

# SPECIAL NOTICE

September 20, 2005

For further information contact:

Telephone Information Center  
1-800-647-7706 or (360) 705-6676

Alternate Formats (360) 705-6715  
Teletype 1-800-451-7985

## State Chartered Credit Unions Converted from Federally Chartered Status – Washington State Tax Implications

State chartered credit unions, converted from federally chartered status, may have liability for use tax on tangible personal property transferred at the time of the conversion. Additionally, state chartered credit unions must collect and remit sales tax on retail sales.

### A new entity is created

When a federally chartered credit union converts to a state charter, a new entity is formed. RCW 31.12.467 states:

The board of the federal credit union shall file with the director proposed articles of incorporation and bylaws, as provided by this chapter for organizing a new credit union. If approved by the director, the federal credit union becomes a credit union under the laws of this state, and the assets and liabilities of the federal credit union will vest in and become the property of the **successor** credit union subject to all existing liabilities against the federal credit union.

Under Washington law, the federal credit union ceases to exist when the new, state chartered credit union is organized. All assets and liabilities vest in and become the property of the successor credit union, and the state chartered credit union is referred to as the “successor.”

Washington State tax exemptions that applied to the federally chartered credit union cease after the credit union becomes state chartered. Federal law 12 U.S.C. 1771(a)(4) supports this position.

### Tax Obligations of State Chartered Credit Unions

Federally chartered credit unions are exempt of sales and use tax under Washington Administrative Code (WAC) 458-20-190. State chartered credit unions, however, are not exempt from the sales and use tax.

#### Retail Sales Tax

##### *Obligation to Collect and Remit Retail Sales Tax*

State chartered credit unions must collect and remit sales tax on all retail sales. Retail sales include, but are not limited to, sales to consumers of maintenance agreements, repossessed tangible personal property and sales of extended warranties. (See WAC 458-20-257, emergency rule on extended warranties filed on June 30, 2005.)

**Use Tax**

Successive uses of tangible personal property are subject to use tax (RCW 82.12.020(3)). Because a state chartered credit union converted from federal status is considered new entity, it is subject to use tax unless an exemption applies. There are no general exemptions for use tax for credit unions.

Additionally, even though the state chartered credit union is a successor to the previous federally chartered credit union, the exemption for business reorganizations (WAC 458-20-106) does not apply because the use tax was not paid by the predecessor (federally chartered entity). Therefore, the state chartered credit union is liable for use tax measured by the value of the tangible personal property transferred to the state chartered entity.

**Business and Occupation (B&O) Tax**

State and federally chartered credit unions are both exempt from the business and occupation (B&O) tax under Revised Code of Washington (RCW) 82.04.405.

**For More Information**

You can contact our Telephone Information Center at 1-800-647-7706 if you have questions or need more information.

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