Washington State
Department of Revenue

June **2008**

TaxFacts

2008 Legislative Tax Changes

The 2008 Legislature made a number of changes to taxes and programs administered by the Department of Revenue. This publication provides a brief summary of some of the bills affecting excise taxes that were signed into law. If you think that a bill may affect you or your business, please refer to the bill at: http://apps.leg.wa.gov/billinfo/

** Indicates a Special Notice will be issued.*

Business and Occupation (B&O), Sales, and Use Taxes

***Gasoline service station alternative power generation devices – 3SHB 2053** (chapter 223, Laws of 2008) provides a B&O tax credit for the purchase and installation of alternative power generation devices, including necessary wiring, labor and services. To qualify, service stations must have at least four pumps. Qualifying businesses are limited to the lesser of 50% of the purchase costs or $25,000. *Effective July 1, 2008; expires June 30, 2011.*

***Temporary medical housing – HB 2544** (chapter 137, Laws of 2008) exempts charges for temporary medical housing provided by a health or social welfare (nonprofit) organization from state and local sales taxes and similar charges on lodging. To qualify, the housing must be provided to the patient or patient's family while the patient is receiving medical treatment at a hospital licensed in Washington or the patient is recuperating or under observation following medical treatment at a licensed hospital. *Effective July 1, 2008.*

***Newspaper advertising income – SHB 2585** – (chapter 273, Laws of 2008) amends the definition of "newspaper" for tax purposes to include the electronic version of a printed newspaper when it shares content with the printed version and is identified as a complement to the printed version. As a result, advertising income generated from both the electronic and printed newspaper versions are taxed under the printing/publishing B&O tax classification. Advertising income from printed inserts distributed in the same geographic areas as the newspaper are also taxed under the printing/publishing classification. *Effective July 1, 2008; expires June 30, 2011.*

Contents

Legislative Tax Changes 1
Rule Making 4
Special Notices 5
Tax workshops 5
Federal Government's Digital-to-Analog Converter Box Coupon Program 5
Upcoming Changes for Retailers Making Sales to the US Government 6
No Sales Tax on Telecommunication Services Used to Provide Internet Access 6
Reminder on Regional Transit Authority Tax Reporting Changes 6
Sales Tax on Shipped or Delivered Goods Changes on July 1 7

***Bio-composite manufacturers – HB 2678** (chapter 296, Laws of 2008) provides manufacturers of bio-composite surface material products with the same B&O tax rate currently available to certain manufacturers of timber and wood products. The rate is 0.2904 percent plus a surcharge of 0.052 percent. *Effective June 12, 2008; applies retroactively to July 1, 2007.*

***Sales and use tax exemption for weatherization assistance program – ESHB 2847** (chapter 92, Laws of 2008) provides sales and use tax exemptions for sales of tangible personal property that become component parts of residences qualifying for the weatherization assistance program. The program is administrated by the Department of Community, Trade and Economic Development (CTED). Local governments and nonprofit agencies contracted with CTED are eligible for the exemption. *Effective June 12, 2008.*

***Waste vegetable oil exemption – HB 3188** (chapter 237, Laws of 2008) provides exemptions from special fuel tax, sales tax, and use tax for waste vegetable oil used to produce biodiesel. For the sales and use tax exemptions, the biodiesel must be produced for personal use by the person claiming the exemption. *Effective July 1, 2008.*

Grocery cooperative – HB 3275 (chapter 49, Laws of 2008) extends the B&O tax treatment previously provided to a single "qualified grocery distribution cooperative" to a grocery distribution cooperative that acquired substantially all of the assets of the previously qualified grocery distribution cooperative. The qualifying cooperative is allowed to pay B&O tax at the service and other activities B&O tax rate on its net income instead of on its gross income at the wholesaling B&O tax rate, and is exempt from litter tax. *Effective June 12, 2008.*

***Energy efficient equipment purchases – HB 3362** (chapter 284, Laws of 2008) allows certain small businesses a B&O tax credit equal to 8.8 percent of the purchase price of certain types of energy efficient commercial appliances. Purchases must be made between July 1, 2008, and July 1, 2010. To qualify for the credit, the business' gross income for the prior year must not exceed $750,000. The statewide, yearly cap on the amount of credits granted to all taxpayers is $750,000. *Effective July 1, 2008; expires July 1, 2010.*

***Sales tax exemption for trail grooming services – SB 6375** (chapter 260, Laws of 2008) establishes a sales tax exemption for charges to the state of Washington and to nonprofit organizations for providing "trail grooming" services, as defined in the law. *Effective June 12, 2008.*

* **Taxation of honey beekeepers – 2SSB 6468** (chapter 314, Laws of 2008) provides beekeepers exemptions from the following taxes:

- B&O tax on wholesale sales of honey and honey bee products
- B&O tax on bee pollination services
- sales and use tax on sales of pollinating bees

To qualify for these tax exemptions, beekeepers must be registered with the Department of Agriculture. *Effective July 1, 2008; expires July 1, 2013.*

***Florist sales – sales and use tax sourcing – SB 6799** (chapter 324, Laws of 2008) allows qualifying florists to continue using origin-based sourcing to determine sales tax, and allows FTD sales to be sourced to the location of the florist taking the original order. Qualifying florists are those whose primary business activity (more than 50%) is retail sales of fresh cut flowers, potted ornamental plants, floral arrangements, floral bouquets, wreaths, or similar floral products, used for decorative and not landscaping purposes. The bill applies to all items sold by qualifying florist businesses. *Effective July 1, 2008.*

Tax Incentive Programs

***Polysilicon manufacturers – EHSB 3303** (chapter 283, Laws of 2008) provides a B&O tax credit for qualified preproduction development expenditures incurred after January 1, 2008, by eligible polysilicon manufacturers. The credit is equal to 7.5 percent of the qualified preproduction development expenditures. Credits earned must be accrued and carried forward but may not be used until July 1, 2009, and until a polysilicon manufacturer spends $500 million on qualified preproduction development expenditures. *Effective June 12, 2008.*

***Motion Picture Competitiveness Program changes – SSB 6423** (chapter 85, Laws of 2008) amends 2006 legislation to allow a B&O tax credit equal to the lesser of $1 million or 100 percent of their contribution to persons making cash contributions to WashingtonFilmWorks (an approved Motion Picture Competitiveness Program) after calendar year 2008. *Effective June 12, 2008.*

Deferral program for corporate headquarters located in community empowerment zones – 2SSB 6626 (chapter 15, Laws of 2008) creates a sales and use tax deferral for construction of corporate headquarters in a community empowerment zone (CEZ). To qualify, the building(s) investment must be at least $30 million. The corporate headquarters must employ at least 300 people whose wages must exceed the state average annual wage. If program requirements are met, repayment of the deferred sales and use taxes is waived. *Effective July 1, 2009.*

***Aerospace tax incentives – SSB 6828** (chapter 81, Laws of 2008) expands the eligibility of several existing aerospace tax incentives to FAR Part 145 certificated repair stations, manufacturers of tooling specifically designed for use in manufacturing commercial airplanes or components of commercial airplanes, and non-manufacturers that design and engineer aerospace products. These businesses will be eligible for a 40 percent B&O tax rate reduction, a B&O tax credit for

property taxes and leasehold excise taxes paid in respect to qualifying property, a B&O tax credit for preproduction development expenditures, and a sales and use tax exemption for certain computer hardware, software, and peripherals. The bill also expands the reduced B&O tax rate for certain FAR Part 145 certificated repair stations to all FAR Part 145 certificated repair stations. *Effective July 1, 2008; FAR Part 145 rate reduction expires July 1, 2011; all other incentives expire July 1, 2024.*

Other Legislation

Real estate excise tax exemption – E2SHB 1621 (chapter 116, Laws of 2008) Provides an exemption from state and local real estate excise tax (REET) for purchases of manufactured/mobile home communities by a qualified tenant organization, local government, local housing authority, nonprofit community or neighborhood-based organization, Indian tribe, or regional or statewide nonprofit housing assistance organization. *Effective June 12, 2008.*

***Excise tax penalty and interest relief for active duty military personnel – SHB 3283** (chapter 184, Laws of 2008) requires the Department to waive interest and penalties imposed under chapter 82.32 RCW during any period of armed conflict where the majority owner of the business is:

- An individual who is on active duty in the military
- Participating in an armed conflict
- Assigned to a duty station outside the territorial boundaries of the U.S

The business must submit certain documentation to claim the wavier, which is available only if the business' gross income was $1 million or less in the calendar year before the individual's initial deployment outside the US for the armed conflict. Interest and penalties will not be waived for more than 24 months. *Effective June 12, 2008.*

***Reduced cigarette ignition propensity – 2SSB 5642** (chapter 239, Laws of 2008) requires that only reduced ignition cigarettes be sold by wholesalers or retailers in Washington, beginning August 1, 2009. Ignition strength will be measured by standards developed by the American Society of Testing and Materials. Manufacturers must mark certified cigarette packs, cartons, and cases before shipping to wholesalers or retailers. In-state manufacturers can still produce non-certified cigarettes as long as they are shipped out-of-state. *Effective August 1, 2009*

Property tax/leasehold excise tax exemptions for military housing – SSB 6389 (chapter 84, Laws of 2008) provides an exemption from property and leasehold excise tax for military housing and ancillary support facilities built and operated by private sector developers. The property must be used for housing military personnel and their families, be located on land owned by the United States, and must be a development project awarded under the Military Housing Privatization Initiative. *Effective June 12, 2008.*

Limited waiver or suspension of statutory obligations during officially declared emergencies – SB 6950 (chapter 181, Laws of 2008) provides that the Governor, after declaring a state of emergency, may issue an order to waive or suspend statutory obligations. This could result in extensions of due dates for tax payments and assessments, and interest and penalty relief for affected taxpayers. The bill also provides forest excise tax relief for small harvesters affected by the December 2007 storms and flooding. *Effective June 12, 2008.*

2005 Legislation Effective January 1, 2009

Sales and use tax exemptions for hybrid and alternative fuel vehicles

Beginning January 1, 2009, purchases or acquisitions of certain vehicles that use clean alternative fuels are exempt from Washington sales and use taxes for a limited period.

The 2005 Legislature passed a sales and use tax exemption that takes effect January 1, 2009, (RCW 82.08.809 and RCW 82.12.809) for sales of passenger cars, light duty trucks and medium duty passenger vehicles that:

- Are powered exclusively by a clean alternative fuel such as natural gas, propane, hydrogen or electric power
- Use hybrid technology and have a mileage rating of at least 40 m.p.g.

This exemption expires two years later, on January 1, 2011. The Department will publish a Special Notice to provide additional details on this exemption. The Special Notice will be posted on our web site, http://dor.wa.gov, by December 10, 2008.

Rule Making

Following 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, contact us online at http://dor.wa.gov and click on "Find a rule or law", then one of the bullets under "Rule making." You may also call our Telephone Information Center at 1-800-647-7706.

Excise tax rules (WAC) adopted or amended:

458-20-17902 Brokered natural gas – Use tax. Effective January 3, 2008.

458-20-244 Food and food ingredients. Effective December 31, 2007.

458-20-277 Certified service providers – Compensation. Effective January 7, 2008.

Property tax rules (WAC) adopted or amended:

458-18-220 Refunds – Rate of interest. Effective January 1, 2008.

458-30-262 Agricultural land valuation – Interest rate – Property tax component. Effective March 2, 2008.

458-30-590 Rate of inflation – Publication – Interest rate – Calculation. Effective March 2, 2008.

Forest tax rules (WAC) adopted or amended:

458-40-540 Forestland values. Effective January 1, 2008.

458-40-660 Timber excise tax – Stumpage value tables –Stumpage value adjustments. Effective January 1, 2008.

Changes to interpretive/policy statements:

The Department issues interpretive and policy statements, such as Excise Tax Advisories and Property Tax Advisories, 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 amended:

2014.08.193 (Second Revision) Sales to nonresidents of jurisdictions imposing a sales tax of less than three percent. Effective January 31, 2008.

2031.04.183 (First Revision) Camping clubs receiving initiation fees and dues income. Effective March 6, 2008.

2012.08.12.13601-

13601 (Second Revision) Manufacturers' machinery and equipment exemption. Effective March 28, 2008.

13601-1S (Second Revision) Rental of tangible personal property and providing tangible personal property along with an operator. Effective March 28, 2008.

13601-2S (Second Revision) Pollution control equipment. Effective March 28, 2008.

13601-3S (Second Revision) Electrical apparatus and utility systems. Effective March 28, 2008.

13601-4S (Second Revision) Devices. Effective March 28, 2008.

13601-5S (Second Revision) Design and product development. Effective March 28, 2008.

13601-6S (Second Revision) Manufacturing site. Effective March 28, 2008.

13601-7S (Second Revision) Buildings, fixtures, and support facilities. Effective March 28, 2008.

13601-8S (Second Revision) Computers. Effective March 28, 2008.

13601-9S Prototypes. Effective March 28, 2008.

13601-10S (Second Revision) Research and development. Effective March 28, 2008.

Excise tax advisories cancelled (all effective March 28, 2008, unless otherwise noted):

50.04.203 Management charges from parent to subsidiary.

52.04.171 Construction of highway tunnels for publicly owned roads.

90.04.203 Administrative and personnel charges between affiliated corporations.

156.32.230 Statute of limitation and past performance.

240.12.144 Use and manufacturing tax on production of molds used to produce finished product.

259.12.171 Sales to public roads contractor for use outside the state.

308.04.224 "Art work" distinguished.

333.16.179 Exemption requirements for certain grain hauls by truck. Effective November 30, 2007.

421.04.103 Sales tax: labor performed outside of state.

511.14.145 Warehouse as retail outlet for city/county sales tax.

Special Notices

The following Special Notices were issued during the last 7 months. These notices discuss current issues as well as changes resulting from new legislation. They are available online at http://dor.wa.gov under "Find taxes and rates" under "Forms and publications." You may also call 1-800-647-7706 to have a copy sent to you.

- Electric utility tax credit for rural economic development revolving fund (including application). Issued March 20, 2008.
- Public utility tax credits available for "billing discounts" and "qualifying contributions." Issued May 12, 2008
- Sales and used tax deferral for corporate headquarters located in community Empowerment Zone. Issued June 3, 2008.
- Sales and use tax exemption for weatherization assistance program. Issued May 22, 2008.
- Sales tax exemption - Telecommunication services for internet service providers. Issued May 23, 2008.
- Tax Exemptions for beekeepers. Issued June 3, 2008.
- Tax exemptions for temporary medical housing provided by health or social welfare organizations. Issued May 22, 2008
- Telephone program excise tax rates for fiscal year 2009. Issued March 18, 2008.
- WashingonFilmWorks contributors B&O tax credit-modification. Issued May 23, 2008.
- Wineries may qualify for B&O tax refund. Issued November 7, 2007.

Tax Workshops

We offer workshops free of charge throughout the state. To view the schedule or for more information, visit our web site at http://dor.wa.gov, click on "Workshops and education" from the menu on the left side.

Once you find the workshop that's right for you, register online or call us to sign up.

Business Outreach

Learn the basics of Washington State taxes. As a small business or new business owner, this workshop will help you understand your tax reporting responsibilities.

Unclaimed property holder education

Are you holding unclaimed property? Learn how to identify and report unclaimed property.

Federal Government's Digital-to-Analog Converter Box Coupon Program

The Digital-to Analog Converter Box Coupon Program (administered by the National Telecommunications and Information Administration) allows eligible US households to request up to two coupons worth $40 each to be used toward purchasing up to two coupon-eligible converter boxes. The coupon program runs from January 1, 2008, through March 31, 2009. For more information on the program, see www.ntia.doc.gov/dtvcoupon/.

How does the coupon program work?

Retailers may accept a coupon from consumers on converter box purchases, which lowers the amount the consumer pays for the box. The federal government then reimburses retailers for the dollar value of the coupons they receive. Thus, between the amount the consumer pays at the time of purchase and the amount reimbursed by the federal government, retailers receive the full sales price for the converter boxes.

How is sales tax calculated on converter box sales if a buyer provides a converter box coupon?

Converter box coupons are treated like manufacturer's rebates. In both cases, the retailer is reimbursed (by the manufacturer or the federal government) for the coupon amount, so the retailer does not take a loss on the sale of the product.

Retailers who accept these coupons must charge the consumer sales tax on the sales price before the coupon is applied. Retailers cannot deduct the amount of the coupon from the selling price before retail sales tax is charged or deduct it before computing their retailing B&O tax.

For example, if a converter sells for $79.99, and the consumer provides the retailer with a $40 converter box coupon, the amount consumer pays drops to $39.99. However, the sales tax is based on the full $79.99.

Our Workshops are Free

See our web site at dor.wa.gov

Upcoming Changes for Retailers Making Sales to the US Government

Do you make tax-exempt sales to the United States' government or its agencies?

If so, be aware that the federal government is updating this program for purchases made under the United States General Services Administration GSA SmartPay® charge card program. The GSA SmartPay® program provides charge card services to federal government agencies/ organizations for conducting official business.

The GSA SmartPay® 2 follow-on program will be effective November 30, 2008, through November 29, 2018, and will provide several different charge cards issued through various providers. As with the current GSA SmartPay program (which expires November 2008), all GSA SmartPay® 2 charge cards will be easily identifiable by their unique prefixes and account numbers, government-designed artwork, and wording that indicates that the card is for official purchases for the U.S. Government.

Prior to the November 30, 2008, effective date, the Department will update its Special Notice, "Important Information for Retailers Making Sales to the US Government," to provide all the information needed by retailers to identify the various cards and types of goods and services exempted under each.

No Sales Tax on Telecommunication Services Used to Provide Internet Access

Effective June 30, 2008, the most recent version of the Internet Freedom Act provides that retail sales tax may not be imposed on the sale of telecommunication services used, sold or purchased by Internet service providers to provide Internet access. These sales will continue to be taxable under retailing B&O tax classification.

Also see our Special Notice, "Sales tax exemption - Telecommunication services for Internet Service Providers," issued May 23, 2008.

Reminder on Regional Transit Authority (RTA) Tax Reporting Changes

Beginning with the January 2008 reporting period, the RTA is no longer reported on a separate line on the excise tax return. Instead, it is included in the rate for each local location code within the RTA area. This change was made in an effort to simplify the tax reporting process and decrease reporting errors.

For cities and counties whose boundaries have areas both inside and outside the RTA area, new location codes were created to exclusively identify the areas where the RTA does not apply. These are noted in our Local Sales and Use Tax Rates and Changes Flyer and in our databases as "non-RTA." For specific information on the change and a list of the new location codes, see our web site or contact the Department at 1-800-647-7706.

It's Easy

E-filing is available anytime from anywhere you have Internet access. It's fast, easy and secure. And it checks your return for errors.

http://dor.wa.gov
Need help? 1-877-345-3353

Check Out Biz Fair 2008

The 2008 Washington Small Business Fair (Biz Fair) will be held on Saturday, September 6 from 8:00 a.m. to 4:00 p.m.

Biz Fair is the largest business fair in Washington. It is the place to go to receive practical information on how to start or expand a small business. A variety of experts will conduct seminars and provide information on topics ranging from taxes to business planning and marketing to web sites. The Department of Revenue will host a business tax overview and our representative will be available throughout the day to answer your specific questions. The fair will be held at:

Renton Technical College
3000 NE 4th Street
Renton, Washington

For a list of exhibitors, seminar topics, and directions to the fair, visit Biz Fair online at: **www.bizfair.org**.

Sales Tax on Shipped or Delivered Goods Changes on July 1, 2008

Businesses that ship or deliver goods must change the way they collect and report sales tax starting July 1, 2008. That's the date Washington changes to a destination-based sales tax for shipped or delivered goods, including most services. Sales tax will be based on where the buyer receives the goods. There is no change for over-the counter sales and sales to out-of-state customers.

To help businesses make the change, we've developed several tools available online at http://destinationtax.dor.wa.gov. They include:

- An online tax rate lookup tool with optional calculator feature
- An online tax rate lookup tool for handheld devices such as PDAs and Blackberries
- Downloadable databases of addresses or ZIP+4 codes and their corresponding location codes
- Lists of tax rates and location codes in various formats, including QuickBooks and Excel
- An Excel worksheet that tracks sales by location, calculates totals, and summarizes sales
- Paper maps of taxing jurisdictions by county
- A free customer database conversion service (a business sends a file of addresses to DOR and receives location codes and tax rates for its customers)

Tax rates may change quarterly, so it's important to get the latest update for these tools each quarter. To receive quarterly notification of tax rate changes **via e-mail, sign up for our free listserv**. Just go to http://destinationtax.dor.wa.gov and scroll down to "Sales tax rate changes" under "Assistance."

For more information, including an **online video workshop** and frequently asked questions, visit http://destinationtax.dor.wa.gov. For specific questions on the destination-based sales tax, please call 1-800-647-7706.

Telephone Information Center Hours

Monday - Friday 8 a.m. - 5 p.m.

Taxpayer Services Division
Washington State Department of Revenue
PO Box 47478
Olympia, WA 98504-7478

PRSTRT STD
U.S. POSTAGE PAID
Washington State
Department
of Printing

Department of Revenue Taxpayer Assistance

Field Office Locations

1904 Humboldt St Suite A -
PO Box 1176 -
BELLINGHAM 98225-4244 -
(360) 676-2114

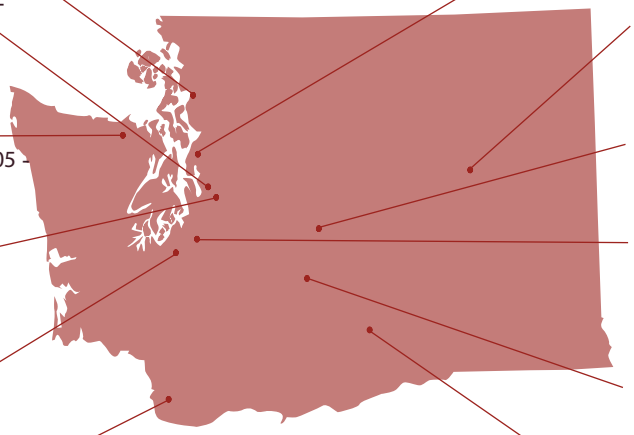
2101 4th Ave Suite 1400 -
SEATTLE 98121-2300 -
(206) 956-3000

734 E First St Suite B -
PO Box 400 -
PORT ANGELES 98362-3605 -
(360) 417-9900

20819 72nd Ave South -
Suite 680 -
KENT 98032-2390 -
(253) 437-3440

6500 Linderson Way SW -
Suite 102 -
TUMWATER 98501-7478 -
(360) 705-6676

8008 NE 4th Plain Blvd
Suite 320 -
PO Box 1648 -
VANCOUVER 98668-7251 -
(360) 256-2060



9930 Evergreen Way
Suite Y-150 -
EVERETT 98204-3893 -
(425) 356-4800

1330 N. Washington -
Suite 5600 -
SPOKANE 99201-2456 -
(509) 327-0200

630 N Chelan Ave -
Suite B-3 -
PO Box 220 -
WENATCHEE 98807-6622 -
(509) 663-9714

3315 South 23rd St -
Suite 300 -
PO Box 111180
TACOMA 98405-1605 -
(253) 382-2000

3703 River Rd -
Suite 300 -
YAKIMA 98902-7325 -
(509) 454-5160

1657 Fowler St -
PO Box 140 -
RICHLAND 99352-4700 -
(509) 734-7526

To inquire about the availability of this document in an alternate format for the visually impaired, please call (360) 705-6715.

Teletype (TTY) users please call 1-800-451-7985.

Department of Revenue
Washington State

Printed on recycled paper
N0004-A 05/08