



State of Washington  
Department of Revenue

# Excise Tax Advisory

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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 They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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NUMBER: 567.08.245

CONVERSION DATE: July 1, 1998

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**This ETA is cancelled effective February 2, 2009 and reissued under the 3000 series.  
See ETA 3001 for a cross-reference to the new series.**

## TELEPHONE DEBIT CARDS

Issued: December 31, 1994

A new business activity has developed involving the sale of telephone debit cards. Customers may purchase telephone debit cards which will allow the user to prepay for future long-distance telephone service. When purchasing the card, the customer will be charged a fee based on the number of minutes of telephone services purchased. In some cases, the card is dispensed through a vending machine. The seller of the card may provide part or all of the telephone service with its own equipment or contract with other telephone service providers to provide some or all of the service to the card holder.

Are persons who sell telephone debit cards making retail sales? If so, how does the seller determine the local sales tax to apply to these sales?

The card itself is only the representation of the sale of the telephone services. Customers are purchasing network telephone services which are defined as a retail sale in RCW 82.04.050(5). Most network telephone services are exempt from retail sales tax when sold to residential customers, but this exemption does not apply to toll service charges. Toll service charges are those charges for services which allow a customer to receive telephone services outside the local telephone network, such as long-distance services. The charge for the telephone debit card which represents prepaid telephone services is a retail sale when sold to consumers since it is intended to provide access outside the customer's local telephone network.

WAC 458-20-245 provides that sales of long-distance calls are taxable when the call either originates or terminates in Washington. Charges for telephone calls which originate outside Washington and also terminate outside Washington are nontaxable interstate sales. However, at the time of sale of these cards,

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***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 seller has no way of knowing if the purchaser will be placing the calls from within Washington or be calling someone in Washington.

As a practical solution, the Department will presume that the retail sales tax applies if the customer makes the purchase of the card in Washington or the card is delivered by the seller to the customer in Washington. The place of sale for local sales tax purposes will be the location where the customer makes the purchase and receives the card. For example, if the service is purchased and the card is delivered through a vending machine located in Seattle, the local retail sales tax which applies in Seattle should be collected and the sale coded to that city.

The seller will be required to report the sales under retailing and retail sales tax when sold to consumers. Sales to persons for further resale will be taxable under the wholesale classification. If the seller does not itself provide the telephone services, but purchases these services from other telephone service providers, these sellers may issue resale certificates and are not subject to retail sales tax on these purchases for resale. These sellers are the consumers of any equipment and supplies which are used to provide the telephone services or dispense the cards and are subject to payment of the retail sales or use tax on these items. This would include the card vending machines and the cards themselves.

This Excise Tax Bulletin only applies to those sales of prepaid telephone services through debit telephone cards. Where a telephone service provider issues a telephone calling card which is associated with a specific telephone line located in Washington through which the customer receives services, these sales occur at the time the telephone call takes place. These telephone service providers routinely identify the origin and destination of the call and bill the customer accordingly. For example, a telephone customer has a line in his or her home in Seattle and is issued a credit card to place a call from any location with those charges being billed to the Seattle telephone line or number. These cards are simply a means of identifying the customer and the sale will continue to take place at the time the call is placed and will be taxable if the call either originates or terminates in Washington. The place of sale will be Seattle in this example.

Some telephone debit cards continue to have some value even after the telephone services to which they relate are fully used or have expired. This results because of the graphics displayed on the cards and the limited number issued. These cards are often traded, bought, and sold as "collector items." These transactions are similar to any other sales of tangible personal property and are retail sales when sold or traded to consumers.