

Overview of Services Subject to Retail Sales Tax

Braden Fraser

Department of Revenue

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1. Overview of Sales Tax
 2. Historical Conditions
 3. Application of Sales Tax to Services
 4. Expanding Sales Tax Services - How this fits within the principles of sound tax policy
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Overview of Sales Tax

- **Washington state levies a 6.5 percent tax on retail sales as defined in RCW 82.04.050**
 - **Local sales tax is levied on the same transactions and is a primary source of revenue for local taxing districts**
 - **The total sales tax rate ends up being between 7 and 10 percent**
- **Who collects and remits it**
 - **Businesses making these sales to consumers are required to collect and remit retail sales tax to the Department of Revenue**

Who Pays Sales Tax?

- **Who pays it**
 - **Generally, retail sales tax is applied to sales to consumers, including individuals and businesses**
 - Consumer is defined in RCW 82.04.190. Generally, consumers are who we would consider the end users of the product or service
 - This means that sales for resale are not subject to retail sales tax
 - Sales for resale generally include the following transactions:
 - wholesaling
 - services such as construction services performed by a subcontractor
 - other sales of goods or services where the goods or services are sold to a business which then incorporates those into the goods or services sold to the consumer.

Modernization of Tax Structure

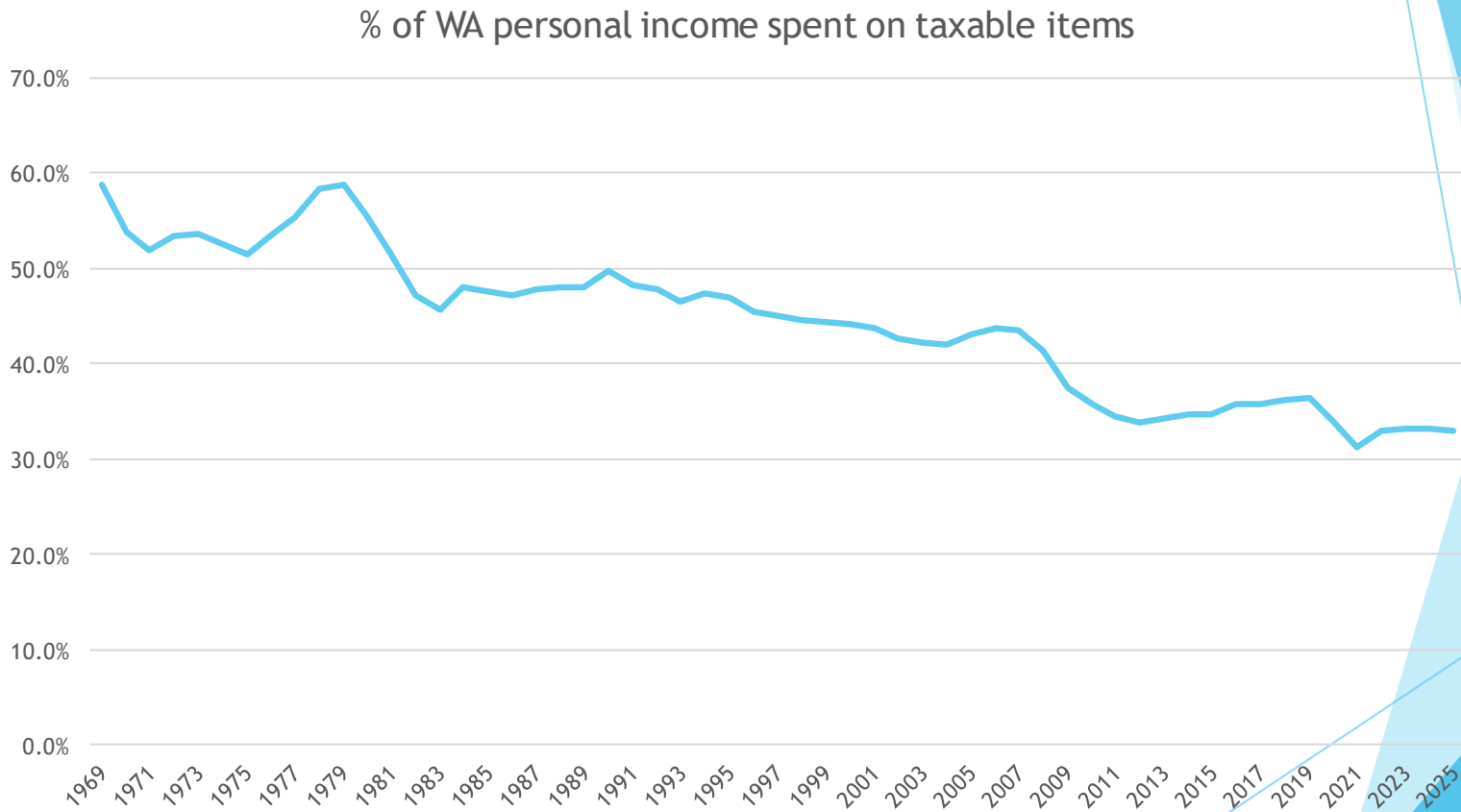
- **Extending sales tax to include more services is an option for modernization**
 - Historical consumption is shifting significantly from goods to services
 - Adding more services would broaden the tax base
- **Services are not defined in statute**
 - The term “services” refers to anything other than sales of tangible personal property

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Historical Conditions

- Enacted in 1935, during the Great Depression as a tax on consumption
- Originally applied to sales at retail of tangible personal property (tangible goods)
- Over the years, the definition of retail sale has expanded to include services including:
 - Certain construction activities
 - Repair
 - Lodging
 - Some recreational activities
 - Certain other services.
- The Depression Era economy was based more heavily on the sale of tangible goods
 - The current economy relies more heavily on the sale of services

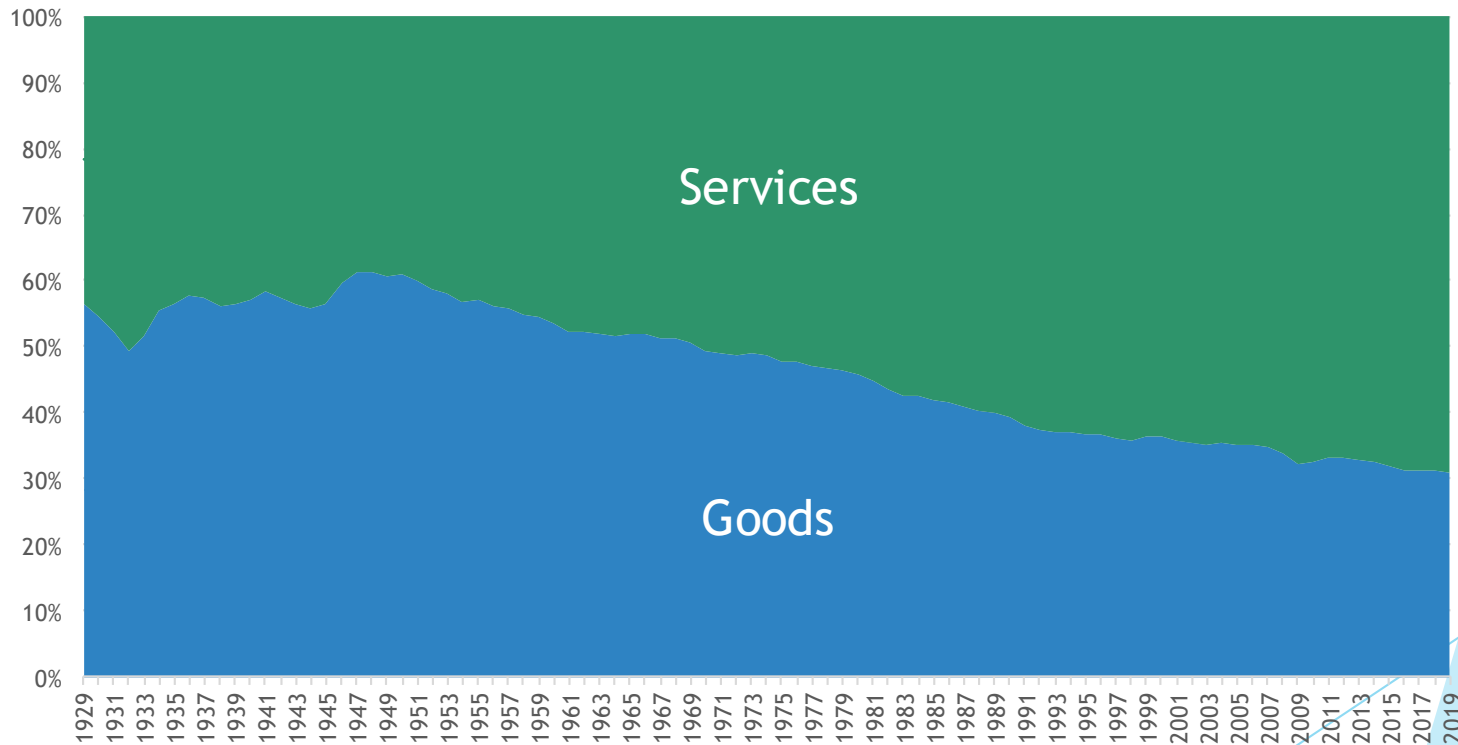
Economic Shift Away from Sales-taxable Items In Washington



Washington Economic & Revenue Forecast Council, "Retail Sales Tax: Percentage of Washington Income Spent on Taxable Items"

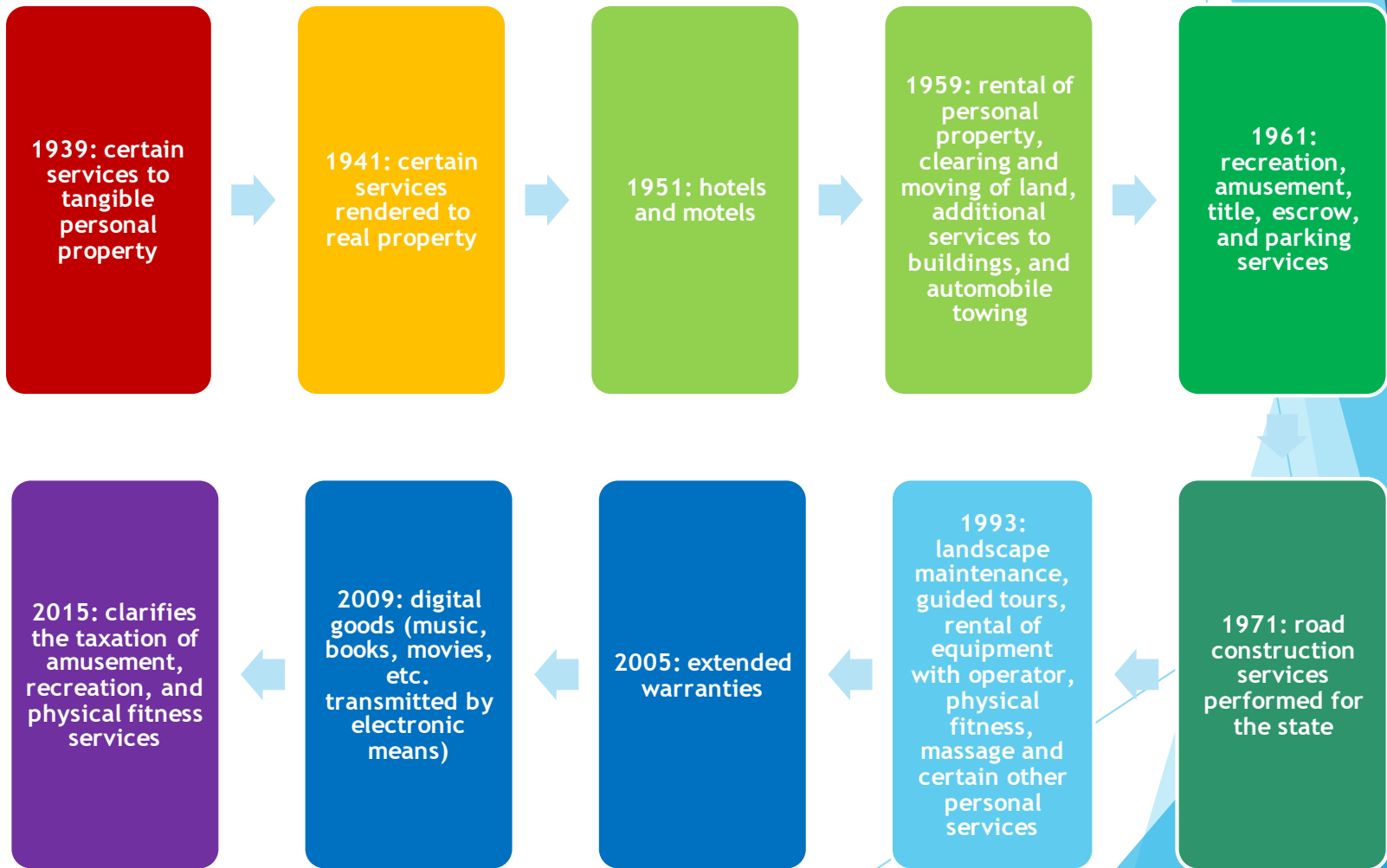
Economic Shift Away from Goods to Services: National

Goods vs. Services as a Percentage of Personal Consumption Expenditures



[U.S. Bureau of Economic Analysis, Table 2.3.5, "Personal Consumption Expenditures by Major Type of Product"](#)

Timeline: Retail Sales Tax Extended to Services



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Major Services Currently Subject to Sales Tax

- **Construction and other services to real property**
 - Constructing or improving new or existing buildings and structures for consumers
 - Cleaning (not including janitorial services), and other maintenance services
 - Clearing land and moving earth
 - Landscape maintenance
- **Services rendered in respect to tangible personal property**
 - Repairing, cleaning, installing, or decorating personal property for consumers (including services as applied to motor vehicles)
- **Providing tangible personal property with an operator**
- **Retail recreation services**
 - Fishing charters
 - Day trips for sight-seeing

Major Services Currently Subject to Sales Tax

- **Personal services**
 - Operating an athletic or fitness facility
 - Tanning
 - Tattooing
- **Miscellaneous services**
 - Extended warranties and maintenance agreements
 - Vehicle towing
 - Automobile parking
 - Telecommunication services
 - Digital automated services, remote access software, and digital goods
 - Escrow services and abstract and title insurance
 - Credit bureau services, including credit worthiness and tenant screening services

Major Services Not Currently Subject to Sales Tax

- Custom computer software
- Janitorial services
- Personal and professional services
 - Accounting fees
 - Health related services
 - Insurance agency fees
 - Legal fees
 - Office support services
 - Real estate agency fees
- Satellite and cable television

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Policy Considerations of Expanding Sales Tax

- **Adequacy**
- **Fairness**
- **Equity**
- **Administrative simplicity**
- **Transparency**