

Cite as 4 WTD 433 (1987)

BEFORE THE INTERPRETATION AND APPEALS DIVISION
DEPARTMENT OF REVENUE
STATE OF WASHINGTON

In the Matter of the Petition)
O N
 for Prior Ruling of Tax Liability)

D E T E R M I N A T I

No. 88-9

Registration No. . . .
Registration No. . . .
Registration No. . . .

[1] **RULE 111:** REIMBURSEMENTS -- COMMON PAYMASTER ACCOUNT. A common paymaster account is simply a conduit for paying operating expenses and monies paid to it are non-taxable reimbursements. 1 WTD 103 (1986).

Headnotes are provided as a convenience for the reader and are not in any way a part of the decision or in any way to be used in construing or interpreting this Determination.

NATURE OF ACTION:

Taxpayers request a ruling on the taxability of a plan to establish a common paymaster account for payment of bills and operating costs.

FACTS AND ISSUES:

Hesselholt, A.L.J. -- Taxpayers' request for a ruling states in part:

. . . Corporation and its subsidiaries (. . .) desire to establish a "Common Paymaster" account for payment of bills and allocation of costs among operating entities. In addition to conducting

business on its own, . . . Corporation is also the sole shareholder of . . . and All three corporations operate under the same ownership and control and share the same office space and equipment. The . . . have consistently filed a single consolidated federal income tax return.

The purpose of the common paymaster account is simply to eliminate duplication in our bookkeeping. Since the . . . operate out of the same office space, they share many of the common overhead expenses including rent, telephone, postage and supplies. Under the present system, each company must issue a seperate (sic) check for its share of any expense. As a result, each creditor receives three checks. We would like to be able to eliminate this excess paperwork and issue one check.

It is our intent to operate the common paymaster as follows:

At present, the payrolls of the individual companies are directly deposited into the employees' and brokers' bank accounts by electronic transfer. Each company incurs its own payroll and employment taxes. We propose no changes here.

Regarding all other expenses, all checks would be issued to the creditor from the common paymaster. The expenses would be accumulated by the individual companies as payables to the common paymaster. The paymaster would then be reimbursed by the company or companies that incurred the expense to clear the payable.

Taxpayers request a ruling as to whether funds transferred to such an account would escape excise tax liability.

DISCUSSION:

Rule 100 (18) (WAC 458-20-100 (18)), provides that a taxpayer can make a written request for determination of tax liability. Such a determination shall be binding upon the Department and the taxpayer under identical facts.

[1] A "common paymaster" is generally a third party entity created solely to pay shared expenses of various principals. Often, it is merely a checking account. Each contributes the amount paid out attributable to it. The separate principals continue to carry on their businesses under their own names and report and pay B & O taxes under their own names.

According to the taxpayers, since many of their expenses are shared among the three affiliated corporations and the establishment of the paymaster would eliminate excess paperwork under the facts outlined by the taxpayers, the paymaster serves only as a conduit for the payment of shared expenses. Under these facts, the monies transferred to the paymaster are non-taxable reimbursements under WAC 458-20-111 (Rule 111), and there is no business activity or gross income upon which B & O tax liability can be assessed.

Accordingly, we hold that in the circumstances outlined by the taxpayers, the paymaster account is merely a conduit for the payment of shared expenses and monies transferred to it from the affiliates are non-taxable reimbursements.

This legal opinion may be relied upon for reporting purposes and as support of the reporting method in the event of an audit. This ruling is issued pursuant to WAC 458-20-100(18) and is based upon only the facts that were disclosed by the taxpayer. In this regard, the department has no obligation to ascertain whether the taxpayer has revealed all of the relevant facts or whether the facts disclosed are actually true. This legal opinion shall bind this taxpayer and the department upon these facts. However, it shall not be binding if there are relevant facts which are in existence but have not been disclosed at the time this opinion was issued; if, subsequently, the disclosed facts are ultimately determined to be false; or if the facts as disclosed subsequently change and no new opinion has been issued which takes into consideration those changes. This opinion may be rescinded or revoked in the future, however, any such rescission or revocation shall not affect prior liability and shall have a prospective application only.

DATED this 19th day of January 1988.