



State of Washington
Department of Revenue

Excise Tax Advisory

Excise Tax Advisories (ETA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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CONVERSION DATE: July 1, 1998

This ETA is cancelled effective February 28, 2007

CORE DEPOSITS AND CREDITS - PARTS RETURNED TO WHOLESALERS

Revised: May 1, 1990

This bulletin represents a change of the Department's position on business and occupation (b&o) tax liability of auto parts sellers who receive credits or refunds for returning automotive parts cores.

The term "core deposits or credits" is defined at WAC 458-20-250 as being "the amount representing the value of returnable products such as batteries, starters, brakes, and other products with returnable value added for purposes of recycling or remanufacturing". For purposes of this excise tax bulletin the term "new part" refers to the sale of a newly manufactured part, rebuilt part, or remanufactured automobile part. The term "used part" refers to the used part that is expected to be returned to the supplier for which a core deposit is generally made at the time of sale of the new part.

The Department's position is well established and is not changed with respect to the b&o tax which applies to the sale of a new part involving core deposits. The total consideration received by the seller which includes the value of a core deposit is the measure of the tax. For example, in the sale of a new part for \$60 with a core deposit of \$10, the total of \$70 is taxable under the business and occupation tax. \$70 remains as the taxable value whether or not a used part is returned. See *Engine Rebuilders, Inc. v. State*, 66 Wn. 2d 147.

However, the Department recently reviewed its position with respect to the b&o taxability of the return of the used part to distributors or other wholesalers. Is this return of the used part itself a taxable transaction? In the example above, is the return of the used part for a refund or cancellation of the \$10 core deposit a taxable wholesale sale of the used part?

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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The Department has concluded that the return of the used part to distributors or wholesalers within the sales distribution chain is not of itself a taxable transaction. The tax liability occurs at the time of sale of the new part at wholesale and there is not a separate taxable transaction upon the return of the used part. It also is of no consequence how the accounting is handled for the refund or cancellation of the core deposit. This can be by direct refund or through a process of issuing credit memoranda which will be applied to future purchases. The following example follows a typical transaction.

Example:

Assume that a new starter is sold to a consumer for \$70 which included the \$10 core deposit. The customer paid the retailer \$60 for the new starter, exclusive of the retail sales tax, and provided the retailer with a used starter at the time of sale. Approximately ten days later the retailer returned the used starter to the wholesale supplier from whom he purchases new starters. The wholesale supplier issues a credit memorandum for \$10 which the retailer can apply against a subsequent purchase of new parts.

Tax Liability:

The measure of the retailing tax is \$70. The return of the used starter by the retailer to the wholesaler is not a taxable wholesale sale by the retailer. The issuance of the credit memorandum by the wholesaler is not a payment for purchase of a used starter. The \$10 value of the used starter is not deductible from the wholesalers or retailers measure of the selling price of the new starter and remains as part of the taxable value for the b&o tax. The credit memorandum or refund which resulted from the return of the used starter is not taxed again under the wholesaling tax classification.

This change does not overcome the pyramiding of the b&o tax on the value of the core. Rather, it simply prevents the seller from being taxed twice on the same transaction.

Any sellers of new automobile parts who have been reporting under the wholesaling classification the value of used parts returned to their suppliers should discontinue such reporting.

This policy position has prospective application only. No tax refunds or amended returns for prior periods will be granted.