



Taxable Amount for Tax Paid at Source Deduction

Businesses that pay sales tax on purchases of material that they later resell may take a “taxable amount for tax paid at source” deduction on their excise tax return. The deduction is based on the amount paid for the materials, not including the sales tax. It’s important to note that sales tax must still be collected on the total price of the item or contract when the materials are resold.

Read through the following sample question and example to see how the deduction works.

Q: I’m a custom contractor. I recently bought lumber and paid sales tax at the time of purchase. Later, I built a fence with that lumber and collected sales tax. Is there a way to get the sales tax I paid back from my purchase of that lumber?

A: Yes. In order to be paid back for the sales tax that you paid originally, you can take what is called a “taxable amount for tax paid at source” deduction on your return.

Example:

ABC Company purchased lumber for \$100 from a Seattle store, plus sales tax of \$9.50 (rate of 9.5%).

State portion of sales tax: \$6.50 ($\$100 \times 6.5\%$ or 0.065)

Local portion of sales tax: \$3.00 ($\$100 \times 3.0\%$ or 0.030)

ABC was later hired to build a fence in Tacoma using the lumber purchased in Seattle. The total amount earned for the contract was \$500, plus \$46.50 in sales tax (rate of 9.3%).

State portion of sales tax: \$32.50 ($\$500 \times 6.5\%$ or 0.065)

Local portion of sales tax: \$14.00 ($\$500 \times 2.8\%$ or 0.028)

This is how the deduction would look on your return.

STEP 1

Retailing B&O

1. Enter the gross amount of \$500.00 in Column 1.
2. Enter the deduction amount of \$0.00 in Column 2 (The taxable amount for tax paid at source deduction is only allowed on the Retail Sales tax line).
3. Enter the taxable amount of \$500.00 in Column 3.
4. Enter the tax due of \$2.35 in Column 5.

I STATE BUSINESS AND OCCUPATION TAX							
Line No.	Tax Classification	Code	Column 1 Gross Amount	Col. 2 Deductions* Totals from Pg. 3 & 4	Column 3 Taxable Amount	Col. 4 Rate	Column 5 Tax Due
16	Retailing	02	500 00		500 00	.00471	2 35

STEP 2

Retail Sales

1. Enter the gross amount of \$500.00 in Column 1.
2. Enter the deduction amount of \$100.00 in Column 2 (The amount paid for materials, not including the sales tax).
3. Enter the taxable amount of \$400.00 in Column 3.
4. Enter the tax due of \$26.00 in Column 5.

Line No.	Tax Classification	Code	Column 1 Gross Amount	Col. 2 Deductions* Totals from Pg. 3 & 4	Column 3 Taxable Amount	Col. 4 Rate	Column 5 Tax Due
II STATE SALES AND USE TAX							
17	Retail Sales (also complete local tax section III)	01	500 00	100 00	400 00	.065	26 00
18	Use Tax/Deferred Sales Tax (also complete local tax section III)	05		Value of articles used by taxpayer as a consumer on which no Washington sales tax has been paid		.065	
TOTAL STATE SALES & USE TAX							26 00

STEP 3

Itemize Deduction

1. On page 4 of the Deduction Detail, under Line 17 - Retail Sales Tax, enter the deduction amount of \$100.00 next to Taxable Amount for Tax Paid at Source (I.D. 0130). If you do not have a copy of the Deduction Detail, go to dor.wa.gov or call 360-705-6705.

Line 17 – Retail Sales Tax	I.D.	Amount
Taxable Amount for Tax Paid at Source	0130	100 00

STEP 4

Local Sales Tax

1. Enter location code 1726, negative taxable amount of (100.00), local rate of .030 and the negative tax due of (\$3.00) for the purchases in Seattle.
2. On the next line, enter location code 2717, taxable amount of \$500.00, local rate of .028 and the tax due of \$14.00 for the job in Tacoma.
3. Enter the total Taxable Amount of 400.00 and Total Tax Due City or Co. of \$11.00.

III LOCAL CITY AND/OR COUNTY SALES AND USE TAX					
Local Sales Tax (Enter applicable rate of tax.)					Code 45
Total Taxable Amount must be the same as line 17, column 3, Taxable Amount					
Line No.	Location Code	Taxable Amount	Local Rate	Tax Due City or Co.	
19	1726	(100 00)	.030	(3 00)	
20	2717	500 00	.028	14 00	
21					
22					
TOTAL TAXABLE		400 00	TOTAL	11 00	

Questions? Visit dor.wa.gov or call 360-705-6705.