

# Business and Occupation Tax

OCTOBER 2007

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year, 2006, B&O tax collections totaled just over \$2.4 billion, representing over 16 percent of the taxes deposited into the state general fund.

Many Washington cities also tax businesses on their gross income. However, there is no connection between the state and local B&O taxes. To find out if your city has a B&O tax, call your city business license office.

## ABOUT THE STATE BUSINESS AND OCCUPATION TAX

Almost all businesses located or doing business in Washington are subject to the state B&O tax, including:

- Corporations
- Limited liability companies (LLCs)
- Partnerships
- Sole proprietors
- Nonprofit organizations

A sale does not have to occur for a business to owe B&O tax.

**Example:** Extracting or manufacturing goods for your own use is an activity that generates a B&O tax liability.

Unlike many other states, Washington does not have an income tax. An income tax is based on business profits AFTER expenses. Washington's B&O tax is calculated on GROSS income. There are no deductions from the B&O tax for labor, materials, taxes, or other costs of doing business. However, your business may qualify for certain exemptions, deductions, or credits permitted by law.

## DO YOU NEED TO REGISTER YOUR BUSINESS?

Register your business with us if you:

- Gross \$12,000 or more per calendar year.
- Collect or pay any other taxes, including retail sales tax.
- Are required to obtain a specialized license, including a renewable license.
- Are a buyer or processor of cedar or specialty wood products.

For more information, see our publication "Do You Need to Register Your Business?"

## WHEN DO I PAY MY TAXES?

The state B&O tax is calculated and paid with the filing of an excise tax return. Businesses file tax returns monthly, quarterly, or annually. After you register your business, we determine your reporting frequency based on the estimated annual tax liability and the type of business. A return is mailed for your reporting frequency.

## B&O TAX CLASSIFICATIONS AND RATES

### WHAT ARE THE B&O TAX RATES?

B&O tax rates and classifications vary according to the type of business activity. Businesses may report under one or more tax classifications.

**Example:** A floor covering store may sell carpet directly to a homeowner or speculative builder for their own use (taxed under the Retailing classification) and may also sell carpet to a custom contractor, who will then resell it to the home buyer (taxed under the Wholesaling classification).

### WHAT ARE THE MAJOR B&O TAX CLASSIFICATIONS?

Following are brief descriptions of the major B&O tax classifications:

#### RETAILING

Sales of goods and certain services to consumers are retail sales. There are numerous services defined as retail sales. See our Retail Sales Tax fact sheet for additional information.

Businesses making retail sales are subject to the B&O tax under the Retailing classification, even when the sales are exempt from retail sales tax. For example, certain food sales are exempt from retail sales tax, but the income from food sales is taxable under the Retailing B&O tax classification.

#### WHOLESALING

Wholesalers sell goods and certain services to persons who will resell them to others in the regular course of business. (Retail sales tax is not collected on wholesale transactions.)

Wholesalers must keep a resale certificate on file from each buyer to document that the transaction was a wholesale sale. Blanket resale certificates for frequent wholesale customers must be renewed every four years. Resale certificates are available on our web site or can be purchased at most office stationery stores. For more information on resale certificates, see our Resale Certificates fact sheet. Do not send completed resale certificates to us. They must be given to and retained by the vendor.

#### MANUFACTURING

The Manufacturing B&O tax classification is used by businesses that manufacture items in Washington, regardless of where the product is sold. Thus, products manufactured in Washington but sold and delivered out-of-state are still subject to the Manufacturing B&O tax. Manufactured products used by the manufacturer and not sold (or are used prior to sale) are also subject to tax under this classification.

The Manufacturing B&O tax is based on the value of products, which is usually determined by the selling price. In cases where there is no sale, the value is the selling price of similar products. If the manufacturer sells and delivers the manufactured product within the state, the income is also reported under either the Wholesaling or Retailing B&O tax classifications. A Multiple Activities Tax Credit (MATC) is available to offset the double tax payment when reporting under two B&O tax classifications.

#### SERVICE AND OTHER ACTIVITIES

This classification is for businesses that provide personal and professional services or for activities not otherwise classified. Any activity that is not specified under a particular classification of the B&O tax must report under this "catch-all" category. Services that fall under this category include, but are not limited to:

- Consulting or management services
- Medical services
- Legal services
- Beautician services
- Computer programming

In addition to the major B&O tax classifications, there are several specialized tax classifications. Not all classifications appear on the paper excise tax return. Some classifications appear only on the return available through electronic filing.

### MAJOR CLASSIFICATIONS

B&O Tax Classification	Tax Rate
Retailing	0.00471
Wholesaling	0.00484
Manufacturing	0.00484
Service and Other Activities	0.015

### SPECIALIZED CLASSIFICATIONS As of June 2007

Extracting, extracting and processing for hire, commissions of insurance agents/ brokers, printing and publishing, child care, royalties, warehousing, radio and television broadcasting, public road construction, government contracting, treatment of chemical dependencies, retailing of interstate transportation equipment, and services provided to firms that can salmon products	0.00484
Cleanup of radioactive waste for US Government	0.00471
Manufacturing/selling commercial aircraft and components:	
October 1, 2005 - June 30, 2007	0.004235
July 1, 2007 - July 1, 2024	0.002904
Extracting timber and manufacturing timber/wood products	
Effective July 1, 2007, sales of standing timber to be severed within 30 months:	
July 1, 2006 - June 30, 2007	0.004235
July 1, 2007 - July 1, 2024	0.002956
Manufacturing/wholesaling aluminum, manufacturing/wholesaling of solar energy systems, and repair of commercial aircraft	0.002904
Travel agents, tour operators, stevedoring, freight brokers, licensed boarding homes, aircraft repair, manufacturing of computer microchips or semiconductor materials	0.00275
Processing meat (at wholesale); processing soybeans, canola, and dry peas; manufacturing wheat into flour, raw seafood, fresh fruit, vegetables and dairy products; warehousing/reselling of prescription drugs; and manufacturing biodiesel/alcohol fuel	0.00138
Gambling contests of chance (less than \$50,000 a year), public/nonprofit hospitals	0.015
Gambling contests of chance (\$50,000 a year or greater), pari-mutuel wagering	0.0163

You are responsible for determining which B&O tax classification(s) to report your income under. If you are unsure which classification(s) to use:

- Check our web site at [dor.wa.gov](http://dor.wa.gov). Click on "File and pay taxes" then "Before I file" next "Tax classifications"
- To e-mail us, go to <http://dor.wa.gov/content/ContactUs/> or write for tax reporting instructions (address is on back page)
- Call our Telephone Information Center at 1-800-647-7706

## EXEMPTIONS, DEDUCTIONS, AND CREDITS

Although Washington's B&O tax applies to almost all business income, various exemptions, deductions, and credits are available.

### EXEMPTIONS

Some of the most common activities that are not subject to B&O tax are listed here. Income from exempt activities does not need to be reported on your tax return. This list is not all-inclusive.

#### ■ Farming

Wholesale sales by farmers of agricultural products (WAC 458-20-210)

#### ■ Nonprofit and social service organizations

- Fundraising sales of certain nonprofit organizations (does not include the regular operation of a business enterprise such as a bookstore, thrift shop, or restaurant) (WAC 458-20-169)
- Child care provided by churches
- Receipt of certain government grants
- Nonprofit boarding homes (as of July 1, 2005)

#### ■ Government

- County, city, school, and fire district income, except utility or enterprise operations that compete with other businesses and are over 50 percent funded by user fees
- State and federal grants received by political subdivisions where no significant services are performed in return

#### ■ Financial

State and federally chartered credit unions

#### ■ Miscellaneous exemptions

- Sale or rental of real estate other than lodging
- Small timber harvesters whose gross income is less than \$100,000 per year
- Effective July 1, 2005, processing fresh fruit and vegetables when the products are sold at wholesale for transport out-of-state. Effective July 1, 2006, manufacturing dairy products and processing seafood when the products are sold at wholesale for transport out-of-state. (Both exemptions expire July 1, 2012)

### DEDUCTIONS

Unlike exemptions, deductions must first be reported on your tax return as part of your gross income, then taken as a deduction. The most common B&O deductions are listed below. This list is not all-inclusive.

#### ■ Advancements/reimbursements

Amounts received as advancements or reimbursements when the customer or client alone is liable to pay for the goods and services. The person making the payment cannot have primary or secondary liability, other than as agent, to pay for the goods and services. (WAC 458-20-111)

#### ■ Returns/allowances/cash discounts

When the customer returns the product and the entire selling price is refunded or credited. Bona fide discounts taken by the buyer. (WAC 458-20-108)

#### ■ Bad debts

Amounts previously reported and determined to be uncollectible. The debt must also be written off for IRS purposes. (WAC 458-20-196)

#### ■ Casual sales

Amounts received for sales of tangible personal property by persons not usually selling such items. Note: The seller must collect and remit the sales tax. (WAC 458-20-106)

■ **Accommodation sales**

Amounts received by a business for selling goods at cost to a like business to fill an existing order. (WAC 458-20-208)

■ **Interstate and foreign sales**

Amounts received from goods delivered to customers outside of Washington. Transportation of persons or goods across state or international boundaries. Documentation is necessary.

Note: Manufacturers and extractors who sell outside of Washington must report under the manufacturing or extracting classifications. This deduction is not valid for these classifications. Service providers must render the service outside state boundaries. (WAC 458-20-193, -193C, -194)

Note: Businesses cannot deduct costs of doing business, including, but not limited to:

- Wages and salaries
- Product costs
- Delivery or travel costs

## CREDITS

Credits are granted by the Legislature for specific purposes or are amounts that have been paid to the Department that are not due. Credits are subtracted from the B&O tax due on your tax return. If the Department determines you have overpaid your taxes, you will be issued a credit memorandum for that amount. This can be applied to any tax due for up to five years. When the credit is used, a copy of the memorandum must be attached to the return.

The major B&O tax credits are:

■ **Multiple activities tax credit (MATC)**

When a business performs more than one taxable activity for the same product, such as manufacturing and selling a product at wholesale, it reports each activity under the proper B&O classification. The business can then take the MATC so B&O tax is only paid once on the same amount.

This also applies to a business that has paid a gross receipts tax to another state or an out-of-state city. A Multiple Activities Tax Credit, Schedule C must be completed each time the credit is claimed. (WAC 458-20-19301)

■ **Small business B&O tax credit**

Available for businesses whose combined B&O tax liability for all classifications is less than:

- \$71 for monthly taxpayers
- \$211 for quarterly taxpayers
- \$841 for annual taxpayers

The Small Business B&O tax credit is determined after other B&O tax credits allowable under Chapter 82.04 RCW (MATC, High Technology B&O Tax, and Commute Trip Reduction credits) have been applied. It may not exceed the amount of B&O tax due, and unused portions may not be carried into the next reporting period.

Other B&O tax credits are available for qualifying businesses. They include:

■ **High technology B&O tax credit**

An annual credit up to \$2 million is allowed for businesses that perform research and development in Washington AND meet the minimum expense requirements. For additional information, see our Special Notice, "High Technology Business and Occupation Tax Credit Changes."

■ **Commute trip reduction credit**

Available to employers and property managers who provide financial incentives to or on behalf of their own or others' employees for using commute trip reduction methods. See our Special Notice, "Commute Trip Reduction Credit Program - 2005 Updates" for more information.

■ **Rural county B&O tax credit for new employee**

Provides a credit for qualified businesses located in eligible areas against B&O tax for each new employment position filled and maintained. See our Rural County Business and Occupation Tax Credit for New Employees publication for more information.

## E-FILE

### FILING B&O TAXES ELECTRONICALLY

We provide an easy way to file taxes online. E-file is the fastest, most accurate and secure way to file taxes. Returns filed electronically are processed more quickly and are checked for errors or omissions before they are filed. E-file is located on the our web site at dor.wa.gov.

E-file offers a guided filing process, automatically calculating taxes due. E-file also provides online tools to streamline the filing process for each taxpayer, secure messaging to ask questions, and access to the latest tax laws and rules.

### SECURE INFORMATION AND PAYMENT CONNECTIONS

When filing electronically, a secure, encrypted connection is established. Tax information remains confidential, yet accessible at any time. Payment can be made through electronic funds transfer, E-check and credit card. If preferred, a check can be mailed to us.

### STAY CURRENT ON TAX INFORMATION AND DEADLINES

Businesses that register with E-file have access to our free ListServ e-mails. This optional service will automatically send:

- Reminders to file
- Information on enhancements to the E-file software application
- Notification of system maintenance

To file tax returns online, visit dor.wa.gov and click on the E-file icon in the upper right. Create a logon ID and password. Select "Add a Business Account" and enter the nine-digit tax registration number as it appears on the tax return mailing label. Then, enter the eight-character Pre-assigned Access Code (PAC CODE), also located on the mailing label.

Once registered successfully, click the "Continue" button. Click on "Start E-file" to begin electronic filing.

### FOR ADDITIONAL INFORMATION

For more information, or for assistance setting up your E-file account, call our Telephone Information Center at 1-877-345-3353.



### **OTHER HELPFUL HINTS**

- The B&O tax is a cost of doing business and should not be billed to your customer as a separately stated item (as is the sales tax).
- Taxes must be paid on all accrued sales made during the reporting period, even if you have not received payment, unless you keep your books strictly on a cash basis.
- If any of your business information changes (address, telephone, business activities, etc.), you can:
  - Make the changes yourself on our web site under "Doing Business" then select "My Account"
  - Call our Telephone Information Center at 1-800-647-7706
  - Visit or call one of our local offices
- If you realize you've made a mistake on your tax return, file an amended return to correct the mistake. See our How to Amend Your Tax Return publication for help.
- If you don't receive your tax return in the mail by the tenth of the month in which the return is due, please contact one of the numbers listed on the back cover of this publication.

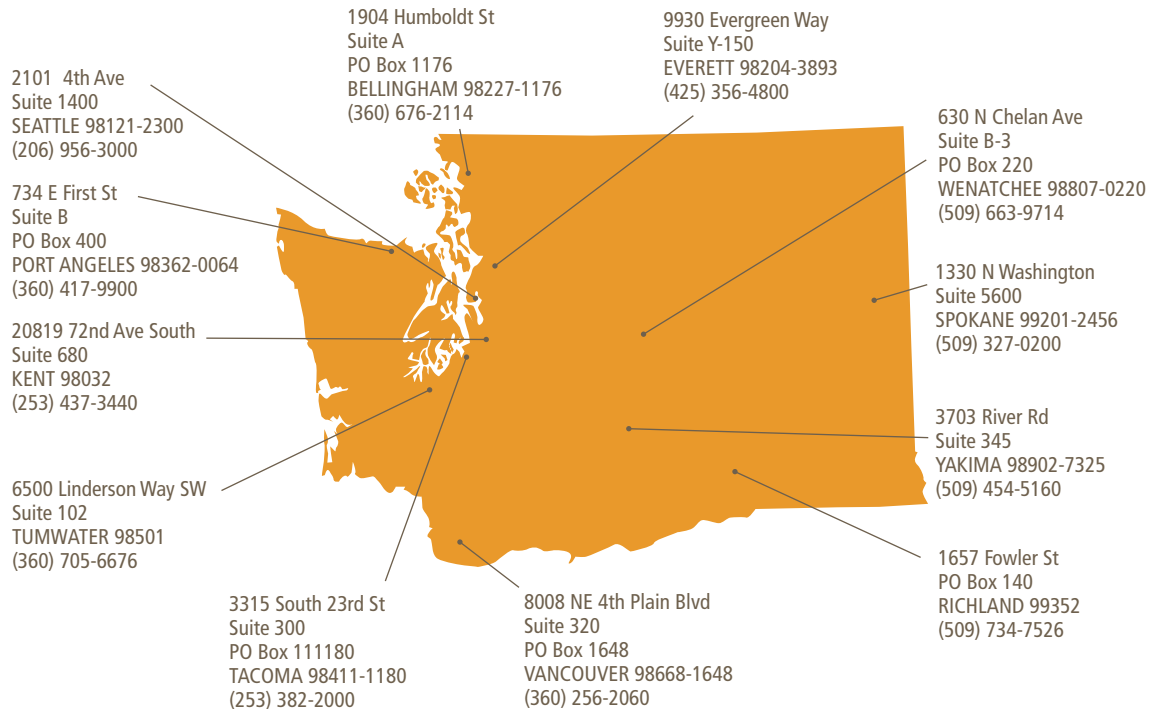
### **NEED MORE INFORMATION?**

We have a number of resources available to assist you.

- Access our web site [dor.wa.gov](http://dor.wa.gov) for all the resources noted in this publication, as well as tax returns, up-to-date information on the latest tax changes, and answers to frequently asked questions.
- Call or visit any of our 12 local offices. See the back page for locations and numbers.
- Contact our toll-free Telephone Information Center for numerous automated services or to ask your questions at 1-800-647-7706.
- Write to us at:  
Taxpayer Information and Education  
**Washington State**  
**Department of Revenue**  
PO Box 47478  
Olympia, WA 98504-7478  
FAX: (360) 705-6655

## DEPARTMENT OF REVENUE TAXPAYER ASSISTANCE

### LOCAL OFFICE LOCATIONS



### TELEPHONE INFORMATION CENTER

1-800-647-7706

### WEB SITE

[dor.wa.gov](http://dor.wa.gov)

### MAILING ADDRESS

**Washington State Department of Revenue**

PO Box 47478  
Olympia, WA 98504-7478

To inquire about the availability of this publication in an alternate format for the visually impaired, please call (360) 705-6715.

Teletype (TTY) users please call 1-800-451-7985.

The information contained in this fact sheet is current as of the date of this publication and provides only general information about Resale Certificates. It does not alter or supersede any administrative regulations or rulings issued by the Department.

