



# Washington State Tax Guide

## **INTERIOR DECORATORS DESIGNERS CONSULTANTS**



This tax guide is intended to assist interior decorators, designers, and consultants understand their taxability and comply with their Washington excise tax reporting responsibilities. Throughout the guide, the terms “interior decorators,” “interior designers,” and “design consultants” are used interchangeably. Unless otherwise stated, the tax application for one applies to the others.

This guide provides general tax information only. The information does not replace or substitute Washington rules (WAC) or laws (RCW), nor is it intended to be a statement of Department of Revenue policy.



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# Registration Requirements

Most persons conducting business activities in Washington State are subject to this state's tax registration and reporting requirements. You are considered a business when you engage in any activity, including hobbies, for gain, benefit, or advantage (regardless of profit or loss.)

You must register with the Department of Revenue if any of the following apply:

- Your business is required to collect retail sales tax,
- Your gross income is \$12,000 per year or more,
- Your business is required to pay any other taxes or fees to the Department of Revenue.

# Washington's Major Taxes

Washington State does not have a corporate or personal income tax. However, Washington businesses generally are subject to the following taxes:

- Business and occupation (B&O)
- Retail sales
- Use
- Personal property

# Business and Occupation Tax

The business and occupation (B&O) tax is a gross receipts tax assessed on the value of products, gross proceeds of sale, or gross income of a business. There are no deductions for labor, materials, taxes, travel expenses, or other costs of doing business.

The B&O tax rate varies depending on the business activity. There are over 30 B&O tax classifications. Generally, interior decorators, designers, and consultants report under the following tax classifications:

## Service and Other Activities

If you provide professional or personal services, you must report your gross income under the Service and Other Activities B&O tax classification. Examples include:

- Interior decorators and designers
- Consultants
- Architects
- Engineers

## Retailing

If your business makes retail sales (sales of goods to consumers or sales of certain services classified by law as retail activities to consumers), you must report your gross proceeds from those sales under the Retailing B&O tax classification. Examples of retail activities include:

- Painting, hanging wallpaper, and other decorating for consumers
- Selling furniture, fabric, paints, etc., to consumers
- Renting furniture and other tangible personal property to consumers

## Wholesaling

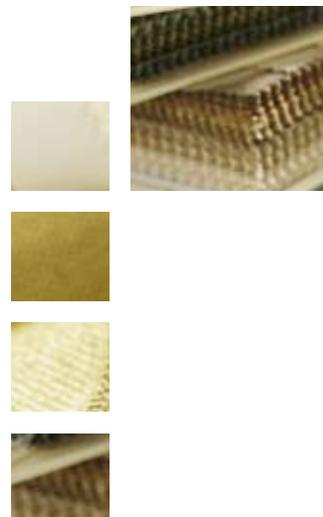
If your business sells goods or services that will be resold by the buyer in the regular course of business, you are making wholesale sales. Sales tax is not collected on wholesale sales. However, the buyer must give you a completed resale certificate that you must keep in your records to document the wholesale sale. You must report the gross proceeds of such sales under the Wholesaling B&O tax classification.

Examples of wholesale activities include:

- A subcontractor performing painting, drywall, electrical, etc., services for a general construction contractor (but not a speculative builder)
- Selling materials or items (paint, fabric, furniture, etc.) to someone that will resell them to the ultimate consumer

## Small Business B&O Tax Credit

The Small Business B&O Tax Credit can reduce or eliminate the B&O tax liability of businesses that earn a limited amount of income. (See WAC 458-20-104 for additional information.)



# Retail Sales Tax

If your business sells or rents goods at retail or performs retail services, you must also collect and remit retail sales tax on the total charge for each sale, unless a specific exemption applies. The taxable amount includes charges for permits and other fees, labor, profit, materials, and charges for any subcontractors, even if they are billed separately.

## Itemizing Sales Tax

All sales documents must state sales tax as a separate item. If your sales documents state only a lump sum price, then the sales tax has not been stated as a separate item. When sales tax is not separately stated, the Department presumes that the buyer did not pay, and that you did not collect the sales tax.

Note: You are liable for remitting sales tax to the Department of Revenue even if you do not collect it from your customers.

## Determining Local Sales Tax Rates

To determine the correct local retail sales tax rate, you must consider:

- type of transaction, and
- where delivery was made or work was performed.

If you need to check on the local retail sales tax rate for a particular location, you can use our online GIS Tax Rate Lookup Tool (<http://dor.wa.gov>). You can find the tax rate for a location by entering the physical address or by using a map.

Delivery of goods with no installation:

- When retail goods are only delivered and not installed, the sales tax rate is determined by the location from where the goods are delivered.
- For goods delivered by the seller from an out-of-state location, the local sales tax rate is determined by whether or not the out-of-state seller has a presence in Washington. If the seller has an in-state business presence (stores, in-state sales representative, etc.), the sales tax rate is determined by the seller's in-state facility involved in the sale. If the seller has no fixed in-state business presence, the location where the goods are delivered determines the sales tax rate. For example, sales made by traveling representatives not based in Washington or an out-of-state catalog company.

Installation, construction, and other retail services:

When goods are delivered and installed, or when construction, repair, or other retail services are provided, the sales tax rate is determined by the location where the installation, construction, or other retail services are performed.

Leases and rentals:

- When items are rented on a short term basis (generally less than 30 days and one payment), the sales tax rate is determined by the rental company's location.
- When items are rented on a long term basis (generally 30 days or longer with periodic payments), the sales tax rate is determined by where the rented item is located.

## Purchases/Sales for Resale

If you purchase goods for resale, the purchases are exempt from retail sales tax. You must provide the seller with a resale certificate documenting that the sale is exempt from sales tax. When you sell the goods, you must either collect sales tax from your customer or receive a resale certificate from them.

If you purchase goods for resale only, and later remove the goods from inventory for use in your business (such as for displays, office furniture, etc.), you must pay use tax on those goods.

## Use Tax

Use tax applies to untaxed purchases of tangible personal property. Generally, sales tax is paid to the seller at the time of purchase. However, if the purchase is made directly from out-of-state sellers through the Internet, telemarketing, mail order, or other means, sales tax may not have been charged. In such cases, use tax is usually owed. Certain retail services, such as office remodeling or equipment repair (including both materials and labor), are also subject to either retail sales or use tax.

Use tax is based on the value of the item used in Washington, including charges for labor, materials, freight, handling, etc., even when separately stated. Examples of when use tax is due include:

- Purchases made via the Internet, over the telephone, or through mail order from businesses with no presence in Washington.
- Goods purchased with a resale certificate but then used by the business.
- Tangible personal property acquired with a purchase of real property.
- Goods purchased in a state with no sales tax or a tax rate lower than the Washington rate.
- Amounts charged for service and repairs performed outside of Washington.
- Purchases of artwork, antiques, and other collectibles where no sales tax was paid.

## Local Use Tax Rates

Use tax rates are the same as retail sales tax rates. However, the local tax rate is determined by the location where the goods are first used, not from where delivery is made.

## Reporting and Paying Use Tax

Use tax is reported and paid directly to the Department of Revenue, either on the “use tax” line of the excise tax return or on a Consumer Use Tax Return (for persons that do not have a business license). Any sales tax paid to another state may be used to offset the amount of use tax due in Washington.

## Personal Property Tax

Most people are aware that property tax applies to real property. Personal property used in a business, such as equipment, furniture, and supplies, is also subject to personal property tax. The tax rate for real and personal property is the same.

Every person who uses personal property in a business or has taxable personal property must complete a Personal Property Tax Listing Form by April 30 each year. The assessor uses the form to value personal property for taxes due the following year.

County assessors and treasurers levy and collect the property tax. The county assessor mails personal property listing forms in January to persons who have previously listed personal property. If you do not receive a form or have questions about real or personal property taxes, contact your local county assessor’s office.

## Industry Specific Tax Applications

Interior designers, decorators and consultants are taxed differently depending on:

- Type of service you provide,
- If you provide or sell tangible personal property, and
- The method you use to provide the service or sell the tangible personal property.
- Design or consulting services (you are not responsible for the performance of the property improvements)

These services include working with clients to determine their particular needs and décor options and may include:

- consulting with the clients and others, developing designs or drawings for home or room design, furniture designs, or structure placement, and/or
- providing a written report, layout design/drawings, or plan to clients.

When design/consultant services are limited to making recommendations for certain types of furniture, paint, fabrics, or artwork, you are merely providing advice to the client on decorating ideas. Income from providing design/consulting services is subject to B&O tax under the Service and Other Activities classification.

Designers and consultants must pay sales tax on their purchases of samples, swatches, decorator magazines and books, or other materials used in the course of providing their services.

**Example One** Julie is a color consultant and interior designer. She works with clients to determine interior and exterior paint color schemes. Julie also assists clients in determining where to place furniture and other interior and exterior elements. However, she does not purchase any paint, furniture, or other items for her clients. Julie’s services are limited to consulting only.

Julie’s income is subject to B&O tax under the Service and Other Activities classification.

**Example Two** As a designer, Tom meets with clients and advises them on plant choices, landscaping options, and garden design for the exterior of a home. He develops and creates a customized plan for each client, specific to the property. Tom does not sell plants or landscaping tools to clients, nor does he provide landscaping services.

Tom’s landscape design income is subject to B&O tax under the Service and Other Activities classification.

## Sales of Tangible Personal Property

For interior designers/consultants that sell or provide tangible personal property (furnishings, fixtures, artwork, or other goods) to their clients, the correct tax treatment is determined by who is responsible for payment of the goods as noted in the contract or agreement between the seller and buyer.

Some of the methods by which interior designers/consultants may contract to sell tangible personal property to their clients include:

- Buying and reselling tangible personal property
- Sales to Consumers

If you purchase or order furnishings, decorating items, fixtures, artwork, or other goods in your name or your business' name and then resell the goods to clients, you are making retail sales. It is immaterial that the goods may be sold "at cost" or with no markup or that you are "reimbursed" by the client.

Unless you are making a purchase as an agent for your client (see below), you must pay B&O tax under the Retailing classification on all amounts you receive for sales. You must also collect sales tax from your client on these sales, unless the sale is otherwise exempt. The sales tax must be calculated on the gross sale price, including any markup you may add and any delivery or shipping charges.

You do not need to pay sales tax if you give a completed resale certificate to the vendor/seller when purchasing goods for the purpose of reselling them. If you do not provide a resale certificate, the vendor will charge sales tax to you on the purchase.

**Example** ABC, Inc., a design and decorating company, meets with clients to determine their design needs and then works with them to select particular furnishings, window treatments, and similar items for their home. Once the client selects items, ABC, Inc., purchases and pays for the items from the various vendors. ABC, Inc., provides a completed resale certificate to the vendors. ABC, Inc., bills the client for the consulting service and tangible personal property purchased. The consulting fee and sale of goods charges are not separately stated on the invoice.

The entire invoice (consulting fee and charge for goods) is subject to retail sales tax. In addition, the income from the invoice is subject to B&O tax under the Retailing classification. ABC, Inc., should use a resale certificate to purchase without paying sales tax the drapes, blinds, etc., that it will resell. The entire invoice (consulting fee and charge for goods) is subject to retail sales tax. In addition, the income from the invoice is subject to B&O tax under the Retailing classification. ABC, Inc., should use a resale certificate to purchase without paying sales tax the drapes, blinds, etc., that it will resell.

## Sales for Resale

If you purchase tangible personal property for other contractors who will resell the goods to their customers, you are making wholesale sales, provided that the contractor gives you a completed resale certificate. Your income from wholesale sales is subject to B&O tax under the Wholesaling classification. If you do not receive a resale certificate from the person buying the items, you must collect sales tax unless the sale is otherwise exempt.

**Example** Design Co. is hired by a prime contractor to purchase and install window coverings in a custom home the contractor is building for a landowner. The prime contractor provides Design Co. with a completed resale certificate.

Because Design Co. received a resale certificate from the general contractor, their income from this job is taxable under the Wholesaling classification of the B&O tax. Design Co. should also give a resale certificate to the vendor when it purchases drapes, blinds, etc., for installation in the custom home.

## Purchasing as an Agent for a Client

You may only purchase goods as an "agent" for your client when the contract or agreement between you and the client clearly establishes a "principal" and "agent" relationship. You may not have any principal or secondary (guarantee) liability to pay for any goods purchased. Therefore, the vendor must acknowledge that only your client is liable for payment, for example, by invoicing only your client for the goods. Thus, the retail sale occurs between your client and the vendor. This transaction is not a retail sale for your business. In addition, your books and records must:

- Reflect that the transactions were made in the name of and for the account of the client/principal, and show the name of the client for whom the items are being purchased
- List the following:
  - amount of purchases made as an agent
  - amount of commissions earned
  - any other incidental income derived by you from such transactions

(See WAC 458-20-159 for additional information on agency agreements.)

You must report any commissions or other income you receive from arranging for such transactions under the Service and Other Activities B&O tax classification.



### Example One

Interior designer Kelly meets with a client to determine décor and furnishings for the client's new home. With the client's approval, Kelly orders furnishings from a furniture retailer. The furniture retailer agrees that the client is solely responsible to pay for the furniture and the invoice is made out in the client's name. Kelly is not primarily or secondarily liable to pay for the furnishings and does not guarantee payment. Kelly receives a commission from the furniture retailer for referring the client to their store. She also receives a fee from the client for her consultation services.

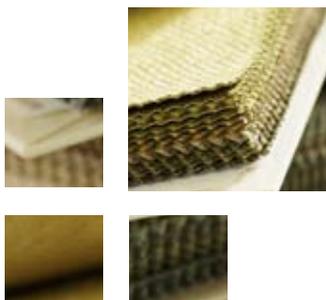
Kelly must report the commission income from the furniture retailer and her consulting fee income under the Service and Other Activities B&O tax classification. The furniture retailer will bill the client directly for the furniture and sales tax will be charged by the retailer to the client.

### Example Two

Joe, an interior designer, purchases several items for his client at an estate sale. Joe paid for the items, then billed his client for the cost of the items, with an additional charge for his services. He does not have a contractual arrangement with his client, establishing an agent/principal relationship.

Because Joe does not have a contract establishing his status as an agent and is fully liable for the items purchased at the auction, he cannot claim to merely be an agent for his client. In this situation, he has purchased the items at the estate sale for the purpose of reselling them to his client. He must provide a Resale Certificate at the estate sale, then charge his client sales tax on the sale of the items to them.

The income from the sale is also subject to B&O tax under the Retailing classification.



## Providing Design/Consulting Services Along with Selling Tangible Personal Property

When you provide design services and sell tangible personal property, your charges for these two activities must be separately stated or segregated on the invoice. If your charges for design work and sales of items are separately stated, the design/consulting fee should be reported under the Service and Other Activities B&O tax classification, while income from sales of goods is subject to retail sales tax and B&O tax under the Retailing classification.

### Example One

ABC, a design and decorating company, meets with clients to determine the clients' individual design needs, then works with the clients to select particular furnishings, window treatments, and similar items. ABC bills the client for the consulting service and the tangible personal property purchased, separately stating these charges on their invoice.

Because the consulting work and retail sale components are separately stated on the invoice, the consulting fee is subject to B&O tax under the Service and Other Activities classification. Income from the sale of goods is subject to B&O tax under the Retailing classification. Additionally, ABC must collect sales tax on the sale of goods to the client. ABC should use a resale certificate to purchase without paying sales tax the drapes, blinds, etc., it resells to its clients.

### Example Two

Design Co. is hired by a prime contractor to purchase and install window coverings in a custom home the contractor is building for a landowner. The prime contractor provides Design Co. with a completed resale certificate.

Because Design Co. received a resale certificate from the general contractor, their income from this job is taxable under the wholesaling classification of the B&O tax. Design Co. should also give a resale certificate to the vendor when it purchases drapes, blinds, etc., for installation in the custom home.

# Miscellaneous Topics

## Improving real property – services provided in respect to construction

When you provide both design services and perform actual improvements to the real property, the taxability of the activity is determined by the predominant activity performed for the entire contract.

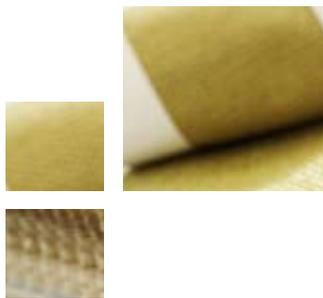
- If the predominant activity under the contract is design services, then the income earned from the contract is subject to B&O tax under the Service and Other Activities classification.
- If the predominant activity under the contract is improving real property, then the income earned from the contract is subject to B&O tax under the Retailing classification. In addition, you must collect sales tax from your client on the entire contract amount.

The term “improving real property” means decorating, refurbishing, renovating, remodeling, or other activities that change or alter real property. An improvement activity is presumed to be the predominant activity over design services if, at the time the design services are performed, the parties contemplate that the designer will also be responsible for making the improvements.

Examples of real estate improvement activities include:

- Interior renovations or remodeling
- Installing window coverings, carpets, cabinets or lighting
- Painting, wallpapering, stenciling or sponging

Interior designers making real property improvements should provide completed resale certificates to material suppliers and subcontractors performing the real property improvements. (See RCW 82.04.051 for additional information on services provided in respect to construction.)



# Real Estate “Staging”

If you charge a fee for supplying furniture and/or household accessories to “stage” homes that are on the market for sale or otherwise being showcased, you are performing a retail activity. You must collect retail sales tax if you rent or otherwise provide furnishings or other tangible personal property to clients.

In addition, income from “staging” or renting furnishings to consumers and arranging the furnishings is subject to B&O tax under the Retailing classification.

If a designer rents items from a vendor for the purpose of rerenting them, the designer should provide a completed resale certificate to any vendor from whom they rent, so they do not pay sales tax on the initial rental.

## Purchasing and Using Items for Display

You must pay retail sales tax or use tax on items, such as furnishings, rugs, art, or other goods purchased or used as displays for your business for places such as showrooms, model homes, galleries, etc.

You do not need to pay sales tax or use tax on such items if they are only rented to clients (see above). Additionally you do not need to pay retail sales tax or use tax on items that are inventory items purchased for resale unless the item is carried on your books as display merchandise or is used so extensively for display purposes that it can no longer be sold as new merchandise.

## Letter Rulings

If you have questions about the correct tax application for a specific activity, you can write to us and request a tax ruling. These letter rulings are binding on the taxpayer and the Department, based on the facts provided in the request submitted. Generally, you will receive a reply within ten working days.

Letter ruling requests should be sent to:

**Washington State Department of Revenue  
Taxpayer Services Division**

Taxpayer Information and Education Section  
PO Box 47478  
Olympia, Washington 98504-7478



## For More Information

If you have general questions you can call our Telephone Information Center at 1-800-647-7706 or our visit web site at <http://dor.wa.gov>.

## Local Office Locations

1904 Humboldt St Suite A  
PO Box 1176  
BELLINGHAM 98227-1176  
(360) 676-2114

2101 4th Ave Suite 1400  
SEATTLE 98121-2300  
(206) 956-3000

734 E First St Suite B  
PO Box 400  
PORT ANGELES 98362-0064  
(360) 457-2564

20819 72nd Ave South  
Suite 680  
KENT 98032  
(253) 437-3440

6500 Linderson Way SW  
Suite 102  
TUMWATER 98501  
(360) 705-6676

8008 NE 4th Plain Blvd  
Suite 320  
PO Box 1648  
VANCOUVER 98668-1648  
(360) 260-6176

9930 Evergreen Way  
Suite Y-150  
EVERETT 98204-3893  
(425) 356-4800

1330 N. Washington  
Suite 5600  
SPOKANE 99201-2456  
(509) 327-0200

630 N Chelan Ave, Suite B-3  
PO Box 220  
WENATCHEE 98807-0220  
(509) 663-9714

3315 South 23rd St  
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