

# Special Notice

*Intended audience: registered tow truck operators conducting public auctions of abandoned vehicles*

**July 28, 2019**

The guidance provided under this special notice is only valid for reporting periods from July 28, 2019, to Feb. 22, 2021. For reporting period beginning Feb. 23, 2021, refer to [Excise Tax Advisory 3032.2021 – Taxability of Auction Sales of Abandoned Motor Vehicles by a Registered Tow Truck Operator](#).

## Auctions of abandoned vehicles conducted by Registered Tow Truck Operators

Beginning July 28, 2019, auction sales of abandoned vehicles by a registered tow truck operator (RTTO) are no longer considered a sale of the vehicle for retail sales tax or business and occupation (B&O) tax purposes. Therefore, RTTOs will not have to collect sales tax on the selling price of the vehicle from the successful bidder (purchaser).

This also applies to sales of an abandoned vehicle to a licensed vehicle wrecker, hulk hauler, or scrap processor, when there is no successful bidder at auction. However, charges related to the vehicle's storage and towing remain subject to retail sales and B&O tax (Substitute Senate Bill 5668, Chapter 357, Laws of 2019).

### How should sales of abandoned vehicles be reported?

An RTTO that sells an abandoned vehicle to either a successful bidder at public auction, or a licensed vehicle wrecker, hulk hauler or scrap processor, must report the income received as follows:

#### Towing, parking and storage fees

- Report these under the **Retailing** B&O tax classification and the **Retail Sales tax** classification.
  - If auction proceeds are less than the towing and storage lien, the RTTO may back out the retail sales tax from the vehicle's sale proceeds to calculate the amount of towing and storage services subject to retailing B&O tax and retail sales tax.

#### Auction costs

- Amounts received to pay auction costs are reported under the **Service and Other Activities** B&O tax classification.
  - This amount is not subject to retail sales tax.

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## Surplus funds

Surplus funds required to be submitted to the Department of Licensing are reported under the **Service and Other Activities** B&O tax classification.

- An **Other** deduction may be taken for these surplus funds.

**Note:** The successful bidder will have to pay use tax and motor vehicle sales tax to the Department of Licensing when registering the vehicle.

## Examples

*The following examples assume a 10% retail sales tax rate applies to towing and storage charges.*

### **Example A** (auction proceeds **less than** towing and storage lien)

Bob's Towing is an RTTO that filed a \$660 lien on an abandoned vehicle for unpaid charges for towing and storage services rendered. The \$660 lien includes a \$600 gross towing and storage charge and \$60 of retail sales tax. Bob's Towing receives \$500 from the auction of the abandoned vehicle. Bob's Towing must report their income as follows.

#### **Towing and storage:**

Here the auction proceeds are less than the towing and storage lien, so Bob's Towing may back out the retail sales tax from the auction proceeds to calculate the taxable measure of the storage and towing service subject to retailing B&O tax and retail sales tax.

Taxable measure:  $\$500/1.10 = \$455$

Therefore, Bob's Towing would report \$455 under both the **Retailing B&O** tax classification and the **Retail Sales Tax** classification.

#### **Auction proceeds:**

Here, Bob's Towing has received \$500 from this auction. This amount must be reported under the **Service and Other Activities** B&O tax classification. However, because this income is exempt from B&O tax, Bob's Towing may take an **Other** deduction for the \$500. When taking this deduction, Bob's Towing should explain the deduction as **tax exempt abandoned vehicle sales under RCW 82.04.040 & RCW 46.55.130**.

**Note:** The successful bidder will have to pay use tax and motor vehicle sales tax to the Department of Licensing when registering the vehicle.

### **Example B** (auction proceeds **greater than** towing and storage lien)

Bob's Towing is an RTTO that filed a \$660 lien on an abandoned vehicle for unpaid charges for towing and storage services rendered. The \$660 lien includes a \$600 gross towing and storage charge and \$60 of retail sales tax.

Bob's Towing receives \$1,000 from the auction of the abandoned vehicle.

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Bob's Towing has determined that the cost of conducting the auction is \$200 and they will have to submit \$140 of surplus income to Department of Licensing. This is determined by taking the gross proceeds from the auction and subtracting the amounts reported as gross income and the sales tax due.

Gross proceeds	\$1,000
Gross towing/storage charge	- \$600
Retail sales tax	- \$60
Cost of conducting auction	- \$200
Surplus income	= \$140

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Bob's Towing must report the income as follows.

**Towing and storage:**

The auction proceeds are **greater than** the towing and storage lien, so Bob's Towing cannot back out the retail sales tax from the auction proceeds to calculate the taxable measure of the storage and towing service subject to Retailing B&O tax and Retail sales Tax.

Therefore, Bob's Towing must report \$600 under both the **Retailing B&O** tax classification and the **Retail Sales Tax** classification.

**Auction proceeds:**

Bob's Towing has received \$1,000 from this auction. This amount must be reported under the **Service and Other Activities B&O** tax classification.

However, because only the cost of the auction (\$200) is subject to tax, Bob's Towing may take an **Other** deduction for the remaining \$800. When taking this deduction, Bob's Towing should explain the deduction as **tax exempt abandoned vehicle sales under RCW 82.04.040 & RCW 46.55.130**.

**Note:** The successful bidder will have to pay use tax and motor vehicle sales tax to the Department of Licensing when registering the vehicle.