

Excise Tax Advisories are interpretive statements authorized by RCW 34.05.230.

ETA 3175.2018

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Purchases Made with Funds Provided by the Federal Government

Purpose

This Excise Tax Advisory (ETA) discusses the retail sales tax collection and reporting requirements of sellers when making sales to buyers who use funds provided by the United States government to pay for purchases.

This ETA also identifies specific federal programs reviewed by the Department. It is important to note that each federal program is distinct. Federal agencies often administer more than one program, and a federal agency may in some cases, administer one aspect of a program differently than another aspect of that same program. If you have additional questions about these or other federal programs, you may contact the Department using the information at the bottom of this page.

Background

Federal law prohibits Washington State from imposing retail sales tax on sales to the United States government. *See WAC 458-20-190 Sales to and by the United States and certain entities created by the United States – Doing business on federal reservations – Sales to foreign governments (Rule 190)*. Washington State, however, is not always prohibited from imposing retail sales tax on sales to persons that pay with or are reimbursed with federal funds.

Rule 190 explains that sales, whether the purchase is paid for with federal funds or through a reimbursement arrangement, are subject to business & occupation (B&O) and retail sales tax unless otherwise exempt by law.

Funds provided under the Medicare Act

“Part B” of the federal Medicare Act provides eligible individuals a voluntary supplemental benefits program that beneficiaries may use to purchase medical products. Under this program, the beneficiary is entitled to federal reimbursement

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for the cost of the products; or alternatively, the beneficiary can have the federal government directly pay the seller on the beneficiary's behalf.

Although the seller may receive payment directly from the federal government, the sale is not a tax-exempt sale to the federal government. The federal government is paying these amounts on behalf of the beneficiary/purchaser, and thus the sale is subject to retail sales tax.

For additional information, see *AARO Medical Supplies, Inc. v. Department of Revenue*, 132 Wn. App. 709,723, n.10, 132 P.3d 1143 (2006).

**Funds provided
by the
American Red
Cross**

The American Red Cross is a tax-exempt instrumentality of the federal government that provides assistance to victims of natural disasters. There are different methods by which the Red Cross provides assistance. A sale may or may not be subject to retail sales tax, depending on the nature of the assistance (i.e., whether the Red Cross itself, as a tax-exempt instrumentality of the federal government, is making the purchase). For example, the sale is subject to retail sales tax when the recipient pays for the purchase using:

- Funds directly deposited by the Red Cross into the recipient's personal bank account; or
- A debit or client assistance card received from the Red Cross.

For additional information, see Excise Tax Advisory 3156 *Disaster Relief Funds Provided by FEMA and the Red Cross*.

**Funds provided
by FEMA**

The Federal Emergency Management Administration (FEMA) is an agency of the federal government that also provides assistance to victims of natural disasters. As is the case with the American Red Cross, there are different methods by which FEMA provides assistance. A sale may or may not be subject to retail sales tax, depending on the nature of the assistance (i.e., whether FEMA, as an agency of the federal government, is making the purchase). For example, the sale is subject to retail sales tax when the recipient pays for the purchase using:

- Funds directly deposited by FEMA into the recipient's personal bank account; or
- A debit or client assistance card received from FEMA.

For additional information see Excise Tax Advisory 3156 *Disaster Relief Funds Provided by FEMA and the Red Cross*.

**Funds provided
by the U.S.
Department of
Veterans
Affairs for
automotive
adaptive
equipment**

The United States Department of Veterans Affairs (the VA) provides qualified disabled veterans with funds toward the purchase of automotive adaptive equipment. Although the VA may make payment directly to the seller, supplier, or the veteran, the VA is not the buyer of the automotive adaptive equipment.

In this case, the veteran is the buyer and is responsible for the purchase, including payment of the retail sales tax to the seller unless an exemption applies, regardless of whether the VA provides some or all funds (authorized by Title 38 USC Chapter 39) to assist with the purchase.

Exemption for physician prescribed automotive adaptive equipment

A separate retail sales and use tax exemption is available for sales of physician prescribed add-on automotive adaptive equipment, and installation and repair services for this equipment. “Add-on automotive adaptive equipment” means equipment installed in, and modifications made to, a motor vehicle that are necessary to assist physically challenged persons to enter, exit, or safely operate a motor vehicle. The term includes, but is not limited to, wheelchair lifts, wheelchair restraints, ramps, power door openers, and hand controls. The exemption does not include equipment installed in a vehicle by the vehicle manufacturer.

This exemption is available when the eligible purchaser is reimbursed for the purchase in whole or in part by the VA, or any other federal agency.

For additional information regarding this exemption, see RCW 82.08.875 and RCW 82.12.875. Note: This exemption is, at the time of publication of this ETA, scheduled to expire July 1, 2028.
