

Introduction to Washington Sales and Use Tax

Presented by:

University of Washington's Tax Office

Why Understand State Tax?

- Not all sellers are registered in the state of Washington to collect sales tax.
 - If seller doesn't collect sales tax we have to pay use tax.
- We pay about \$6,000,000 in use tax every year .
- We collect and remit about \$3,500,000 in sales tax.
- Our suppliers are getting audited.
- DOR has the right to audit us too.
- We are *all* responsible for maximizing the dollars we have to spend and making sure we are compliant with the law.

Retail Sales Tax Defined

- Collected and remitted to State by the seller.
- State (6.5%) and Local (varies) components.
- Seller is liable, even if not collected.
- Seller can come back to us to collect.
- Applies to tangible personal property, and labor and services on that property.
- Doesn't apply to pure personal services.

Sales Tax - Rate

- Rate imposed depends on whether item will be shipped or picked up:
 - If shipped, then rate at customer location applies.
 - If picked up, then rate at seller location applies.
- Example: Store is in Seattle. Customer is in Friday Harbor.
 - − If shipped − 7.8%
 - If picked up − 9.6%

Reporting sales tax

UW reports sales based on location codes (local tax differences)

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e.g.: Seattle – 1726 - 3.1% Friday Harbor – 2801 – 1.6%
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- Department of Revenue allocates the tax to the appropriate city.
- UW Department needs to provide tax details to Cathy Sleipnes <u>sleipnes@uw.edu</u>.
- Process for reporting sales tax collected: http://f2.washington.edu/fm/tax/departments/wa-state-taxes/selling-gs.

Use Tax Defined

- Self-assessed, remitted to DOR by the UW
- Buyer is liable for the tax
- Applies to same items as retail sales tax

Key point: If tax applies and sales tax has NOT been added, we should pay use tax, BUT pay either use tax or sales tax, NOT both.



What the heck is "tangible personal property"?

- Under the RCW, tangible personal property means personal property that can be seen, weighed, measured, felt, or touched, or that is in any other manner perceptible to the senses. Tangible personal property includes electricity, water, gas, steam, and prewritten computer software.
- Many exemptions provided by statute
 - Eg. Some medical items used for patients are exempt. However, that exemption does not apply to medical items used in research.

HINT: If you're buying on a research budget, probably not exempt

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Services

- Services related to tangible property are taxable. Installing, cleaning, repairing of tangible personal property are taxable even if property not sold in connection of services is taxable. Examples:
 - Repairing any personal property, machines, radios, etc.
 - Laundering, dyeing and cleaning
- DOR lists services subject to sales tax:
 http://dor.wa.gov/Content/FindTaxesAndRates/RetailSalesTax/RetailServices.aspx
- Personal services generally are not taxable. Examples: Attorneys,
 Consultants, Doctors, Dentists, Engineers, Public accountants
- Test: Is the purchaser buying the service itself or the property related to the service?

Computers & Software

- Computers, including outright sales, leases, rentals, licenses to use, and any other transfer are taxable.
- Prewritten software taxable.
- Installation of prewritten software taxable.
- Maintenance on prewritten software taxable.

Taxability Table

- Tax Office maintains a list of items commonly purchased at the UW with their sales/use taxability indicated. Also listed are possible object codes that could be used to identify the purchase:
 - http://f2.washington.edu/fm/tax/taxability
- Let's take a quick look at the grid.

So what *EXACTLY* are we taxed on?

- Tax is applied to the FULL sales price.
 - Includes freight and other delivery charges
 - Excludes discounts & finance charges/fees
- Generally, if the invoice itemizes the items and separates the services from the product portion, then only the product portion will be taxable.
 - e.g. live webinar (not taxable) + CD (taxable)
 - BUT, pre-recorded webinar and CD both taxable

Delivery Charges

- Charges for preparation and delivery of tangible personal property or services.
- Includes transportation, shipping, postage, handling, crating and packing.
- Shipping/delivery, if sold by itself, is exempt from sales tax BUT if sold in conjunction with a taxable item, the shipping is considered part of the sales price and subject to tax.
- Separately itemized charges still taxable.

Goods going outside of WA

- Goods received in WA are taxable even if the property will be used elsewhere.
 - Dep't orders something that will be used in another country, receives the goods in WA, opens box, checks to make sure they are ok, then ships.
 - But, not taxable if freight forwarder is used.
- WA sales tax doesn't apply when the seller delivers the goods to the purchaser who receives them outside of Washington.



Goods going into WA

- Companies not registered in Washington DO NOT have to collect sales tax on sales in WA.
- All goods received in WA are subject to sales/use tax unless specifically exempt.
- In some situations, out of state company may charge their state sales tax. In this case, check to see if we can supply an exemption certificate. Remember, WA still expects their tax.
 - Tool: Sales Tax Exemption Certificates for purchases made out of state. https://f2.washington.edu/fm/tax/Departments/exemption-grid

Foreign Purchases

- Foreign purchases of tangible goods, if not brought into Washington are not subject to Washington state sales or use tax.
- Value Added Tax may be applied when purchasing in foreign countries.
- If possible purchase items through the internet in Washington to avoid VAT.
- Keep in mind there are sanctioned countries. You should avoid purchasing items from these countries.
 - Eg. Iran, North Korea.

Exemptions we see

- Items purchased for resale.
- Items for use outside of the state and not brought into the state.
- Machinery and Equipment Exemption (M&E) for Public Research Institutions.

EXEMPTIONS: Items Acquired for Resale

- Purchasers may be eligible for a sales tax exemption on items acquired for resale to a third party.
- UW has a reseller's permit.
- Currently need to supply a copy of the reseller's permit to be able to purchase for resale.
- Contact the Tax Office (<u>taxofc@uw.edu</u>) to request a copy of the UW's reseller's permit.



RESELLER PERMIT

Washington State Department of Revenue PO Box 47476 • Olympia, WA 98504-7476 • 1-800-647-7706

Issued to: 178 019 988 UNIVERSITY OF WASHINGTON 3917 UNIVERSITY WAY NE SEATTLE WA 98105 6613 Permit Number: A00 0789 17

Effective Date: 01-01-2014

Expiration Date: 12-31-2017

Business Activities: COLLEGES, UNIVERSITIES, AND PROFESSIONAL SCHOOLS

Subsequent Sale of Items Acquired for Resale

- Department selling item responsible for collecting the sales tax.
- If the product stays at the UW for the university's own use, use tax is due.

Exemptions: Items Acquired for Out-of-State Use

- Goods for use outside the state of Washington, inform the seller no WA sales tax.
- On purchases made via purchase order buyer will flag the order as exempt as it is processed and include the appropriate language on the purchase order (PO).
 - Ordering department must state in the comments that the order should be flagged as exempt and that the goods are for use outside of Washington.

Exemptions: Machinery and Equipment

- Applies to purchases by public research institutions of machinery and equipment:
 - Directly in a research and development operation
 - More than 50% of the time for a qualifying use
 - Useful life of more than 1 year
 - Cost of \$200 or more
- UW Equipment Inventory Office is key player in M&E purchases.

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Quiz Time!

- **=** #1
 - Department buys books from vendor. Vendor lists shipping separately –
 is the shipping subject to sales tax?
 - Can you put the shipping under a tax exempt object code?
- **4**2
 - Department purchases a maintenance agreement on equipment in the department taxable?
 - What if the equipment is M&E exempt?
- **4**3
 - Department hires a consultant to help with a project taxable?
 - Can the department hire a consultant or do they have to hire an employee?

#4

- The vendor has asked us for documentation that we paid the use tax on specific invoices because they did not charge sales tax.
- Are we obligated to provide this information to the vendor?
- What kind of documents can we provide?
- If use tax wasn't paid what happens?

Answer to #4

- Work with Procurement Services if a vendor contacts you about this.
- Check that use tax actually was paid.
- Terms and conditions in contracts often say we will pay use tax if sales tax not charged.
- We may be required to provide the DOR use tax form at some point.
- If no tax paid and tax is due, then department will have to pay it and may owe penalties and interest.

Object Codes

The Tax Office does not provide object codes because Taxability is not driven by the object code, but by the underlying item that is being purchased.

But,

http://f2.washington.edu/fm/tax/taxability

Questions and Contacts

Tax Office

taxofc@uw.edu

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- Mona El Souessy, 221-3342, <u>msouessy@uw.edu</u>
- Procurement Customer Service
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