Seller using agent for pickup and delivery.** If a person providing laundry or dry cleaning services uses an agent such as a hotel or a driver for pickup and delivery of the articles to be cleaned, the place of sale is the seller's location where the cleaning is performed.

(c) **Purchases at wholesale.** The purchase of tangible personal property for resale as tangible personal property or as a component or ingredient of the cleaned article is a purchase at wholesale. Such purchases are not subject to retail sales tax when the buyer provides a resale certificate to the seller as discussed by WAC 458-20-102 (Resale certificates).

The following are examples of items that may be purchased at wholesale:

(i) Dyes, fabric softeners, starches, sizing, and similar articles or substances that become ingredients of the articles cleaned; and

(ii) Soap, bleach, fabric softener, laundry bags, hangers, and other tangible personal property that are not used in performing a laundry or dry cleaning services but are resold as tangible personal property.

(d) **Purchases subject to retail sales or use tax.** A laundry or dry cleaning business that acquires tangible personal property for use as a consumer must pay retail sales tax (commonly referred to as "deferred sales tax") or use tax directly to the department when the seller fails to collect the appropriate retail sales tax. For further information about the use tax, refer to WAC 458-20-178 (Use tax).

The following are examples of purchases by a laundry or dry cleaning service that are subject to retail sales tax or use

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tax:

(i) Soaps, cleaning solvents, and other articles or substances that do not become ingredients of the articles cleaned;

(ii) Equipment such as washing machines, dryers, presses, irons, fixtures, and furniture;

(iii) Supplies such as hand tools, sewing notions, scissors, spotting brushes, and stationery; and

(iv) Items given to customers without charge.

(3) **What are linen and uniform supply services?** "Linen and uniform supply services" means the activity of providing customers with a supply of clean linen, towels, uniforms, gowns, protective apparel, clean room apparel, mats, rugs, and/or similar items whether ownership of the item is in the person operating the linen and uniform supply service or in the customer. RCW 82.08.0202. It also means the supply of diapers and bedding. "Linen and uniform supply services" includes supply services operating their own cleaning establishments as well as those contracting with other laundry or dry cleaning businesses.

A person providing linen and uniform supply services performs a number of different activities, often at multiple locations. Many of these activities are the same types of activities performed by a person providing laundry or dry cleaning services, such as: Laundering, dry cleaning, pressing, incidental mending, and/or pickup and delivery. Additional activities not generally performed by a person providing laundry or dry cleaning services may include: Providing linen and uniform items customized by application of the customer's business name, company logo, employee names, etc.; measuring and/or issuing uniforms to the customer's employees; repairing or replacing worn or damaged linen and uniform items; and/or performing various administrative functions for the customer, such as inventory control.

(a) **Sales of linen and uniform supply services.** The gross proceeds of sale and selling price from linen and uniform supply services provided to consumers are subject to the retailing B&O tax and retail sales tax, respectively. No deduction is available for commissions allowed or amounts paid to another for the performance of all or part of the laundry or dry cleaning service. RCW 82.04.070 and 82.08.010.

(b) **Place of sale.** Effective July 1, 2001, for the purposes of determining a seller of linen and uniform supply services' responsibility to remit B&O tax and to collect and remit retail sales tax, the place of sale is the place of delivery to the customer. For periods before July 1, 2001, the place of sale was the location at which the laundering activity was performed.

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For assistance with determining appropriate local sales and use tax rates, the department's geographic information system (GIS) provides a mapping and address lookup system. The system is available on the department's internet site at: <http://dor.wa.gov>.

(c) **Purchases at wholesale.** The purchase of tangible personal property for resale as tangible personal property or as a component or ingredient of the cleaned article is a wholesale sale. Such purchases are not subject to retail sales tax when the buyer provides a resale certificate to the seller as discussed by WAC 458-20-102 (Resale certificates).

The following are examples of items that may be purchased at wholesale:

(i) Linen, uniforms, towels, cabinets, hand soap, and similar property rented or supplied to customers as a part of the laundry and linen supply service; and

(ii) Dyes, fabric softeners, starches, sizing, and similar articles or substances that become ingredients of the articles being cleaned.

(d) **Purchases subject to retail sales or use tax.** A linen or uniform supply service that acquires tangible personal property for use as a consumer must pay retail sales tax (commonly referred to as "deferred sales tax") or use tax directly to the department when the seller fails to collect the retail sales tax. For further information about the use tax, refer to WAC 458-20-178 (Use tax).

The following are examples of purchases by a linen or uniform supply service that are subject to retail sales tax or use tax:

(i) Soaps, cleaning solvents, and other articles or substances that do not become ingredients of the articles cleaned;

(ii) Equipment such as washing machines, dryers, presses, irons, fixtures, and furniture; and

(iii) Supplies such as hand tools, sewing notions, scissors, spotting brushes, and stationery.

(4) **Customer's responsibility to remit use tax.** Effective July 1, 2002, chapter 367, Laws of 2002, imposes the use tax on certain retail services acquired by consumers without payment of the retail sales tax. Such services include installing, repairing, cleaning, altering, imprinting, or improving tangible personal property. Thus, a consumer must report and pay use tax directly to the department when a seller of laundry or dry cleaning services or linen and uniform supply services fails to collect the retail sales tax.

For example, a person with a restaurant location in Vancouver and another in Portland, Oregon, contracts with an Oregon business for linen and uniform supply services. Each

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week, the linen and uniform supply service delivers clean linens and uniforms and picks up soiled items for both locations at the person's Portland location. The person's Vancouver location turns in soiled uniforms and linens and receives its supply of clean items at the person's Portland location. The person is responsible for reporting and paying use tax on the value of the linen and uniform supply services used by its Vancouver location. For further discussion about use tax, refer to WAC 458-20-178.

(5) **Laundry agents collecting and distributing laundry.** Persons who collect and/or distribute laundered or dry cleaned items as an agent for a provider of laundry services, dry cleaning services, or linen and uniform supply services are liable for the service and other activities B&O tax on their gross commissions. See WAC 458-20-159 for the recordkeeping requirements for showing agency status. The person providing the laundry service, dry cleaning services, or linen and uniform supply service must collect and remit to the department retail sales tax on the total charge made to the customer (see subsections (2) and (3) of this ((rule)) section).

(6) **Self-service and coin-operated laundry facilities.** Effective July 1, 2005, the definition of "retail sale" excludes charges made for the use of self-service or coin-operated laundry facilities. Chapter 514, Laws of 2005. Thus, gross income received from charges for the use of ((self service or coin-operated laundry)) such facilities ((are)) is subject to the ((retailing B&O and retail sales taxes, except as discussed below. Likewise sales of soap, bleach, fabric softener and other supplies to consumers are subject to the retailing B&O tax and retail sales tax. For most sales, the law requires a seller to separately state the retail sales tax from the selling price. However, the law allows a seller to deduct the tax from the total amount received in coin-operated machines to arrive at the net amount that becomes the measure of the tax. RCW 82.08.050 and 82.08.080)) service and other activities B&O tax. Retail sales tax does not apply to these charges.

(a) ~~((Coin-operated laundry facilities for the exclusive use of tenants. Effective))~~ **Tax reporting responsibilities for periods before July 1, 2005.** Between July 1, 1998, and July 1, 2005, the taxability of self-service and coin-operated laundry facilities was subject to various changes.

(i) Before July 1, 2005, the definition of "retail sale" included charges made for the use of self-service or coin-operated laundry facilities, except as explained below in (a)(ii) of this subsection. For reporting periods occurring before July 1, 2005, gross income derived from charges for the use of these facilities was subject to the retailing B&O tax. In addition, such charges were subject to the retail sales tax.

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(ii) Between July 1, 1998, and June 30, 2005, the definition of ~~((a))~~ "retail sale" ~~((excludes))~~ excluded charges for the use of coin-operated laundry facilities in apartment houses, rooming houses, or mobile home parks when the facilities ~~((are))~~ were provided for the exclusive use of tenants. RCW 82.04.050 (2)(a). As a result, charges for the use of these facilities ~~((are))~~ were not subject to the retailing B&O tax or the retail sales tax. However, the gross proceeds of sale received from these facilities ~~((is))~~ were subject to the service and other activities B&O tax. Before July 1, 1998, these charges were retail sales and subject to the retailing B&O tax and retail sales tax.

Charges for the use of coin-operated laundry facilities in hotels, motels, trailer camps, and other locations providing lodging or camping facilities to transients ~~((remain))~~ remained subject to the retailing B&O and retail sales taxes. Persons providing transient lodging should refer to WAC 458-20-166 (Hotels, motels, boarding houses, rooming houses, resorts, trailer camps, etc.) in effect during that time.

(b) **Sales of tangible personal property.** Sales of soap, bleach, fabric softener and other supplies to consumers are subject to the retailing B&O tax and retail sales tax. For most sales, the law requires a seller to separately state the retail sales tax from the selling price. However, the law allows a seller making sales of tangible personal property to a consumer from a vending machine to deduct the tax from the total amount received to arrive at the net amount that becomes the measure of the tax. RCW 82.08.050 and 82.08.080.

(c) **Place of sale.** For the purposes of determining a seller's responsibility to remit B&O tax and/or to collect and remit retail sales tax, the place of sale ~~((with respect to charges for the use of a self-service or coin-operated laundry facility))~~ is the location of the facility.

~~((+e))~~ (d) **Purchases at wholesale.** The purchase of tangible personal property for resale as tangible personal property is a purchase at wholesale. Such purchases are not subject to retail sales tax when the buyer provides a resale certificate to the seller as discussed by WAC 458-20-102 (Resale certificates). Thus, purchases of soap, bleach, fabric softener and other supplies for resale to customers separate from charges for the use of the laundry facilities are wholesale purchases.

~~((+d))~~ (e) **Purchases subject to retail sales or use tax.** A self-service or coin-operated laundry facility that acquires tangible personal property for use as a consumer must pay retail sales tax (commonly referred to as "deferred sales tax") or use tax directly to the department when the seller fails to collect the appropriate retail sales tax. For further information about use tax, refer to WAC 458-20-178 (Use tax).

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The following are examples of purchases by a self-service or coin-operated laundry facility that are subject to retail sales tax or use tax:

- (i) Washing machines, dryers, fixtures, and furniture; and
- (ii) Items given to customers without charge.

(7) **Laundry services performed for nonprofit health care facilities.** For the purpose of this ((rule)) section, "nonprofit health care facilities" means facilities operated by nonprofit organizations providing diagnostic, therapeutic, convalescent, or preventive inpatient or outpatient health care services. The term includes, but is not limited to, nonprofit hospitals, nursing homes, and hospices.

(a) **Sales of laundry services to nonprofit health care facilities.** Effective July 1, 1998, the definition of a retail sale specifically excludes sales of laundry services to nonprofit health care facilities. As a result, charges for laundry services provided to these facilities are not subject to retail sales tax or the retailing B&O tax. However, effective July 1, 1998, the gross proceeds of sale received for providing laundry services to nonprofit health care facilities is subject to the service and other activities B&O tax. For the period of July 1, 1993, through June 10, 1998, the service and other activities B&O tax applied only to sales of laundry services to members by nonprofit associations composed exclusively of nonprofit hospitals.

(b) **Purchases subject to retail sales or use tax.** Persons providing laundry services to nonprofit health care facilities are considered consumers of all items used in providing such services. RCW 82.04.190. As a result, purchases of items such as dyes, fabric softeners, linens, and uniforms are subject to the retail sales tax. The same is true for purchases of washing machines, dryers, fixtures, furniture, and other items of tangible personal property. The buyer must remit retail sales tax (commonly referred to as "deferred sales tax") or use tax directly to the department when the seller fails to collect the appropriate retail sales tax. For further information about the use tax, refer to WAC 458-20-178 (Use tax).