



# EXPEDITED RULE MAKING

## CR-105 (December 2017) (Implements RCW 34.05.353)

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FILED

DATE: August 20, 2020

TIME: 3:00 PM

WSR 20-18-008

**Agency:** Department of Revenue

**Title of rule and other identifying information:** (describe subject) WAC 458-20-195 Taxes, deductibility; WAC 458-20-22801 Tax reporting frequency; WAC 458-20-254 Recordkeeping; WAC 458-20-261 Commute trip reduction incentives; WAC 458-20-272 Tire fee-Studded tire fee-Core deposits or credits.

**Purpose of the proposal and its anticipated effects, including any changes in existing rules:** The department is amending these rules to incorporate 2020 legislation, Substitute House Bill 2246. The purpose of this legislation was to reorganize laws related to environmental health without making any substantive policy changes, specifically, adding a new title to the Revised Code of Washington to be codified as Title 70A RCW. The amendments proposed for these rules also include those to remove outdated language and for general readability purposes.

**Reasons supporting proposal:** Updating these rules to provide the correct statutory citations and removing outdated language will provide accurate information to readers.

**Statutory authority for adoption:** RCW 82.32.300, RCW 82.01.060

**Statute being implemented:** RCW 70A.149.080; chapter 70A.93 RCW; chapter 70A.94 RCW; chapter 70A.95 RCW; RCW 82.08.0287; RCW 82.08.036; RCW 82.12.0282; RCW 82.12.038.

**Is rule necessary because of a:**

- |                         |                              |  |
|-------------------------|------------------------------|--|
| Federal Law?            | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| Federal Court Decision? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| State Court Decision?   | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

If yes, CITATION:

**Name of proponent:** (person or organization) Department of Revenue

- Private  
 Public  
 Governmental

**Name of agency personnel responsible for:**

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**Agency comments or recommendations, if any, as to statutory language, implementation, enforcement, and fiscal matters:** None.

**Expedited Adoption - Which of the following criteria was used by the agency to file this notice:**

- Relates only to internal governmental operations that are not subject to violation by a person;
- Adopts or incorporates by reference without material change federal statutes or regulations, Washington state statutes, rules of other Washington state agencies, shoreline master programs other than those programs governing shorelines of statewide significance, or, as referenced by Washington state law, national consensus codes that generally establish industry standards, if the material adopted or incorporated regulates the same subject matter and conduct as the adopting or incorporating rule;
- Corrects typographical errors, make address or name changes, or clarify language of a rule without changing its effect;
- Content is explicitly and specifically dictated by statute;
- Have been the subject of negotiated rule making, pilot rule making, or some other process that involved substantial participation by interested parties before the development of the proposed rule; or
- Is being amended after a review under RCW 34.05.328.

**Expedited Repeal - Which of the following criteria was used by the agency to file notice:**

- The statute on which the rule is based has been repealed and has not been replaced by another statute providing statutory authority for the rule;
- The statute on which the rule is based has been declared unconstitutional by a court with jurisdiction, there is a final judgment, and no statute has been enacted to replace the unconstitutional statute;
- The rule is no longer necessary because of changed circumstances; or
- Other rules of the agency or of another agency govern the same activity as the rule, making the rule redundant.

**Explanation of the reason the agency believes the expedited rule-making process is appropriate pursuant to RCW 34.05.353(4):** The expedited rule-making process is appropriate for these rule updates because the Department is incorporating changes resulting from 2020 legislation.

**NOTICE**

**THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO**

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**AND RECEIVED BY** (date) November 2, 2020

**Date:** August 20, 2020

**Name:** Atif Aziz

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**Signature:**



AMENDATORY SECTION (Amending WSR 00-16-015, filed 7/21/00, effective 8/21/00)

**WAC 458-20-195 Taxes, deductibility.** (1) **Introduction.** This rule explains the circumstances under which taxes may be deducted from the gross amount reported as the measure of tax under the business and occupation tax, retail sales tax, and public utility tax. It also lists deductible and nondeductible taxes.

(2) **Deductibility of taxes.** In computing tax liability, the amount of certain taxes may be excluded or deducted from the gross amount reported as the measure of tax under the business and occupation (B&O) tax, the retail sales tax, and the public utility tax. These taxes may be deducted provided they have been included in the gross amount reported under the classification with respect to which the deduction is sought, and have not been otherwise deducted through inclusion in the amount of another allowable deduction, such as credit losses.

The amount of taxes which are not allowable as deductions or exclusions must in every case be included in the gross amount reported. License and regulatory fees are not deductible. Questions regarding the deductibility or exclusion of a tax that is not specifically identified in this rule should be submitted to the department of revenue for determination.

(3) **Motor vehicle fuel taxes.** RCW 82.04.4285 provides a B&O tax deduction for certain state and federal motor vehicle fuel taxes when the taxes are included in the sales price. These taxes include:

- ~~((State motor vehicle fuel tax - chapter 82.36 RCW; State special))~~ Fuel tax . . . . . chapter 82.38 RCW;
- Federal tax on diesel and special motor fuels (including leaking underground storage tank taxes), except train and aviation fuels. . . . . 26 U.S.C.A. Sec. 4041;
- Federal tax on inland waterway commercial fuel. . . 26 U.S.C.A. Sec. 4042;
- Federal tax on gasoline and diesel fuel for use in highway vehicles and motorboats. . . . . 26 U.S.C.A. Sec. 4081.

(4) **Taxes collected as an agent of municipalities, the state, or the federal government.** The amount of taxes collected by a taxpayer, as agent for municipalities, the state of Washington or its political subdivisions, or the federal government, may be deducted from the gross amount reported. These taxes are deductible under each tax classification of the Revenue Act under which the gross amount from such sales or services must be reported.

This deduction applies only where the amount of such taxes is received by the taxpayer as collecting agent and is paid by the agent directly to a municipality, the state, its political subdivisions, or to the federal government. When the taxpayer is the person upon whom a tax is primarily imposed, no deduction or exclusion is allowed, since in such case the tax is a part of the cost of doing business. The mere fact that the amount of tax is added by the taxpayer as a separate item to the price of goods sold, or to the charge for services rendered, does not in itself, make such taxpayer a collecting agent for the purpose of this deduction. Examples of deductible taxes include:

FEDERAL—	
Tax on communications services (telephone and teletype-writer exchange services).....	26 U.S.C.A. Sec. 4251;
Tax on transportation of persons.....	26 U.S.C.A. Sec. 4261;
Tax on transportation of property.....	26 U.S.C.A. Sec. 4271;
STATE—	
Aviation fuel tax collected from buyers by a distributor as defined by RCW 82.42.010.....	chapter 82.42 RCW;
Leasehold excise tax collected from lessees.....	chapter 82.29A RCW;
Oil spill response tax collected from taxpayers by marine terminal operators. . .	chapter 82.23B RCW;
Retail sales tax collected from buyers.....	chapter 82.08 RCW;
Solid waste collection tax collected from buyers.....	chapter 82.18 RCW;
State enhanced 911 tax collected from subscribers...	chapter 82.14B RCW;
Use tax collected from buyers.....	chapter 82.12 RCW;
MUNICIPAL—	
City admission tax.....	RCW 35.21.280;
County admissions and recreations tax.....	chapter 36.38 RCW;
County enhanced 911 tax collected from subscribers...	chapter 82.14B RCW;
Local retail sales and use taxes collected from buyers.....	chapter 82.14 RCW.

(5) **Specific taxes which are not deductible.** Examples of specific taxes which may be neither deducted nor excluded from the measure of the tax include the following:

FEDERAL—	
<u>Agricultural Adjustment Act</u> (A.A.A.) compensating tax.....	7 U.S.C.A. Sec. 615(e);
A.A.A. processing tax.	7 U.S.C.A. Sec. 609;
Aviation fuel.....	26 U.S.C.A. Sec. 4091;
Distilled spirits, wine and beer taxes.....	26 U.S.C.A. chapter 51;
Diesel and special motor fuel tax for fuel used for purposes other than motor vehicles and motor-boats.....	26 U.S.C.A. Sec. 4041;
Employment taxes....	26 U.S.C.A. chapters 21-25;
Estate taxes.....	26 U.S.C.A. chapter 11;

Firearms, shells and cartridges. . . . .	26 U.S.C.A. Sec. 4181;
Gift taxes. . . . .	26 U.S.C.A. chapter 12;
Importers, manufacturers and dealers in firearms. . . .	26 U.S.C.A. Sec. 5801;
Income taxes. . . . .	26 U.S.C.A. Subtitle A;
Insurance policies issued by foreign insurers. . . . .	26 U.S.C.A. Sec. 4371;
Sale and transfer of firearms tax. . . . .	26 U.S.C.A. Sec. 5811;
Sporting goods. . . . .	26 U.S.C.A. Sec. 4161;
Superfund tax. . . . .	26 U.S.C.A. Sec. 4611;
Tires. . . . .	26 U.S.C.A. Sec. 4071;
Tobacco excise taxes. .	26 U.S.C.A. chapter 52;
Wagering taxes. . . . .	26 U.S.C.A. chapter 35;
STATE —	
Ad valorem property taxes. . . . .	Title 84 RCW;
Alcoholic beverages licenses and stamp taxes (Breweries, distillers, distributors and wineries). . . . .	chapter 66.24 RCW;
Aviation fuel tax when not collected as agent for the state. . . . .	chapter 82.42 RCW;
Boxing, sparring and wrestling tax. . . . .	chapter 67.08 RCW;
Business and occupation tax. . . . .	chapter 82.04 RCW;
Cigarette tax. . . . .	chapter 82.24 RCW;
<del>((Gift and inheritance taxes))</del> Estate tax. . . . .	Title 83 RCW;
Insurance premiums tax	chapter 48.14 RCW;
Hazardous substance tax. . . . .	chapter 82.21 RCW;
Litter tax. . . . .	chapter 82.19 RCW;
Pollution liability insurance fee. . . . .	RCW ((70.149.080)) <u>70A.149.080</u> ;
Parimutuel tax. . . . .	RCW 67.16.100;
Petroleum products - underground storage tank tax. . . . .	chapter 82.23A RCW;
Public utility tax. . . . .	chapter 82.16 RCW;
Real estate excise tax. .	chapter 82.45 RCW;
Tobacco products tax. .	chapter 82.26 RCW;
Use tax when not collected as agent for state. . . . .	chapter 82.12 RCW;
MUNICIPAL—	
Local use tax when not collected as agent for cities or counties. . . . .	chapter 82.14 RCW;

Municipal utility taxes. chapter 54.28 RCW;  
Municipal and county real estate excise taxes. chapter 82.46 RCW.

AMENDATORY SECTION (Amending WSR 13-22-048, filed 11/1/13, effective 12/2/13)

**WAC 458-20-22801 Tax reporting frequency. (1) Introduction.**

(a) Every person liable for an excise tax imposed by the laws of the state of Washington for which the department of revenue has primary or secondary administrative responsibility, i.e., Title 82 RCW and chapters 67.28 (Hotel/motel tax), ~~((70.93))~~ 70A.93 (Litter tax), ~~((70.95))~~ 70A.95 (Tax on tires), and 84.33 RCW (Forest excise tax), must file an electronic tax return with the department of revenue accompanied by an electronic payment of the tax due; however, the taxes under chapter 82.24 RCW (Tax on cigarettes) must be collected through sales of revenue stamps.

(b) Other rules to reference. The department has adopted other rules that readers may want to refer to:

(i) WAC 458-20-228 Returns, payments, penalties, extensions, interest, stays of collection.

(ii) WAC 458-20-22802 Electronic filing and payment.

(2) ~~((Reporting frequency.))~~ **Reporting frequency.** Taxpayers are required to electronically file and pay their excise taxes on a monthly basis. However, the department may relieve any taxpayer or class of taxpayers from this monthly obligation and may require the return to cover other longer reporting periods, but not in excess of one year. ~~((See:))~~ RCW 82.32.045.

(a) General rule. Unless otherwise provided by the department, a taxpayer must report and pay taxes due according to the following schedule:

IF ANNUAL ESTIMATED TAX LIABILITY IS:	REPORTING FREQUENCY
Over \$4800.00 per year	Monthly returns:
Between \$1050.00 & \$4800.00 per year	Quarterly returns:
Less than \$1050.00 per year	Annual returns:

~~((b))~~ When requested by a taxpayer or group of taxpayers, the department may approve more frequent or less frequent reporting if, in the opinion of the department, the change assists the department in the efficient and effective administration of the tax laws of this state.

~~((c) For the same reasons, the department may require a taxpayer or group of taxpayers to report more frequently or less frequently.))~~

(b) Changes in reporting frequency. Changes in reporting frequency are effective only after the department has consented to or required the change, and notice of the change has been given by the department to the taxpayer or group of taxpayers.

~~((d))~~ Situations when changes in reporting frequency may be approved or required include, but are not limited to, the following:

(i) An increase or decrease in the estimated annual tax liability of a taxpayer results in a different threshold as provided in ~~((section (2)(a) above))~~ (a) of this subsection;

(ii) A taxpayer or group of taxpayers has substantial periods of no taxable business activity during the calendar year, i.e., temporary businesses;

(iii) The department finds a taxpayer or a group of taxpayers has repeatedly failed to comply with tax reporting and/or payment obligations; or

(iv) The type of tax reported is required to be filed on a specific reporting frequency.

~~((e))~~ (c) Notice of change in reporting frequency. No change in reporting frequency will be effective except ~~((upon))~~ with at least thirty days advance written or electronic notice from the department to the taxpayer at the taxpayer's last provided email address or reported business address.

~~((f))~~ (d) Filing returns. Returns must be submitted electronically. Taxpayers approved by the department may continue to submit paper returns that are either provided by the department, or approved and accepted by the department. Paper forms (including multipurpose returns for past and present reporting periods) are available for download from the department's website at dor.wa.gov.

~~((g))~~ Taxes not reported ~~((upon))~~ on the combined excise tax return, i.e. forest excise tax, etc. must be reported at such times and upon such forms as are otherwise provided by the department.

~~((3))~~ See WAC 458-20-228 for information on returns, remittances, penalties, extensions, stay of collection.

~~((4))~~ See WAC 458-20-22802 for information on available electronic methods for filing and paying taxes.)

AMENDATORY SECTION (Amending WSR 16-06-040, filed 2/24/16, effective 3/26/16)

**WAC 458-20-254 Recordkeeping.** (1) **Introduction.** This rule defines the requirements for the maintenance and retention of books, records, and other sources of information. It also addresses these requirements where all or a part of the taxpayer's books and records are received, created, maintained, or generated through various computer, electronic, and/or imaging processes and systems.

The general requirements imposed on taxpayers under RCW 82.32.070 are to retain and make available those records necessary to verify that the correct tax liability has been reported and paid by the taxpayer with respect to the taxes administered by the department of revenue ~~((the))~~ department ~~((the))~~. The records provided to the department are confidential and privileged ~~((Such records))~~ and may not be disclosed by the department, except as provided by RCW 82.32.330.

(2) **Definitions.** For purposes of this rule, the following definitions ~~((will))~~ apply:

(a) **"Database management system"** means a software system that controls, relates, retrieves, and provides accessibility to data stored in a database.

(b) **"Electronic data interchange"** or **"EDI technology"** means the computer-to-computer exchange of business transactions in a standardized structured electronic format.

(c) **"Hard copy"** means any documents, records, reports or other data printed on paper.

(d) **"Machine-sensible record"** means a collection of related information in any electronic format (e.g., database management systems, EDI technology, automated data process systems, etc.). Machine-sensible records do not include hard-copy records that are created or recorded on paper or stored in or by an imaging system such as microfilm, microfiche, or storage-only imaging systems.

(e) **"Records"** means all books, data, documents, reports, or other information, including those received, created, maintained, or generated through various computer, electronic, and/or imaging processes and systems.

(f) **"Storage-only imaging system"** means a system of computer hardware and software that provides for the storage, retention and retrieval of documents originally created on paper. It does not include any system, or part of a system, that manipulates or processes any information or data contained on the document in any manner other than to reproduce the document in hard copy or as an optical image.

(3) **Recordkeeping requirements—General.**

(a) **Duty of taxpayer to keep records.** Every taxpayer liable for a tax or fee imposed by the laws of the state of Washington for which the department (~~of revenue~~) has primary or secondary administrative responsibility, e.g., Title 82 RCW, chapter 67.28 RCW (hotel/motel tax), chapter (~~70.95~~) 70A.95 RCW (fee on tires), and chapter 84.33 RCW (forest excise tax), must keep complete and adequate records from which the department (~~may~~) can determine (~~any~~) the tax liability (~~for such~~) of the taxpayer.

~~((b))~~ It is the duty of each taxpayer to prepare and preserve all records in a systematic manner conforming to accepted accounting methods and procedures. ~~((Such))~~ Records are to be kept and preserved ~~((. All of the taxpayer's records))~~ and must be presented upon request by the department or its authorized representatives ~~((that will))~~. The records should demonstrate:

(i) The amounts of gross receipts and sales from all sources, however derived, including barter or exchange transactions, whether or not such receipts or sales are taxable. These amounts must be supported by original source documents or records including but not limited to all purchase invoices, sales invoices, contracts, and such other records as may be necessary to substantiate gross receipts and sales.

(ii) The amounts of all deductions, exemptions, or credits claimed through supporting records or documentation required by statute or administrative rule, or other supporting records or documentation necessary to substantiate the deduction, exemption, or credit.

(iii) The payment of retail sales tax or use tax on capital assets, supplies, articles manufactured for your own use, and other items used by the taxpayer as a consumer.

(iv) The amounts of any refunds claimed. These amounts must be supported by records as may be necessary to substantiate the refunds claimed. Refer to WAC 458-20-229 Refunds, for information on the refund process.

~~((c))~~ **(b) Types of records.** The records kept, preserved, and presented must include the normal records maintained by an ordinary prudent business person. ~~((Such))~~ These records may include general ledgers, sales journals, cash receipts journals, bank statements, check registers, and purchase journals, together with all bills, invoices, cash register tapes, and other records or documents of original entry supporting the books of account entries. The records must include all federal and state tax returns and reports and all sched-

ules, work papers, instructions, and other data used in the preparation of the tax reports or returns.

~~((d))~~ **(c) Format of records.** If a taxpayer retains records in both machine-sensible and hard-copy formats, ~~((the taxpayer))~~ they must make the records available to the department in machine-sensible format upon request of the department. However, the taxpayer is not prohibited from demonstrating tax compliance with traditional hard-copy documents or reproductions ~~((thereof))~~, although this does not eliminate the requirement that they provide access to machine-sensible records, if requested.

~~((e))~~ Machine-sensible records used to establish tax compliance must contain sufficient transaction-level detail information so that the details underlying the machine-sensible records can be identified and made available to the department upon request.

~~((f))~~ At the time of an examination, the retained records must be capable of being retrieved and converted to a readable record format, as required in subsection (6) of this rule.

~~((g))~~ Taxpayers are not required to construct machine-sensible records other than those created in the ordinary course of business. A taxpayer who does not create the electronic equivalent of a traditional paper document in the ordinary course of business is not required to construct such a record for tax purposes.

(4) **Record retention period.** All records must be open for inspection and examination at any time by the department, upon reasonable notice, and must be kept and preserved for a period of five years. RCW 82.32.070.

(5) **Failure to maintain or disclose records.** Any taxpayer who fails to comply with the requirements of RCW 82.32.070 or this rule is forever barred from questioning, in any court action or proceedings, the correctness of any assessment of taxes made by the department based upon any period for which such books, records, and invoices have not been so kept, preserved, or disclosed. RCW 82.32.070.

(6) **Electronic records.**

(a) **Electronic data interchange requirements.**

(i) Where a taxpayer uses electronic data interchange (EDI) processes and technology, the level of record detail, in combination with other records related to the transactions, must be equivalent to that contained in an acceptable paper record. For example, the retained records should contain such information as vendor name, invoice date, product description, quantity purchased, price, amount of tax, indication of tax status, shipping detail, etc. Codes may be used to identify some or all of the data elements, provided that the taxpayer provides a method which allows the department to interpret the coded information.

(ii) The taxpayer may capture the information at any level within the accounting system and need not retain the original EDI transaction records provided the audit trail, authenticity, and integrity of the retained records can be established. For example, a taxpayer using electronic data interchange technology receives electronic invoices from its suppliers. The taxpayer decides to retain the invoice data from completed and verified EDI transactions in its accounts payable system rather than to retain the EDI transactions themselves. Since neither the EDI transaction nor the accounts payable system captures information from the invoice pertaining to product description and vendor name (i.e., they contain only codes for that information), the taxpayer must also retain other records, such as its vendor master file and product code description lists and make them available to the

department. In this example, the taxpayer need not retain its EDI transaction for tax purposes if the vendor master file contains the required information.

(b) **Electronic data processing systems requirements.** The requirements for an electronic data processing accounting system should be similar to that of a manual accounting system, in that an adequately designed accounting system should incorporate methods and records that will satisfy the requirements of this rule.

(c) **Internal controls.**

(i) Upon the request of the department, the taxpayer must provide a description of the business process that created the retained records. Such description must include the relationship between the records and the tax documents prepared by the taxpayer and the measures employed to ensure the integrity of the records.

(ii) The taxpayer must be capable of demonstrating:

(A) The functions being performed as they relate to the flow of data through the system;

(B) The internal controls used to ensure accurate and reliable processing; and

(C) The internal controls used to prevent unauthorized addition, alteration, or deletion of retained records.

(iii) The following specific documentation is required for machine-sensible records retained pursuant to this rule:

(A) Record formats or layouts;

(B) Field definitions (including the meaning of all codes used to represent information);

(C) File descriptions (e.g., data set name); and

(D) Detailed charts of accounts and account descriptions.

(7) **Access to machine-sensible records.**

(a) The manner in which the department is provided access to machine-sensible records may be satisfied through a variety of means that (~~shall~~) take into account a taxpayer's facts and circumstances through consultation with the taxpayer.

(b) (~~Such~~) Access will be provided in one or more of the following manners:

(i) The taxpayer may arrange to provide the department with the hardware, software and personnel resources to access the machine-sensible records.

(ii) The taxpayer may arrange for a third party to provide the hardware, software and personnel resources necessary to access the machine-sensible records.

(iii) The taxpayer may convert the machine-sensible records to a standard record format specified by the department, including copies of files, on a magnetic medium that is agreed to by the department.

(iv) The taxpayer and the department may agree on other means of providing access to the machine-sensible records.

(8) **Storage-only imaging systems.**

(a) **Converting documents.** For purposes of storage and retention, taxpayers may convert hard-copy documents received or produced in the normal course of business and required to be retained under this rule to microfilm, microfiche or other storage-only imaging systems and may discard the original hard-copy documents, provided the conditions of this rule are met. Documents which may be stored on these media include (~~(, but are not limited to,)~~) general books of account, journals, voucher registers, general and subsidiary ledgers, and supporting records of details, such as sales invoices, purchase invoices, exemption certificates, (~~and~~) credit memoranda, etc.

(b) **System requirements.** Microfilm, microfiche and other storage-only imaging systems must meet the following requirements:

(i) Documentation establishing the procedures for converting the hard-copy documents to microfilm, microfiche or other storage-only imaging system must be maintained and made available upon request. Such documentation must, at a minimum, contain a sufficient description to allow an original document to be followed through the conversion system as well as internal procedures established for inspection and quality assurance.

(ii) Procedures must be established for the effective identification, processing, storage, and preservation of the stored documents and for making them available for a period of five years.

(iii) Upon request by the department, a taxpayer must provide facilities and equipment for reading, locating, and reproducing any documents maintained on microfilm, microfiche or other storage-only imaging system.

(iv) When displayed on such equipment or reproduced on paper, the documents must exhibit a high degree of legibility and readability. For this purpose, legibility is defined as the quality of a letter or numeral that enables the observer to identify it positively and quickly to the exclusion of all other letters or numerals. Readability is defined as the quality of a group of letters or numerals being recognizable as words or complete numbers.

(v) All data stored on microfilm, microfiche or other storage-only imaging systems must be maintained and arranged in a manner that permits the location of any particular record.

(vi) There must be no substantial evidence that the microfilm, microfiche, or other storage-only imaging system lacks authenticity or integrity.

(9) ~~((Effect on))~~ **Hard-copy ((recordkeeping requirements)) records.**

(a) **Recordkeeping requirements.** The provisions of this rule do not relieve taxpayers of the responsibility to retain hard-copy records that are created or received in the ordinary course of business as required by existing law and regulations, except as otherwise provided in this rule. Hard-copy records may be retained on a recordkeeping medium as provided in subsection (8) of this rule. The department may request hard-copy printouts in lieu of retained machine-sensible records at the time of examination.

~~((b) If))~~ Hard-copy records ((are)) not produced or received in the ordinary course of transacting business (e.g., when the taxpayer uses electronic data interchange technology), ((such hard-copy records)) do not need ((not)) to be created. Computer printouts that are created for validation, control, or other temporary purposes do not need to be retained.

~~((e))~~ (b) **Debit and credit card transactions.** Hard-copy records generated at the time of a transaction using a credit or debit card must be retained unless all the details necessary to determine correct tax liability relating to the transaction are subsequently received and retained by the taxpayer in accordance with this rule.

~~((d) Computer printouts that are created for validation, control, or other temporary purposes need not be retained.~~

~~((e) Nothing in this rule prevents the department from requesting hard-copy printouts in lieu of retained machine-sensible records at the time of examination.)~~

(10) **Out-of-state businesses.** An out-of-state business which does not keep ~~((the))~~ its necessary records within this state may either

produce ((within this state such)) these records within this state as ((are)) required for examination by the department or permit the examination of all of ((the taxpayer's)) its records by the department or its authorized representatives at the place where the records are kept. RCW 82.32.070.

AMENDATORY SECTION (Amending WSR 16-04-035, filed 1/26/16, effective 2/26/16)

**WAC 458-20-261 Commute trip reduction incentives.** (1) **Introduction.** This rule explains the various commute trip reduction incentives that are available. RCW 82.04.355 and 82.16.047 provide exemptions from business and occupation (B&O) tax and public utility tax (PUT) on amounts received from providing commuter ride sharing and ride sharing for persons with special transportation needs. RCW 82.08.0287 and 82.12.0282 provide sales and use tax exemptions for sales or use of passenger motor vehicles as ride-sharing vehicles. Finally, chapter 82.70 RCW provides commute trip reduction incentives in the form of B&O tax or PUT credit in connection with ride sharing, public transportation, car sharing, and nonmotorized commuting.

(2) **B&O tax and PUT exemptions for providing commuter ride sharing or ride sharing for persons with special transportation needs.** RCW 82.04.355 and 82.16.047 provide B&O tax and PUT exemptions for amounts received in the course of commuter ride sharing or ride sharing for persons with special transportation needs.

(a) **What is "commuter ride sharing"?** "Commuter ride sharing" means a carpool or vanpool arrangement, whereby one or more fixed groups:

(i) Not exceeding fifteen persons each, including the drivers; and

(ii) Either:

(A) Not fewer than five persons, including the drivers; or

(B) Not fewer than four persons, including the drivers, where at least two of those persons are confined to wheelchairs when riding; are transported in a passenger motor vehicle with a gross vehicle weight not exceeding ten thousand pounds, excluding any special rider equipment. The transportation must be between their places of residence or near such places of residence, and their places of employment or educational or other institutions. Each group must be in a single daily round trip where the drivers are also on the way to or from their places of employment or educational or other institutions. RCW 46.74.010.

(b) **What is "ride sharing for persons with special transportation needs"?** "Ride sharing for persons with special transportation needs" means an arrangement, whereby a group of persons with special transportation needs, and their attendants, is transported by a public social service agency or a private, nonprofit transportation provider, in a passenger motor vehicle as defined by the department of licensing to include small buses, cutaways, and modified vans not more than twenty-eight feet long. The driver need not be a person with special transportation needs. RCW 46.74.010.

(i) **What is a "private, nonprofit transportation provider"?** A "private, nonprofit transportation provider" is any private, nonprofit

corporation providing transportation services for compensation solely to persons with special transportation needs. RCW 81.66.010.

(ii) **Who are "persons with special transportation needs"?** "Persons with special transportation needs" are those persons, including their personal attendants, who because of physical or mental disability, income status, or age, are unable to transport themselves or to purchase appropriate transportation. RCW 81.66.010.

(3) **Retail sales tax and use tax exemptions on sales or use of passenger motor vehicles as ride-sharing vehicles.** RCW 82.08.0287 and 82.12.0282 provide retail sales tax and use tax exemptions for sales and use of passenger motor vehicles as ride-sharing vehicles.

(a) **What are the requirements?** To qualify for these exemptions, the passenger motor vehicles must be used:

(i) Primarily for commuter ride sharing or ride sharing for persons with special transportation needs; and

(ii) As ride-sharing vehicles for thirty-six consecutive months beginning from the date of purchase (retail sales tax exemption) and the date of first use (use tax exemption). If the vehicle is used as a ride-sharing vehicle for less than thirty-six consecutive months, the registered owner must pay the retail sales tax or use tax.

(b) **Additional requirements in certain cases.** Vehicles used primarily for commuter ride sharing must be operated within a county, or a city or town within that county, which has a commute trip reduction plan under chapter ((70.94)) 70A.94 RCW in order to be exempt from retail sales tax or use tax. In addition, for the exemptions to apply, at least one of the following conditions must apply:

(i) The vehicle is operated by a public transportation agency for the general public;

(ii) The vehicle is used by a major employer, as defined in RCW ((70.94.524)) 70A.94.524, as an element of its commute trip reduction program for their employees; or

(iii) The vehicle is owned and operated by individual employees and must be registered either with the employer as part of its commute trip reduction program or with a public transportation agency serving the area where the employees live or work.

Individual-employee owned and operated motor vehicles require certification that the vehicle is registered with a major employer or a public transportation agency. Major employers who own and operate motor vehicles for their employees must certify that the commute ride-sharing arrangement conforms to a carpool or vanpool element contained within their commute trip reduction program.

(4) **B&O tax or PUT credit for ride sharing, public transportation, car sharing, or nonmotorized commuting.** RCW 82.70.020 provides a credit against B&O tax or PUT liability for amounts paid to or on behalf of employees for ride sharing in vehicles carrying two or more persons, for using public transportation, for using car sharing, or for using nonmotorized commuting. The credit is equal to the amount paid to or on behalf of each employee multiplied by fifty percent, but may not exceed sixty dollars per employee per fiscal year. No refunds will be granted for unused credits.

(a) **Who is eligible for this credit?**

(i) Employers in Washington are eligible for this credit, for amounts paid to or on behalf of their own or other employees, as financial incentives to such employees for ride sharing, for using public transportation, for using car sharing, or for using nonmotorized commuting.

(ii) Property managers who manage worksites in Washington are eligible for this credit, for amounts paid to or on behalf of persons employed at those worksites, as financial incentives to such persons for ride sharing, for using public transportation, for using car sharing, or for using nonmotorized commuting.

(b) **What is "ride sharing"?** "Ride sharing" means a carpool or vanpool arrangement, whereby a group of at least two but not exceeding fifteen persons, including the driver, is transported in a passenger motor vehicle with a gross vehicle weight not exceeding ten thousand pounds, excluding any special rider equipment. The transportation must be between their places of residence or near such places of residence, and their places of employment or educational or other institutions. The driver must also be on the way to or from his or her place of employment or educational or other institution. "Ride sharing" includes ride sharing on Washington state ferries. RCW 82.70.010.

(c) **What is "public transportation"?** "Public transportation" means the transportation of packages, passengers, and their incidental baggage, by means other than by charter bus or sight-seeing bus, together with the necessary passenger terminals and parking facilities or other properties necessary for passenger and vehicular access to and from such people moving systems. "Public transportation" includes passenger services of the Washington state ferries. RCW 82.70.010.

(d) **What is "car sharing"?** "Car sharing" means a membership program intended to offer an alternative to car ownership under which persons or entities that become members are permitted to use vehicles from a fleet on an hourly basis. RCW 82.70.010.

(e) **What is "nonmotorized commuting"?** "Nonmotorized commuting" means commuting to and from the workplace by an employee, by walking or running or by riding a bicycle or other device not powered by a motor. "Nonmotorized commuting" does not include teleworking, which is a program where work functions normally performed at a traditional workplace are instead performed by an employee at his or her home, at least one day a week for the purpose of reducing the number of trips to the employee's workplace. RCW 82.70.010.

(f) **What is the credit amount?** The amount of the credit is equal to the amount paid to or on behalf of each employee multiplied by fifty percent, but may not exceed sixty dollars per employee per fiscal year. RCW 82.70.020.

(g) **What is a "fiscal year"?** A "fiscal year" begins at July 1st of one year and ends on June 30th of the following year.

(h) **When will the credit expire?** The credit program ~~((was)) is scheduled to expire ((June 30, 2015, but has been extended to June 30, 2024, by legislation passed in 2015 (2ESSB 5987, chapter 44, Laws of 2015). For credits approved by the department through June 30, 2015, the approved credit may be carried forward and used for tax reporting periods through December 31, 2016. Credits approved after June 30, 2015, must be used for tax reporting periods within the calendar year for which they are approved by the department and may not be carried forward to subsequent tax reporting periods))~~ July 1, 2024. No credit may be claimed after June 30, 2024.

(i) **What are the limitations of the credit?**

(i) The credit may not exceed the amount of B&O tax or PUT that would otherwise be due for the same fiscal year.

(ii) A person may not receive credit for amounts paid to or on behalf of the same employee under both B&O tax and PUT.

(iii) A person may not take a credit for amounts claimed for credit by other persons.

(iv) The total credit granted to a person under both B&O tax and PUT may not exceed ~~((two hundred thousand dollars for a fiscal year. Effective in 2016, the maximum credit that may be granted is))~~ one hundred thousand dollars for a fiscal year.

(v) The total credit granted to all persons under both B&O tax and PUT may not exceed two million seven hundred fifty thousand dollars in any fiscal year ~~((with the exception of one million five hundred thousand dollars per fiscal year for the period July 1, 2013, through June 30, 2015))~~.

(vi) No credit or portion of a credit denied, because of exceeding the limitations in (i)(iv) or (v) of this subsection, may be used against tax liability for other fiscal years.

(vii) No person is eligible for tax credits under RCW 82.70.020 if the additional revenues for the multimodal transportation account (RCW 47.66.070) created by chapter 361, Laws of 2003 are terminated.

**(j) What are the credit procedures?**

(i) Persons applying for the credit must complete the commute trip reduction credit annual application. The application must be electronically filed and received by the department between January 1st and January 31st, following the calendar year in which the applicant made incentive payments. The commute trip reduction credit annual application is available through the business's "My ~~((Account))~~ DOR account on the department's website at dor.wa.gov.

(ii) The department must make a determination on an application within sixty days of the January 31st deadline. ~~((Except as explained immediately below,))~~ The department must disapprove an application not received by the January 31st deadline ~~((. Legislation (2ESSB 5987, chapter 44, Laws of 2015) passed in 2015 allows))~~, except that the department ~~((to))~~ may accept applications received up to fifteen calendar days after the deadline if the application was not received ~~((by the deadline))~~ because of circumstances beyond the control of the taxpayer. For what is considered circumstances beyond the control of a taxpayer, see WAC 458-20-228 Returns, payments, penalties, extensions, interest, stays of collection. Once the application is approved and the tax credit is granted, the department is not allowed to increase the credit.

(iii) If the total amount of credit applied for by all applicants in a fiscal year exceeds the limitation as provided in (i)(v) of this subsection, the amount of credit allowed for all applicants must be proportionally reduced so as not to exceed the limit. The amount reduced may not be carried forward and claimed in subsequent fiscal years.

(iv) To claim a commute trip reduction tax credit, a person must file all returns, forms, and other information the department requires in an electronic format as provided or approved by the department. Any return, form, or information required to be filed in an electronic format is not filed until received by the department in an electronic format. For the purpose of this subsection, "returns" has the same meaning as "return" in RCW 82.32.050.

(k) **Examples.** The following examples identify a number of facts and then state a conclusion. These examples should be used only as a general guide. The tax results of other situations must be determined after a review of all the facts and circumstances.

(i) **Example 1.** An employer pays one hundred eighty dollars for a yearly bus pass for one employee. For another employee, the employer buys a bicycle helmet and bicycle lock for a total of fifty dollars. These are the total expenditures during a fiscal year of amounts paid

to or on behalf of employees in support of ride sharing, using public transportation, using car sharing, and using nonmotorized commuting. The employer may claim a credit of sixty dollars for the amount spent for the employee using the bus pass. Fifty percent of one hundred eighty dollars is ninety dollars, but the credit is limited to sixty dollars per employee. The employer may claim a credit of twenty-five dollars (fifty percent of fifty dollars) for the amount spent for the employee who bicycles to work. Even though fifty percent of two hundred thirty dollars, the amount spent on both employees, works out to be less than sixty dollars per employee, the credit is computed by looking at actual spending for each employee and not by averaging the spending for both employees.

(ii) **Example 2.** An employer provides parking spaces for the exclusive use of ride-sharing vehicles. Amounts spent for signs, painting, or other costs related to the parking spaces do not qualify for the credit. This is because the credit is for financial incentives paid to or on behalf of employees. While the parking spaces support the use of ride-sharing vehicles, they are not financial incentives and do not involve amounts paid to or on behalf of employees.

(iii) **Example 3.** As part of its commute trip reduction program, an employer pays the cab fare for an employee who has an emergency and must leave the workplace but has no vehicle available because he or she commutes by ride-sharing vehicle. The cab fare qualifies for the credit but is subject to the maximum credit limit of sixty dollars per employee.

(iv) **Example 4.** An employer pays the property manager for a yearly bus pass for one employee who works at the worksite managed by the property manager. The property manager in turn pays the amount received from the employer to a public transportation agency to purchase the bus pass. Either the employer or the property manager, but not both, may take the credit for this expenditure.

AMENDATORY SECTION (Amending WSR 16-07-047, filed 3/14/16, effective 4/14/16)

**WAC 458-20-272 Tire fee—Studded tire fee—Core deposits or credits.** (1) **Introduction.** This rule describes the tire fee imposed under RCW ((70.95.510)) 70A.95.510 and the studded tire fee imposed under RCW 46.37.427 ((for collection beginning July 1, 2016. See chapter 44, Laws of 2015 (2ESSB 5987))). This rule also describes how business and occupation (B&O), sales, and use taxes apply to tire fees, battery core charges and core deposits or credits, including the exemptions described in RCW 82.08.036 and 82.12.038.

(a) **Other rules that may be relevant.** Readers may want to refer to other rules for additional information, including those in the following list:

(i) WAC 458-20-228 Returns, payments, penalties, extensions, interest, stays of collection.

(ii) WAC 458-20-278 Returned goods, defective goods—Motor vehicle lemon law.

(b) **Examples.** This rule contains examples that identify a number of facts and then state a conclusion. These examples should be used

only as a general guide. The tax results of other situations must be determined after a review of all of the facts and circumstances.

(2) **Tire fee.**

(a) **What is the tire fee?** The tire fee as described in RCW 70A.95.510 is a one-dollar fee collected by the seller from the buyer on every retail sale of each new replacement vehicle tire. If new tires are leased, the fee must be collected once at the beginning of the lease.

(b) **How do I report the tire fee?** A seller must report on the excise tax return the number of new replacement vehicle tires sold. Tire sellers may retain ten percent of the fee and must remit the remainder to the department of revenue (department). As a result, the amount that must be reported and paid to the department is the number of new replacement vehicle tires sold during the tax reporting period multiplied by ninety cents.

(c) **What if the seller fails to collect the fee or does not pay the fee on time?** The seller is personally liable for payment of the fee, whether or not the fee is collected from the buyer. Any seller who appropriates or converts the fee collected to ~~((his or her))~~ their own use or to any use other than the payment of the fee by the due date, minus the ten percent retained, is guilty of a gross misdemeanor. Interest and penalties apply to late payments.

(d) **What happens if a buyer fails to pay the fee?** The tire fee, until paid by the buyer to the seller or the department, is considered a debt from the buyer to the seller. Any buyer who refuses to pay the fee is guilty of a misdemeanor.

(e) **Is sales tax imposed on the tire fee?** No. The measure of the sales tax does not include the tire fee. See RCW 82.08.036.

(f) **Is the ten percent amount retained by the seller subject to B&O tax?** Yes. The seller must report the retained amount as gross income under the service and other activities tax classification on the excise tax return.

(g) **What tires are subject to the tire fee?** All new replacement vehicle tires are subject to the tire fee. Refer to RCW ~~((70.95.030))~~ 70A.95.030 for the definition of "vehicle."

(i) Examples of vehicles for which new replacement tires are subject to the fee include:

- (A) Automobiles;
- (B) Trucks;
- (C) Recreational vehicles;
- (D) Trailers;
- (E) All-terrain vehicles (ATVs);
- (F) Agricultural vehicles, such as tractors or combines;
- (G) Industrial vehicles, such as forklifts;
- (H) Construction vehicles, such as loaders or graders; and
- (I) Golf carts.

(ii) Bicycles, wheelbarrows, and hand trucks are examples of devices to which the new replacement tire fee does not apply.

(iii) The tire fee does not apply to the sale of retreaded vehicle tires. Nor does it apply to tires provided free of charge under the terms of a recall or warranty.

(h) **May I refund the fee if a tire is returned?** If a customer returns the purchased new tire and the entire selling price is refunded to the customer, the one-dollar tire fee is likewise refundable. The refunded amount may be claimed on the excise tax return in the same manner as refunded sales tax. If the seller does not refund the full sales price to the customer, the one-dollar fee is not refundable.

(i) **Does the tire fee apply on sales to the federal government or Indians and Indian tribes?** The tire fee is not imposed on sales to the federal government and need not be collected by the seller. The tire fee does not apply to sales of tires delivered to enrolled members or tribes in "Indian country." For information on sales to the federal government, see WAC 458-20-190 Sales to and by the United States and certain entities created by the United States—Doing business on federal reservations—Sales to foreign governments, and for sales to Indians and Indian tribes, see WAC 458-20-192 Indians—Indian country.

(j) **If the sale is exempt from sales tax, is the tire fee due?** Statutory exemptions from sales tax do not apply to the tire fee. The tire fee is due on every retail sale of a new replacement tire whether or not sales tax is due.

(3) **Studded tire fee.**

(a) **What is the studded tire fee?** The studded tire fee as described in RCW 46.37.427 is a five dollar fee imposed on the retail sale of each new tire sold (~~(, on or after July 1, 2016,~~) that contains studs. The seller will collect the fee from the buyer. For the purpose of this subsection, "new tire sold that contains studs" means a tire that is manufactured for vehicle purposes and contains metal studs, and does not include bicycle tires or retreaded vehicle tires.

(b) **Who remits the studded tire fee to the department?** The seller collects the five dollar fee from the buyer and holds it in trust until paid to the department; however, the seller may retain ten percent of the fee collected.

(c) **What if the seller fails to collect the fee or does not pay the fee on time?** Interest and penalties, as described in subsection (2)(c) of this rule also apply to the studded tire fee.

(d) **What happens if a buyer fails to pay the fee?** As with the tire fee, a buyer who refuses to pay the fee is guilty of a misdemeanor. See subsection (2)(d) of this rule.

(e) **Is sales tax imposed on the tire fee?** No. The seller is collecting the fee as an agent for the state and thus the measure of sales tax does not include the studded tire fee. For additional information on taxpayers acting as collecting agents, see WAC 458-20-195 Taxes, deductibility.

(f) **Is the ten percent amount retained by the seller subject to B&O tax?** Yes. As with the tire fee, the seller must report the retained amount as gross income under the service and other activities tax classification on the excise tax return.

(g) **Is the studded tire fee refundable if the tire is returned?** If a new studded tire is returned, the studded tire fee is handled the same as the tire fee as described in subsection (2)(h) of this rule.

(h) **Does the studded tire fee apply to tires sold to the federal government or Indians and Indian tribes?** With respect to these sales, the studded tire fee is handled the same as the tire fee described in subsection (2)(i) of this rule.

(i) **If the sale is exempt from sales tax, is the studded tire fee due?** As with the tire fee described in subsection (2)(j) of this rule, statutory exemptions from sales tax do not apply to the studded tire fee.

(4) **Core deposits or credits - Battery core charges.**

(a) **Definitions.** For purposes of this rule, the following definitions apply:

(i) **Core deposits or credits.** "Core deposits or credits" means the amount representing the value of returnable products such as bat-

teries, starters, brakes, and other products with returnable value added for purposes of recycling or remanufacturing.

(ii) **Battery core charge.** "Battery core charge" refers to a core deposit, not less than five dollars, that a seller by law must retain when a retail purchaser has no used battery to exchange or trade in. A buyer may return within thirty days of the purchase with a used battery of equivalent size and claim the core charge amount. See RCW (~~70.95.630 and 70.95.640~~) 70A.95.630 and 70A.95.640.

(b) **How is tax calculated when the buyer receives a core deposit or credit?** Retail sales and use taxes do not apply to consideration received in the form of core deposits or credits when a purchaser exchanges or trades in a core for recycling or remanufacturing. Therefore, the measure of the sales or use tax may be reduced by the amount of the core deposit or credit. See RCW 82.08.036 and 82.12.038. The core deposit and credit exemptions apply only to the retail sales and use taxes. There is no equivalent exemption or deduction for B&O tax purposes. Therefore, the amount reported under the appropriate B&O tax classification must include the value of core deposits or credits.

(c) **Examples.**

(i) **Example 1.** A customer purchases at retail a new replacement battery and reconditioned starter, providing the seller with a battery core and a starter core in exchange. The selling price of the new battery, including the battery core charge, is \$60.00. The customer is allowed a \$5.00 credit because a battery core is exchanged, meaning the cost of the battery to the customer, excluding sales tax, is \$55.00. The selling price of the starter is \$50.00. The seller allows a \$3.00 credit for the starter core, meaning the cost to the customer, excluding sales tax, is \$47.00. Retailing B&O tax is due upon the total value of cash plus core value, in this case \$110.00, or \$60.00 plus \$50.00. However, the \$8.00 of core deposits or credits may be deducted from the measure of the retail sales tax under RCW 82.08.036. Thus, retail sales tax is due on \$102.00, or \$55.00 plus \$47.00.

(ii) **Example 2.** The seller in Example 1 delivers the starter and battery cores accepted in the exchange to wholesalers. A starter wholesaler issues a refund and a battery wholesaler issues a credit memorandum to be applied against future wholesale battery purchases. The return of the used products by the auto parts store for recycling or remanufacturing and subsequent receipt of a refund or credit for the core deposit or credit is not considered taxable consideration for purposes of the B&O tax.