

A Guide to Washington State Taxes

School Districts

2004

School Districts Guide to Washington State Taxes

This tax guide is designed to assist Washington's school districts comply with their tax reporting responsibilities. Excise taxes are an essential part of Washington's tax structure. Tax dollars fund many vital state and local services.

This information is current at the date of publication, however, the tax laws, interpretation, and application can change because of legislative action, reviews, or court decisions. This guide will not reflect any changes that may occur after the date of printing.

This guide provides general tax information only. This information does not replace or substitute Washington rules or laws. It is not intended to be a statement of Department of Revenue policy. For more information or to get answers to specific questions, please do not hesitate to contact the Department of Revenue at one of the following:

Toll-free **Telephone** Information Center: 1-800-647-7706

Web Site: <http://dor.wa.gov>

Mailing Address:

Washington State Department of Revenue
Taxpayer Services Division
PO Box 47478
Olympia, WA 98504-7478

Taxpayer Rights and Responsibilities

The taxpayers of the state of Washington have the right to:

- Simple and prompt administrative process for tax refunds and credits.
- Timely, fair and equitable treatment with dignity and respect.
- Accurate written information on reporting instructions, appeal procedures, refund claims and reasons for assessment.
- Public hearings on proposed rules.
- Review and appeal of assessments, business registration revocation, and adverse rulings.
- Remedies when statutes and rules are found to be unconstitutional.
- Confidentiality of financial and business information.

The taxpayers of the state of Washington have the right responsibility to:

- Register with the Department of Revenue.
- Know their tax reporting obligations and seek instructions when they are uncertain.
- Keep accurate and complete business records.
- File returns and pay taxes in a timely manner.
- Ensure the accuracy of the information entered on their tax returns.
- Substantiate claims for refund.
- Notify the Department of Revenue and pay taxes promptly when closing a business.

Table of Contents

- State Tax Overview** 5
 - .. Registration & UBI Number 5
 - .. Business and Occupation (B&O) Tax. 5
 - .. Small Business B&O Tax Credit 6
 - .. Retail Sales Tax (RST) 6
 - .. Itemizing Retail Sales Tax 6
 - Local Sales Tax Rates 7
 - .. Use Tax 8
 - Paying Use Tax 9
 - Local Use Tax Rates 10
 - .. Purchases/Sales for Resale 10

- School Districts** 11
 - .. Purchases of Goods and Services 11
 - Examples of Taxable and Nontaxable Purchases 11
 - Food Services Provided by Third Parties 13
 - Reimbursements to Teachers for Purchased Materials 13
 - What to Do When a Vendor Doesn't Collect Sales Tax 14
 - Requirement to Record a Contractor's UBI Number 14
 - .. Donated Goods 15
 - .. Sales of Goods and Services 15
 - Interdepartmental Charges 15
 - Non-Enterprise Activities 16
 - .. Application of Tax 16
 - Examples 17
 - .. Enterprise Activities 18
 - .. Application of Tax 18
 - Examples 18
 - .. Student Stores 19
 - .. Student Photographs, Class Rings, and Yearbooks 20
 - ASB Fundraising Activities 20
 - Purchases for Fundraising Activities 21
 - Sales in Conjunction with a For Profit Business 21
 - .. Department Services 23

State Tax Overview

Registration & UBI Number

Generally, every person who engages in business activity in Washington must register with the State of Washington through the Master License program. Persons receive a nine-digit Unified Business Identifier (UBI) number, which is also the Department of Revenue (DOR) Tax Registration Number.

Virtually every person in Washington conducting business activities is subject to three major taxes:

- Business and Occupation Tax
- Retail Sales Tax
- Use Tax

Business and Occupation (B&O) Tax

The state B&O tax is a gross receipts tax on the business. It is measured on the value of products, gross proceeds of sale, or gross income of the business. There are no deductions from the B&O tax for labor, materials, taxes, or other costs of doing business.

The tax rates vary depending on the specific classification an activity falls into. The major classifications are retailing, wholesaling, manufacturing and service & other activities.

Small Business B&O Tax Credit

There is a small business B&O tax credit that may lessen or eliminate any B&O tax liability. To qualify, the B&O tax liability must be:

- Less than \$70 for persons filing monthly
- Less than \$210 for persons filing quarterly
- Less than \$840 for persons filing annually

Retail Sales Tax

The combined state and local retail sales tax is a tax on the consumer of retail goods and services. Retail sales tax must be collected by the business from the consumer on all sales subject to the retailing classification of the B&O tax unless there is a specific statutory retail sales tax exemption.

Retail sales tax is based on the selling price, which includes the charge for labor, materials, freight, handling, and any other amounts paid or accrued even when separately stated.

Itemizing Sales Tax

All documents of sale must separately state retail sales tax. The tax cannot be included in a lump sum price. When sales tax is not separately stated it is presumed that the tax was not collected by the seller or paid by the buyer.

Local Sales Tax Rates

The following outlines how to determine the correct local retail sales tax rate to collect or pay:

Delivery with No Installation:

- In the case of the sale of retail goods that are merely delivered and not installed, the local retail sales tax rate is generally determined by the location from which the goods are delivered.
- When they are delivered from outside Washington, the place that establishes the seller's instate business presence (or "nexus") determines the local sales tax rate.
- When the seller has no fixed instate business presence, such as sales made by traveling representatives not based in Washington, the location to which the goods are delivered determines the local sales tax rate.

Installation, Construction, & Other Retail Services:

- When goods are delivered and installed, or when construction or other retail services are provided, the local sales tax rate is determined by the location at which the installation, construction, or other retail services are provided.

Leases & Rentals

- When items are rented on a short term basis (generally less than 30 days and one payment) the local sales tax rate is determined by the location of the lessor.
- When items are rented on a long term basis (generally 30 days or longer with periodic payments) the local sales tax rate is determined by the location of the rented item.

Persons not sure which local retail sales tax rate applies to a particular location can use the Geographic Information System (GIS) to look up the tax rate by address or using a map feature. GIS is available online at <http://dor.wa.gov/content/home/gis>.

Use Tax

Use tax is a tax on the use of goods or certain services in Washington when sales tax has not been paid. Goods used in this state are subject to either the sales or use tax, but not both. Thus, the use tax compensates when sales tax has not been paid.

Use tax is based on the value of the article or service, which includes the charges for labor, materials, freight, handling, and any other amounts paid or accrued even when separately stated.

Typical examples of when use tax is due are as follows:

- Mail order, telephone, or Internet purchases from persons with no presence in Washington.
- Goods purchased with resale certificate and then used or consumed
- Tangible personal property acquired with the purchase of real property.
- Goods purchased in a state with no sales tax or a tax rate lower than Washington's.
- The total amount charged for service and repairs performed outside the state.

Paying Use Tax

Use tax is paid directly to the state using the use tax line of the excise tax return or the use tax form, which can be found on the Department of Revenue's Website at:

<http://dor.wa.gov/Docs/forms/UseTx/ConsumerUseTxRtrn.pdf>

Always pay use tax when an out-of-state vendor does not collect retail sales tax.

Sales tax paid to another jurisdiction may be used to offset the amount of use tax due in Washington.

Local Use Tax Rates

The rates are the same as the sales tax rates. However, the correct local rate for use tax is determined by the location at which the goods are first put to use in the state.

Purchases/Sales for Resale

The purchase of goods for resale is exempt from retail sales tax. The purchaser must provide the seller with a properly completed resale certificate to document the sales tax exempt nature of the sale. The seller must either receive a resale certificate or collect retail sales tax from the purchaser. *Generally school districts are not eligible to purchase using a resale certificate.*

School Districts

School districts are municipal corporations. For state excise tax purposes, the term “municipal corporation” also means cities, towns, counties, and fire districts.

School districts are not nonprofit organizations and they are not eligible for the tax exemption for periodic fundraising activities. However, this exemption does apply to the periodic fundraising activities of Associated Student Body (ASB) organizations, including all of the groups and clubs that operate under their auspices. This issue is discussed in a separate section of the guide.

Purchases of Goods and Services

Examples of Taxable and Nontaxable Purchases

School districts and other municipal corporations are subject to retail sales tax or use tax on the purchase or use of goods and retail services in the same manner as other consumers. Generally, school districts must pay retail sales tax or use tax on all purchases of goods and retail services including the following:

Taxable

- School books
- Office supplies
- Equipment, including used and surplus equipment

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- Magazine subscriptions
 - Musical instruments
 - Copying services
 - Portable classrooms
 - Prewritten (“canned”) software, including updates and “patches”
 - Lease or rental of tangible personal property
 - Catering services
 - Landscape maintenance and horticultural services
 - Construction services
 - Lodging
 - Telephone services
 - The use of a recreational facility, such a swimming pool, when the facility owner retains dominion and control of the facility.

Nontaxable

- Newspapers
- Janitorial services
- Piano tuning services
- College testing services
- Chemical toilet services (This is not considered a rental)
- Internet access
- Computer training
- Royalty payments for the use of music, scripts, etc.
- A license to use a field
- A license to use a recreational facility when the school district takes dominion and control of the facility

Food Services Provided by Third Parties

When a food service contractor prepares meals offsite, retail sales tax applies to the purchase of the meals.

When a food service contractor prepares meals at the school facility the taxability depends on the nature of the contract with the school district.

- Contracts calling for the actual *sale of meals* are subject to retail sales tax.
- Contracts calling for the *management* of the food service program are not subject to retail sales tax

Reimbursements to Teachers for Materials they Purchase on Their Own

When a teacher purchases materials in Washington, pays retail sales tax, and is reimbursed by the school district, no additional retail sales tax or use tax is due on the materials. The school district must maintain a copy of the teacher's bill of sale to document that retail sales tax was paid.

When a teacher purchases materials outside the state and is reimbursed by the school district, the school district is subject to use tax on the value of the materials. The school district can take a credit for any sales tax that was paid to another state on the purchase of the materials.

What to do When a Vendor Does Not Collect Sales Tax

Vendors Registered in Washington

Some Washington registered vendors may not initially collect retail sales tax when selling to schools because they may think the school is exempt. If this occurs, the school should notify the vendor that sales tax applies and request that a new invoice be issued.

If the vendor does not issue a new invoice and collect retail sales tax, the school should pay “deferred sales tax” directly to the state. Deferred sales tax is reported and calculated on the use tax line of the tax return. Although reported on the use tax line, the local rate for deferred sales tax is determined as described under “Local Retail Sales Tax Rates.”

Unregistered Vendors

Purchases made from vendors that are not registered to collect Washington sales tax are subject to use tax. The school district must report these purchases on their Washington excise tax return.

Requirement to Record a Contractor’s DOR

Registration Number

When a school district hires a general, specialty, or electrical contractor to construct, remodel, or repair a building, the school district must

obtain and keep a record of the contractor's UBI/DOR Registration Number. Failure to do so may result in a penalty of up to \$250.

Donated Goods

The school district is not subject to use tax on the donated items. The donor is also exempt from paying use tax on items donated to school districts when there has been no intervening use of the items on the part of the donor.

Donated recreational services, such as rounds of golf, are also exempt from use tax.

Sales of Goods and Services

For tax purposes, sales of goods and services by a school district can be divided between "non-enterprise activities" and "enterprise activities." In addition, school districts oversee sales made by student stores and the fund raising activities of the Associated Student Body (ASB).

Interdepartmental Charges

Interdepartmental charges, such as charges between schools within a school district or other budgetary units, do not constitute bona fide sales and are not a taxable event.

Non-Enterprise Activities

Non-enterprise activities are those activities that *are not* generally financed and operated in a manner similar to a private business enterprise.

- Non-enterprise activities include all sales of goods and services that are exclusively governmental in nature, i.e. the provision of goods and services *related to providing public education*.
- Non-enterprise activities also include those activities funded less than 50 percent with user fees or charges to consumers. For example, the cost of maintaining recreational facilities that a school may lease to organizations or groups is rarely, if ever, funded more than 50 percent with amounts charged to those groups or organizations.
- To determine the percentage, user fees or charges to consumers must be measured against the total costs attributable to providing the activity, including direct and indirect overhead. This review should be performed on the fiscal year basis used by the school district in maintaining its books and records.

Application of Tax

- Non-enterprise activities are *exempt* from the B&O tax.
- However, retail sales tax must be collected on non-enterprise activities defined as retail sales.

Examples of Retail Non-Enterprise Activities

(Exempt from B&O Tax, Subject to RST):

- Parking fees
- Charges to the public for engaging in recreational activities, such as swimming and basketball.
- Charges to a group or organization for use of recreational facilities such as swimming pools, basketball courts, tennis courts, etc. *when the school maintains dominion and control of the facility.*

Examples of Non-Retail Non-Enterprise Activities

(Exempt from B&O Tax, Exempt from RST)

- Shop & lab fees
- Charges for admission for school events
- Sales of meals/beverages to students, faculty, and staff.
- Charges for academic transcripts
- Charges to a group or organization for the use of fields, including baseball fields
- Charges to a group or organization for use of recreational facilities such as swimming pools, basketball courts, tennis courts, etc. *when the school does not maintain dominion and control of the facility.*

Enterprise Activities

Enterprise activities are those activities financed and operated in a manner similar to a private business enterprise and includes those activities generally in competition with private businesses. They are subject to tax in the same manner as a private business.

- Enterprise activities include sales of goods and services that are not exclusively governmental, i.e. the provision of goods and services *not directly related to providing public education*.
- The activity must also be funded over 50 percent with user fees to be considered an Enterprise activity. (See Non-Enterprise Activities for how to determine the percentage.)

Application of Tax

- Income received from enterprise activities is subject to the B&O tax under the appropriate classification.
- Retail sales tax must be collected on retail sales.

Examples of Retail Enterprise Activities:

(Subject to Retailing B&O Tax, Subject to RST)

- Sales of tangible personal property, such as surplus equipment. (Excluding student store sales)
- Sales of meals to the public or to guests of students.

Examples of Non-Retail Enterprise Activities:

(Subject to Service and Other Activities B&O Tax, Exempt from RST)

- Rental income from renting conference facilities. (If funded over 50 percent with user fees)
- Commission income from allowing coin-operated machines on the school premises (telephones, candy, soda pop, etc.)
- Income from special event (non-school) admission fees.

Student Stores

Student stores often serve numerous functions. They can be operated by the school in the same manner as a small store, by the ASB for fund raising purposes, or as part of the curriculum for a business class.

To simplify the application of tax to the potentially multifaceted nature of student stores, the Department of Revenue has determined that the school is the consumer of all goods that pass through a student store. The school is not considered to be purchasing and reselling the items and may not use a resale certificate to purchase such goods. The school's receipt of funds from store activities is not a taxable event and retail sales tax is not collected.

Consequently, retail sales tax must be paid on all taxable goods, such as student supplies, soft drinks, and the like. Retail sales tax does not apply to the purchase of candy, bottled water, cookies, and other sales tax exempt food products.

Student Photographs, Class Rings, and Yearbooks

School districts often are involved with third party vendors to provide students or their parents with the opportunity to purchase student photographs, class rings, and yearbooks. The application of tax depends on the particular facts of each situation and must be determined on a case by case basis.

However, generally when the school is responsible for making payment to the vendor, it must pay sales tax to the vendor. This is true regardless of how and when funds are collected from students. As in the case of student stores, the school is not considered to be purchasing and then reselling the items and the school's receipt of the funds from the students or parents is not a taxable event.

ASB Fundraising Activities

Unlike school districts, Associated Student Body (ASB) organizations are eligible for the B&O tax and retail sales tax exemption provided for periodic fundraising activities by nonprofit organizations. The exemption also applies to all of the groups and clubs that operate under the auspices of the ASB.

Tax exempt periodic fundraising activities include soliciting or accepting contributions of money or other property, and selling goods or services, to further the goals of the organization. It includes bake sales, concession

sales at games and other events, car wash receipts, sales of “booster” items, raffles, auctions, meals, and other similar activities.

Purchases for Fundraising Activities

ASB organizations may purchase the goods they will resell at fundraising events without paying retail sales tax by providing the vendor with a resale certificate. In most cases, a resale certificate requires the purchaser’s UBI/DOR Tax Registration number. However, most ASB organizations are not required to be registered with the Department of Revenue. Therefore, in place of the UBI/DOR Tax Registration number, the ASB organization can write “Nonprofit fundraiser” on the resale certificate.

Sales in Conjunction with a For Profit Business:

Subject to Retail Sales Tax

ASB organizations may make sales on behalf of for profit businesses to raise funds while providing the opportunity for persons to purchase goods at a discount, such as in the case of a “book fair.” Typically, the ASB solicits the sales, collects the money, retains a commission or portion of the amount collected, and sends in the order to the business with the balance of the amount collected. While the ASB qualifies for the fundraising exemption, the for profit business does not.

Under this circumstance the ASB must:

- Make sure that the for profit business is registered to collect sales tax in Washington.
- Collect retail sales tax on the gross amount of the sale
- Turn over the collected sales tax to the business for reporting to the Department of Revenue.

The commission amount retained or received by the ASB is exempt from tax.

Department Services

Telephone Assistance

Telephone Information Center (1-800-647-7706)

- One-on-one telephone assistance during business hours 8:00 am to 5:00 pm.
- “Fast Fax” fax on demand documents (24-hours) available by calling 1-800-647-7706. To by-pass menu selections call (360) 786-6116. Use code “500” for a list of available documents and publications.
- Tax Express - Call (1-800-334-8969) for Prerecorded information on selected tax issues (24-hours)

Letter Rulings

To obtain a binding letter ruling write to:

Taxpayer Services Division
Taxpayer Information and Education Section
Washington State Department of Revenue
PO Box 47478
Olympia, Washington 98504-7478

Also via e-mail to: communications@dor.wa.gov.

Be sure to include a mailing address.

Maintenance Service

Free subscription service to receive notices of proposed rule changes, new and amended rules, special notices, and Tax Facts newsletter.

Internet Access

Department of Revenue home page: <http://dor.wa.gov>

Speakers Bureau

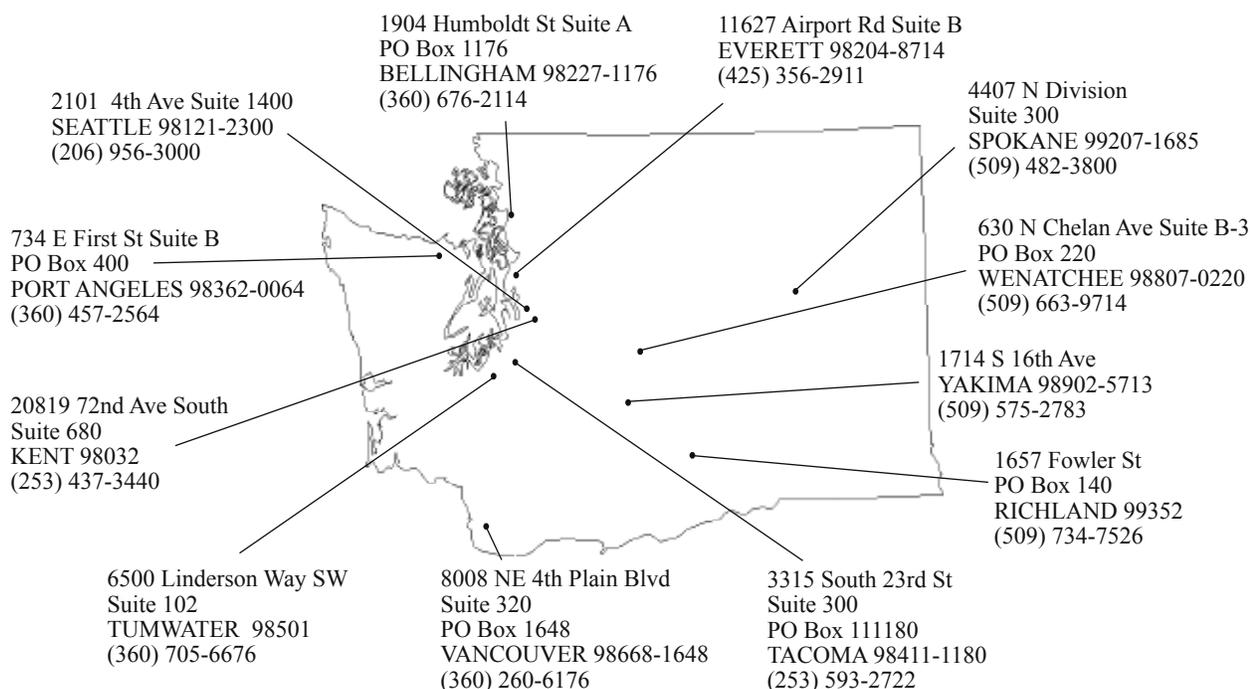
Request a speaker for your organization. Contact the Speakers Bureau coordinator, Bridgit Feeser at (360) 705-6601.

Department of Revenue Taxpayer Assistance



<http://dor.wa.gov>

Field Office Locations



Telephone Information Center
1-800-647-7706

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