

Retail Sales Tax

SEPTEMBER 2008

The retail sales tax is Washington's principal tax source. Together with the related use tax, it represented more than 50 percent of state taxes deposited into the general fund in Fiscal Year 2006 (nearly \$6.8 billion). In addition, local retail sales and use taxes provide important funding sources for local government programs, second only to the property tax.

WHAT IS RETAIL SALES TAX?

State law defines which activities are subject to the retail sales tax. Generally, all sales of tangible personal property to consumers for their own use are considered retail sales. In addition, a variety of services are defined as retail activities.

The following transactions are retail sales and subject to sales tax. This list is not all-inclusive.

Construction/Installation Services

- Installing, repairing, cleaning, improving, constructing, and decorating real or personal property for consumers
- Constructing and improving new or existing buildings and structures
- Clearing land and moving earth
- Landscape maintenance and horticultural services (excluding farmers)

Personal Services

- Charges for lodging for periods of less than 30 consecutive days from hotels, motels, and similar establishments that provide accommodations
- Physical fitness activities
- Tanning or tattooing

Recreation Services

- Day trips for sightseeing
- Amusement and recreational businesses, including golf, skiing, billiards, bowling, and similar activities

Miscellaneous Activities

- Sales of extended warranties (as of July 1, 2005)
- Renting or leasing tangible personal property
- Towing and parking automobiles
- Telephone services
- Charges by abstract, title insurance, escrow, and credit bureau businesses, including tenant screening services
- Renting equipment with or without an operator

HOW DO I SEND IN THE SALES TAX?

Businesses report state and local retail sales tax on a monthly, quarterly, or annual basis depending on their reporting frequency. Tax liability must be reported for all sales made during the reporting period on either an accrual or cash receipts accounting basis.

Retail sales tax applies to the selling price of taxable transactions and must be separately stated on the billing to the customer. The advertised price may include tax if the statement "sales tax included" is clearly indicated.

Businesses are responsible for collecting sales tax and liable for submitting the correct amount of tax, even if they under-collected or did not collect the tax from the purchaser. All amounts collected are considered to be trust funds of the state.

Sales tax rate charts indicating the amount of combined state and local tax for each selling price are available on our web site dor.wa.gov, (click on "Find taxes & rates," then on "Sales and use tax rates" then go to "tax rate chart") or by calling our Telephone Information Center or local offices.

COMPONENTS MAKING UP THE TAX RATE

Retailers collect the combined state and local retail sales tax from their customers. The state retail sales tax rate is 6.5 percent. Local retail sales tax rates range from 0.5 to 2.4 percent.

Other taxes that can add to the sales tax are:

- Regional Transit Authority (RTA) tax of 0.4 percent collected on sales in parts of King, Pierce, and Snohomish counties
- King County food and beverage tax of 0.5 percent collected on food and beverage sales in King County by restaurants, taverns, and bars
- Rental car taxes
- Additional state motor vehicle sales tax of 0.3 percent on sales, leases, and transfers of motor vehicles (except vehicle rentals subject to rental car tax)
- Various local taxes on lodging

HOW IS THE RETAIL SALES TAX DISTRIBUTED?

The state portion of the sales tax is deposited in the state general fund. City and county taxes are returned to the local governments for general expenditure programs. Specifically designated taxes must be used to operate the program(s) they fund. Local revenues are returned to taxing districts based on the location of the sale.

HOW DO I DETERMINE THE LOCATION OF MY SALES?

Effective July 1, 2008, the state of Washington adopted a destination-based sales tax system for sourcing retail sales. The correct sales tax rate and tax jurisdiction (location code) is determined by the location where the customer receives the merchandise or makes first use of retail services.

Sales of goods and merchandise

Goods and merchandise sales are coded to the location where the customer receives them. Over the counter sales, where the customer receives the item at the retail location, are coded to the retail store or outlet. Items that are shipped or delivered to the customer, either through the U.S. mail or a third party common carrier, are coded to location where the customer receives them (ship-to address).

Labor and Services

Labor and services are coded to where they are performed. If an installation charge is normally added to the cost of an item, the entire charge for that item is coded to the site where it is installed. If the buyer picks up the item in person, the sale is coded to the retail outlet where the item was picked up.

Repair Services

In the case of repaired merchandise, if the buyer picks up the item at the repair facility, then the sale is coded to the location of the repair facility. However, if the repaired item is delivered or shipped to the buyer, then the total charge, including shipping and handling, is coded to the buyer's address.

Goods Delivered into Washington

If goods are delivered into Washington from outside of the state the sale is coded to the location where the customer receives the goods.

Lease or Rental of Tangible Personal Property

Lease or rental of tangible personal property depends on the following:

▪ Single Payment

If a single payment is made and the person renting the equipment (lessee) picks up the equipment at the location of the business renting the equipment (lessor), then the lessor's location determines the code and local tax rate.

If a single payment is made but the equipment is delivered to the lessee at another location, the code is determined by the location where the lessee receives the equipment.

▪ Periodic Payments

If the item is leased for a length of time and periodic payments are made, the first payment is coded to the location where the lessee receives the equipment, normally the lessor's business location. All subsequent payments are coded to the location where the equipment is primarily used by the lessee.

Motor Vehicles, Trailers, Aircraft, etc.

Sales of motor vehicles (licensed for on-road use), trailers, semi-trailers, aircraft, watercraft, modular homes, and manufactured and mobile homes are coded to the seller's location even if the seller delivers the items to customers.

Sales of off-road vehicles such as tractors, all terrain vehicles, bull dozers and other vehicles that are not licensed for on-road use are coded based on the place where they are delivered to the buyer (destination).

Florists

Person whose primary business activity (more than 50 percent of gross sales) is the retailing of fresh cut flowers, floral arrangements, floral bouquets, wreaths, potted ornamental plants and similar products that are not used for landscaping purposes, qualifies as a florist.

FTD sales: For qualifying florists who take an order from a customer and then give that order to a second florist for delivery, the place of origin will continue to be the location of the florist who originally took the customer's order. This type of transaction is typically carried out using the Florists' Transworld Delivery Association (FTD) or another floral network service.

Non-FTD sales: Sales by qualifying florists should be sourced to the location at or from which delivery is made to the customer. Frequently, this will be the florist's store location.

Businesses, such as grocery stores, that do not qualify as florists because their flower sales do not make up at least 50 percent of their sales must code their flower sales based on the ship-to address of the buyer (destination).

For more information on Florists, see our online Special Notice Qualifying Florists Exempt from Destination Sales Tax Sourcing at dor.wa.gov under "Get a form or publication." On the right side of the page select, "Special Notices," then scroll down to "F."

Direct Mail

Unless the seller says otherwise, the Department will presume that the seller does not have continuing custody of the mailing list and is therefore not able to maintain the integrity of the information. Sales will be coded to the printer's location (Origin Sourcing).

If the seller can document that any portion of the direct mail is delivered outside Washington, the seller is not required to collect Washington State sales tax on that portion.

If the seller has continuing custody of the mailing list, the seller must collect Washington State sales tax on the basis of the "mail to" addresses that are in Washington.

For help determining the correct sales tax rate, try our online Tax Rate Lookup Tool available at dor.wa.gov under "Find taxes and rates."

For additional information on sourcing retail sales, see Washington Administrative Code (WAC) 458-20-145.

SALES TAX EXEMPTIONS

Some of the most common exemptions from the retail sales tax include:

- **Trade-ins:** If you trade-in a like-kind item to reduce the amount you pay for the tangible personal property, sales tax is due only on the amount due after the value of the like-kind trade-in is subtracted.

For example, you purchase a car for \$20,000. The dealer accepts your current car as a trade-in valued at \$5,000. Therefore, you owe sales tax on \$15,000. NOTE: If the dealer gives you \$5,000 cash instead of subtracting that amount from the new car price, then you have not traded-in your vehicle. In such a case, sales tax is due on the full \$20,000 price of your new vehicle. (WAC 458-20-247)
- **Interstate and Foreign Sales:** All sales of goods delivered to buyers outside Washington are exempt from the retail sales tax. Likewise, sales of items for use in Alaska, Hawaii, and noncontiguous US territories are exempt, if delivered for direct shipment out-of-state. (WAC 458-20-193)
- **Sales to Nonresidents:** Sales of products in Washington for use outside Washington to residents of states, Canadian Provinces, or US territories that impose a sales tax of less than three percent may be exempt. (See Excise Tax Advisory 2014.08.193 for additional information.)
- **Groceries and Prescription Drugs:** Certain food products for human consumption, prescription drugs, hearing aids, and parts prescribed by licensed dispensers. (WAC 458-20-18801; 458-20-244)
- **Fuel:** Certain purchases of motor vehicle fuel, including fuel: (1) taxable under the motor vehicle or special fuel tax; (2) purchased for public transportation purposes; (3) purchased by a certified private, nonprofit transportation provider; or (4) used in aircraft for research, development, and testing purposes. (WAC 458-20-126)
- **Federal Government Sales:** Sales directly to the federal government, sales to a foreign government or to any department thereof, and sales by the military on federal bases. (WAC 458-20-190)
- **Manufacturers' Machinery and Equipment Exemption:** Sales of machinery and equipment, including cogeneration and pollution control equipment, and repair and replacement parts with a useful life of at least one year, used directly in a manufacturing operation, research and development by a manufacturer or processor for hire, or used directly in a testing operation by persons engaged in testing for a manufacturer or processor for hire are exempt from sales tax. This exemption also applies to labor and services involved in the installation, repair, and maintenance of the machinery and equipment. (WAC 458-20-13601)
- **Sales to Indians or Indian Tribes:** Sales of tangible personal property that are delivered to tribal members on tribal lands. Retail services are exempt when performed on tribal lands for tribal members. (WAC 458-20-192)
- **Newspapers:** Sales of newspapers are exempt from sales tax. (WAC 458-20-143)

TELEPHONE INFORMATION CENTER

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dor.wa.gov

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The information contained in this fact sheet is current as of the date of this publication and provides general information about retail sales tax. It does not cover every aspect of the tax, nor does it alter or supersede any administrative regulations or rulings issued by the Department of Revenue.

