

Trucking

Trucking

Trucking is a multifaceted industry in the state of Washington. In addition to the hauling of goods into and through the state, many other business activities fall under the umbrella of “trucking” industry. These businesses include fuel stations, repair facilities, broker services, and leasing companies, to name a few.

The taxability of trucking and trucking related businesses depends on the activity performed. This guide is intended to provide general information regarding tax obligations and tax reporting instructions. In addition, Departmental resources are included to provide multiple ways to obtain tax related information.

This guide was created to help persons owning transportation vehicles and working in the trucking industry to easily understand Washington State taxes that apply to their business activities.

The information in this guide is current at the time of publication. Please remember that state laws change on a regular basis and this guide will not reflect changes that occur after printing.

Terms relevant to this guide

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Business and Occupation (B&O) tax: A gross receipts tax imposed on persons conducting business activities in Washington. There are different reporting classifications for various business activities. Each classification has its own tax rate. Persons performing more than one activity may be subject to B&O tax under more than one classification.

Business license application: A document completed by a person registering a business in Washington with one or more state agencies. Upon submitting a Business License Application, the person receives a Unified Business Identifier (UBI) number and a Business License to post at the business location(s).

Public Utility Tax (PUT): A tax on public service businesses, including businesses that engage in transportation. The tax is in lieu of the business and occupation (B&O) tax.

Reseller permit: A certificate a seller takes from the buyer to document the wholesale nature of a sale.

Retail sales tax: Businesses making retail sales in Washington collect sales tax from their customers. Generally, retail sales tax is collected on sales of tangible personal property and sales of services such as installation, repair, cleaning, altering, improving, construction, and decorating. Retail sales tax includes the state and local components of the tax.

RCW (Revised Code of Washington): Laws of the state of Washington.

UBI/Account ID: A nine-digit number issued via the Unified Business Identifier (UBI) system and used to identify registered businesses. This number is sometimes referred to as a registration, tax, “C,” or resale number.

The number is assigned when a person completes a Business License Application to register with or obtain a license from state agencies. The departments of Revenue, Labor & Industries, Employment Security, and the Business Licensing Service and Office of Secretary of State are among the state agencies participating in the UBI program. In most cases, your UBI number will also be your DOR account ID. Spouses who file separately and corporations that file multiple accounts are assigned separate account ID numbers as needed.

Use tax: A tax imposed on the use in Washington of goods and certain services by a consumer when the state's retail sales tax has not been paid. Either sales tax or use tax applies, but not both, with respect to goods or services purchased and/ or used by a consumer. In this manner, the use tax serves to complement the sales tax. Like sales tax, the use tax is a combined state and local tax. Use tax and sales tax rates are the same for the particular local taxing jurisdiction.

WAC: Washington Administrative Code.

State tax overview

State tax overview

Registration & UBI number

Generally, every person doing a business activity in Washington must register with the state of Washington through the Business Licensing Service. Once registered, persons receive a nine-digit Unified Business Identifier (UBI) number. Generally, this number is also the Department of Revenue (DOR) Account ID. Businesses also receive the state Business License.

Washington's major taxes

Persons engaged in trucking activities are potentially subject to the following taxes:

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

Public Utility Tax (PUT)

Persons operating motor driven vehicles used in transporting persons or property on a for hire basis are subject to the Public Utility Tax. The transportation of persons or property across state boundaries, into and out of Washington, via "through freight billing," or shipments to ports for export, are allowed deductions for interstate transportation.

Business and Occupation (B&O) tax

Many trucking industry businesses located in Washington are subject to the state B&O tax. This includes corporations, limited liability companies, partnerships, and sole proprietors. The 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. Trucking related businesses generally report income under the retailing, retailing of Interstate Transportation Equipment, wholesaling, and service and other activities B&O tax classifications.

Retail sales tax

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

comprised of both a state rate (6.5%) and a local rate (.5% -2.4%). Local rates vary depending on location.

Remember: Sales invoices must be given to customers for all purchases and the sales tax must be separately stated on the invoices. ([RCW 82.08.050](#)).

Use tax

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

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

Examples when use tax is due include:

- Mail order, telephone, or Internet purchases from persons with no presence in Washington.
- Goods purchased with a reseller permit 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.

Remember: You should always pay use tax when an out of state vendor does not collect retail sales tax on items that are subject to sales tax.

Tip: A [Use Tax Return](#) is available online.

Motor transportation and urban transportation

Motor transportation and urban transportation

A business that performs hauling for hire within the state of Washington is subject to the Public Utility Tax (PUT) under either the Motor Transportation or the Urban Transportation classifications. Motor and urban transportation include the operation of motor-driven vehicles, upon public roads, used in transporting persons or property belonging to others, on a for hire basis. The PUT on transportation is generally computed only on those trips that originate and terminate within this state.

Definition of hauling for hire

The term "hauling for hire" means the business of operating any motor propelled vehicle by which persons or property of others are conveyed for hire. The term includes, but is not limited to, the operation of any motor propelled vehicle as an auto transportation company, common carrier or contract carrier.

It includes the business of hauling for hire any extracted or manufactured material, over the highways of the state and over private roads. The term "hauling for hire" does not include:

- The transportation of logs or other forest products exclusively upon private roads;
- The hauling of any earth or other substance excavated or extracted from or taken to the right of way of a publicly owned street, place, road or highway, by a person taxable under the classification of public road construction of the business and occupation tax (under the same contract).

The terms "motor transportation" and "urban transportation" include the business of renting or leasing trucks, trailers, busses, automobiles and similar motor vehicles to others for use in the conveyance of persons or

property when as an incident of the rental contract such motor vehicles are operated by the lessor or by an employee of the lessor. These terms include the business of operating the following:

- Taxicabs
- Armored cars
- Contract mail delivery vehicles

Motor transportation and urban transportation do not include the businesses of operating auto wreckers or towing vehicles, school busses, ambulances, or the collection and disposal of refuse and garbage.

Definition of carrier for hire

A seller/carrier transporting goods titled in the name of the purchaser with whom the seller/carrier has contracted for carriage is a “for hire” carrier. A seller/carrier transporting its own goods is not a “for hire” carrier.

The motor and urban transportation classifications of the public utility tax have different tax rates. The rates are:

Rate

Motor Transportation 1.926% (.01926)

Urban Transportation 0.642% (.00642)

The urban transportation classification applies when the origin and destination of a haul are within:

- The corporate limits of the same city;
- 5 miles of the corporate limits of the same city; or
- 5 miles of the corporate limits of any two cities whose corporate limits are no more than five miles apart.

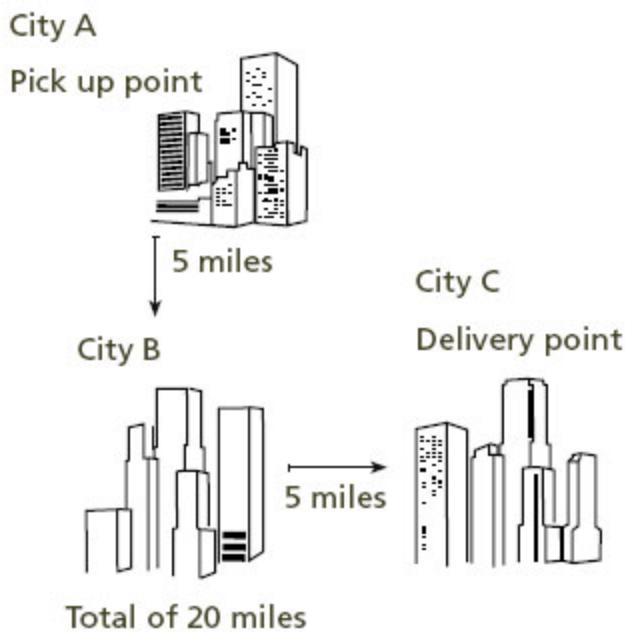
(Mileage between cities, pickup points and delivery points are determined not in road miles, but rather as a straight line distance or as the crow flies.)

Examples: Motor transportation

Examples: Motor transportation

Example 1

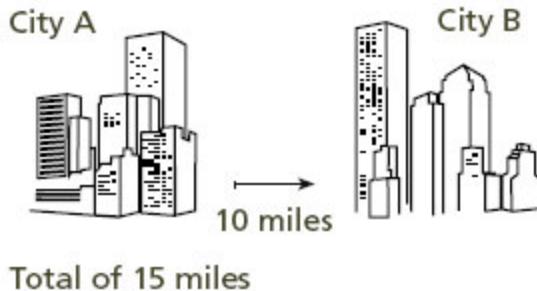
Speedy Trucking is hired to pickup office furniture in City A and then deliver it to City C. The total mileage from the pickup point to the delivery point is twenty miles. The carrier will use a direct route from City A, through City B, and deliver the goods in City C. City B's corporate limits are within five miles of both City A and C.



The motor transportation tax applies because the corporate limits of City A and City C are more than 5 miles apart.

Example 2

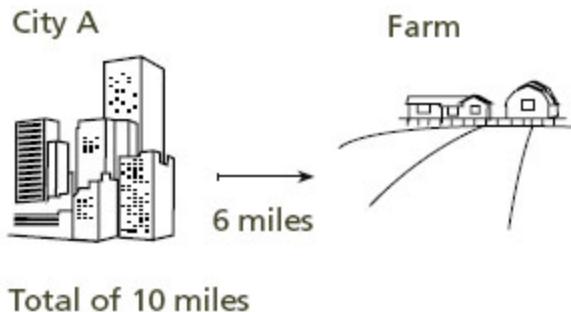
Speedy Trucking is hired to transport goods from City A to City B. The total mileage between the pickup point and delivery point is fifteen miles. There is 10 miles between the corporate limits of City A and City B.



The motor transportation tax applies because the corporate limits of City A and City B are more than five miles apart.

Example 3

Speedy Trucking is hired to transport goods from City A to a farm 6 miles outside of City A.



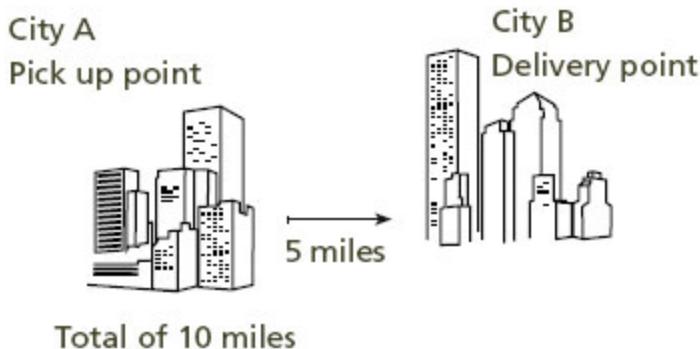
The motor transportation tax applies because the destination is not within five miles of the corporate limits of City A.

Examples: Urban transportation:

Examples: Urban transportation:

Example 4

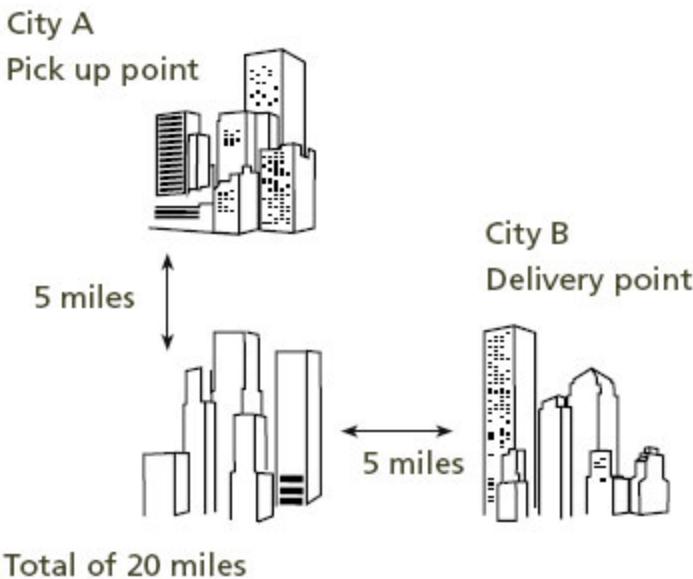
Speedy Trucking is hired to transport property from a location in City A to a location in City B. The total mileage between the pickup point and the delivery point is ten miles. City B is within 5 miles of the corporate limits of City A.



The urban transportation tax applies because the corporate limits of City A and City B are within five miles of each other.

Example 5

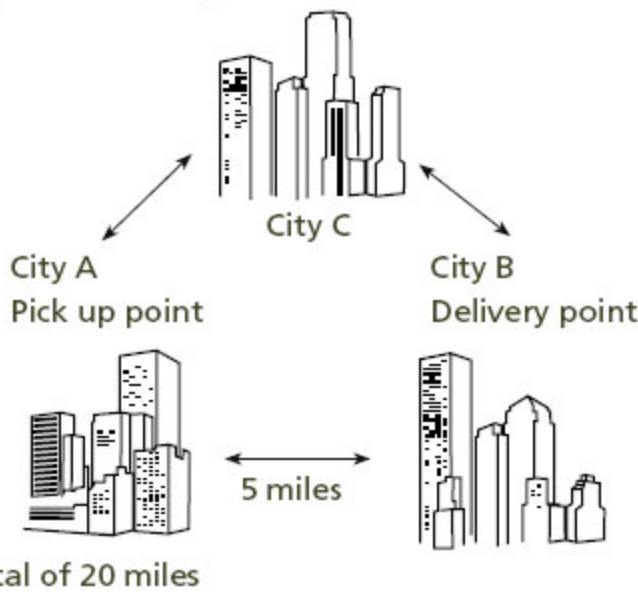
Speedy Trucking is hired to transport goods from a point five miles outside of City A, to a point five miles outside of City B. The total mileage between the pickup point and delivery point is twenty miles. City B is within five miles of the corporate limits of City A.



The urban transportation tax applies because the corporate limits of City A and City B are within five miles of each other, and the pickup and delivery points are within five miles of the city limits of City A and City B.

Example 6

Speedy Taxi is hired to transport Mr. Jones from City A to City B. The total mileage between the pickup point and delivery point is twenty miles. However, Speedy's route will also take Mr. Jones through City C. City B is within five miles of the corporate limits of City A, as the crow flies.



The urban transportation tax applies because the corporate limits of City A and City B are within five miles of each other.

TIP: To determine if transportation of persons or property is urban or motor transportation you must look at the pickup and delivery points and the bill of lading to determine the correct classification.

Segregation of activities

Segregation of activities

In many cases, a business may perform both urban transportation and motor transportation activities. In order to report under the proper tax classification the business must segregate their income into the proper reporting classifications. Documentation, such as a log or other record, must be maintained as evidence of actual activities performed. (Failure to maintain proper records may result in the higher tax rate of motor transportation applying to all of the income.)

Use the Department's [Motor & Urban Transportation Lookup Tool](#) to determine which tax applies to a trip, based on the starting and ending address.

Tip: Keep documentation for a period of 5 years. Lack of proper documentation may result in a tax liability. See [WAC 458-20-254](#) for recordkeeping requirements.

Allowable deductions

Certain amounts may be deducted from the gross income reported under the public utility tax if the amount is included in the gross amounts reported. Deductions are allowed for the following:

Interstate hauls – Income from transporting persons or property by motor transportation equipment where either the origin or destination of the haul is outside the state of Washington.

Example: Furniture picked up by a transportation company in Portland, Oregon to be delivered to a warehouse in Seattle, Washington is an interstate haul and may be deducted from the gross income amount.

Services jointly provided – Amounts paid by a person conducting hauling for hire to another person performing the same activity may be deducted as consideration due for services jointly furnished by both.

Example: Customer A hires ABC Transport to haul goods from Tacoma, Washington to a manufacturing facility at Bellingham. ABC Transport subcontracts part of the haul to XYZ Transport and has XYZ haul the goods from Tacoma to Everett where the goods are loaded into ABC's truck. ABC may deduct the payments it makes to XYZ as a "jointly furnished service."

Through freight – A deduction is allowed for income received from transportation within the state relating to imported or exported goods which have technically ceased movement in interstate commerce. Such items must have been shipped under a "through freight" billing.

Shipments to ports – A deduction for income received from shipping products produced in Washington to export facilities in the state, including docks, wharfs and elevators, if the products are then shipped outside of the state in vessels. The deduction does not apply if the shipment occurs solely within the same city.

Other deductions – Most allowable deductions are listed on the Deduction Detail page of the Excise Tax Return. However, there may be a specific deduction allowed by law that is not listed. When taking such a deduction refer to the statute governing your type of business.

Volume exemption – Persons reporting under a public utility tax classification are exempt from the tax if the taxable income does not meet the minimum threshold listed below:

- Monthly reporting basis (frequency)..... \$2,000 per month
- Quarterly reporting basis (frequency) \$6,000 per quarter
- Annual reporting basis (frequency).....\$24,000 per year

Selling motor vehicles, trailers, and parts to motor carriers who operate in interstate or foreign commerce

Selling motor vehicles, trailers, and parts to motor carriers who operate in interstate or foreign commerce

A sales tax exemption is allowed for certain purchases by motor carriers who operate in interstate and foreign commerce. A “motor carrier” means and includes a natural person, individual, partnership, firm, association, or private or public corporation, which is engaged in interstate commerce and which operates or causes to be operated on any highway in this state any commercial motor vehicle.

The exemption applies to purchases of the following items when used in interstate and foreign commerce:

- Motor vehicles and trailers
- Sales of component parts for motor vehicles and trailers
- The lease of motor vehicles and trailers without an operator
- Charges for labor and services in respect to “construction, cleaning, repairing, altering or improving” vehicles and trailers or component parts

Retail sales tax on carrier property

Generally, sales tax applies to the purchase of trucks, trailers, component parts and repair work performed on carrier property. This includes amounts charged for the lease or rental (with or without operator) of motor vehicles or trailers. However, carrier property that is purchased for use in interstate or foreign commerce by ICC or Motor Carrier (MC) permit holders or their subcontractors may qualify for a sales tax exemption in certain instances. To be exempt the purchaser must be an ICC or MC permit holder

The term “component parts” means any tangible personal property which is attached to and becomes an integral part of the motor vehicle or trailer. It includes items such as motors, motor and body parts, batteries, paint, permanently affixed decals, and tires. “Component parts” also includes the axle and wheels, referred to as “converter gear” or “dollies,” which are used to connect a trailer behind a tractor and trailer.

Items that do not qualify as “component parts” include equipment, tools, parts and accessories which do not become a component part of a motor vehicle or trailer used in transporting persons or property for hire. This includes items such as tire chains and tarps which are not custom made for a specific vehicle and sales of consumable supplies, such as oil, antifreeze, grease, other lubricants, cleaning solvents and ice.

In order to qualify for the exemption, the purchaser must give the seller an exemption certificate at the time of purchase. See section 4 of the [Buyers' Retail Sales Tax Exemption Certificate](#).

Recordkeeping requirement: All exemption certificates must be maintained by the seller for a period of 5 years. See [WAC 458-20-254](#) for recordkeeping requirements.

Note: Even though carrier property (trucks, trailers, etc.) may qualify for a sales tax exemption at the time of purchase, the property will be subject to use tax if it does not meet the “in substantial part” test of operating at least 25% in interstate commerce.

If you have questions about the taxability of component parts, contact the Department of Revenue at 360-705-6705.

Use tax on carrier property

Generally, use tax applies to trucks and trailers primarily garaged in Washington if not used at least 25% in interstate commerce. Use tax applies even though the property may have qualified for a sales tax exemption at the time of purchase.

Use tax exemptions

Trucks and trailers are exempt from use tax if all of the following conditions are met:

- The carrier property is used by ICC or MC permit holders or their subcontractors
- The carrier property is used in hauling for-hire
- The carrier property is used substantially (at least 25% of time), in interstate commerce hauling for hire. (The determination for the percentage of qualifying use must be done at least once per year. See Annual Review.)

In order to sustain exemption from use tax the ICC or MC permit holder must show proof of ICC or MC permit OR that they are operating under contract with an ICC or MC permit holder at the time of purchase.

The use tax exemption applies to component parts and repair work even if the parts are for use on a motor vehicle or trailer which is used less than twenty-five percent in interstate hauls for hire, provided the vehicle is used in hauling for hire.

Methods for determining “substantial use” in for-hire interstate commerce

Methods for determining “substantial use” in for-hire interstate commerce

The following information provides guidance for determining if carrier equipment is used at least 25% of the time in interstate and foreign commerce.

“Substantial part” means that the motor vehicle or trailer actually crosses Washington boundaries and is used a minimum of twenty-five percent in interstate hauling for hire.

Use tax is due for those vehicles which have not been used substantially (more than 25%) in interstate commerce and on which retail sales or use tax has not been paid.

Annual review information

Calendar year: Each calendar year the carrier must review the use of each vehicle and trailer for a “view period” consisting of the previous calendar year. If a vehicle was purchased or sold during the calendar year the taxpayer may choose to review the usage during the portion of the year during which the vehicle was owned or may use a twelve-month period beginning with the date of purchase of a vehicle or ending with the date of sale of a vehicle.

Example: If a vehicle is traded-in on May 30, 2006, the taxpayer must meet the substantial use test for this vehicle for either the period January through May 2006 or for the period June 1, 2005 through May 30, 2006.

Fiscal year: A carrier maintaining records on a fiscal year basis may choose to review the usage of their vehicles using the fiscal year rather than the calendar year. If a fiscal year is used, it must be used for the entire fleet of vehicles. These carriers may not change to a calendar year basis without first obtaining prior approval from the Department of Revenue.

REMEMBER: Usage will be reviewed on a calendar or fiscal year basis and not on a “moving” twelve-month period.

Methods to determine substantial use threshold

Methods to determine substantial use threshold

A motor carrier may choose one of the methods listed below to determine if its motor vehicles and trailers satisfy the substantial use threshold for exemption from use tax. The method must be applied to all trucks, tractors, and trailers within the fleet. Regardless of the method selected, a vehicle will not be considered as used in interstate hauls unless the vehicle actually crosses the boundaries of the state and is used in part outside of Washington. The motor carrier may change the method with prior written consent of the Department of Revenue.

The methods are as follows:

Line crossing: Compares the number of interstate for hire hauls made by a motor vehicle or trailer to the total number of for hire hauls. The motor vehicle or trailer must actually cross the boundaries of this state or be used for hauls which begin and end outside this state.

Mileage: Compares interstate mileage associated with the for hire hauls made by a motor vehicle or trailer, to the total mileage associated with its for hire hauls. The motor vehicle or trailer must actually cross the boundaries of this state, or haul exclusively outside this state, to be considered interstate mileage. (Empty mileage qualifies as part of the mileage from an interstate haul.)

Revenue: Compares interstate for hire revenue generated by a particular motor vehicle or trailer to the total for hire revenue.

The revenue generated by the motor vehicle or trailer actually crossing the boundaries of this state, or hauling exclusively outside this state, is considered to be interstate revenue. If the motor carrier uses more than one motor vehicle or trailer to transport the cargo, the revenue generated from hauling this cargo must be allocated between the motor vehicles and/or trailers used. For the purposes of determining use tax liability, a vehicle will not be considered as having interstate revenue even if the haul originates or ends outside Washington unless the vehicle actually crosses the boundaries of the state.

Other: Any other method may be used when approved in advance and in writing by the Department of Revenue.

REMEMBER: If a vehicle is used both in hauling for hire and in hauling the carrier's own products, the "substantial use" is determined solely on the usage in hauling for hire.

[Washington Administrative Code \(WAC\) 458-20-17401](#) provides examples and additional information on determining substantial use.

Methods to determine substantial use threshold for trailers

Methods to determine substantial use threshold for trailers

Special application to trailers: Motor carriers must keep appropriate records in order to determine the use tax exemption for each individual truck and tractor. Motor carriers are encouraged to keep similar records for each individual trailer, but the Department recognizes that some carriers do not have a system for tracking or documenting the travel of their trailers. When records are maintained to document the use of individual trailers, use tax liability for trailers must be determined on the basis of those records. However, when separate records are not maintained for trailers, the motor carrier may determine the use tax liability based on the actual use of the tractors.

When using the "actual use" method to determine use tax due on a trailer or trailers, it is assumed that there is a direct correlation between the use of tractors and the use of trailers. Whenever use tax is due on a tractor because of the failure to maintain the twenty-five percent interstate usage, use tax will also be due on one or more trailers. The number of trailers subject to use tax under this method will correspond to the fleetwide trailer to tractor ratio. (Round up if the trailer to tractor ratio results in a fraction.)

Example: If the fleet wide ratio of trailers to tractors is two and one quarter to one and one tractor fails to maintain the substantial use threshold in a given year, the motor carrier will incur a use tax liability on three trailers. If two tractors fail to maintain the substantial use threshold in a given year, the motor carrier will incur a use tax liability on five trailers.

The trailer or trailers subject to use tax under this method will be those acquired nearest to the purchase date of the tractor triggering the use tax liability for those trailers meeting the following conditions:

1. The trailer or trailers are compatible for towing with the tractor upon which use tax is incurred.
2. The trailer or trailers have not previously incurred a retail sales or use tax liability.
3. The trailer or trailers have been actively used in hauling for hire in the year tax liability is incurred.

Under this reporting method, use tax is generally due on one or more trailers whenever a tractor is subject to the use tax. If a tractor is purchased with the intent that less than twenty-five percent of the hauls will be across state borders, it will be presumed the tractor will be pulling a trailer or trailers on which use tax is also due.

Example: ABC Trucking has eight tractors and fifteen trailers in its fleet. The tractors and trailers met the exemption from retail sales tax and use tax at the time they were purchased, and it was determined during previous annual reviews that the tractors continued to be substantially used on interstate hauls. However, at the time of the annual review for the just-completed calendar year it was determined that one tractor was not used at least twenty-five percent in interstate hauls. Use tax is due on this tractor. Under this method, use tax is also due on two trailers. The two trailers on which use tax must be reported are the two purchased most nearly to the purchase date of the tractor.

Valuation: The value of the motor vehicle or trailer subject to the use tax is its fair market value at the time of first use within the review period for which the exemption cannot be maintained. The use tax is due and should be reported on the last excise tax return for that review period.

Example: A motor carrier who has previously met the exemption requirements for a particular truck determines this truck no longer was substantially used in interstate hauls during calendar year 2006. Use tax should be reported on the last tax return filed for 2006 with the taxable value based on the value of the truck at January 1, 2006.

To determine values the Department of Revenue will accept the following:

- Independent publications containing values of comparable vehicles if those values are generally accepted in the industry as reflecting the value of used vehicles.
- Notarized valuation opinions signed by qualified appraisers and/or dealers.
- If no other valuation is available, the Department of Revenue will accept a value based on depreciation schedules used by the Department of Licensing to determine the value of vehicles for licensing purposes.

Example: ABC Trucking purchased five trailers for use in both interstate and intrastate for hire hauls on January 1, 2006. All the conditions for exemption were met; delivery was made in Washington, and the trailers were purchased without payment of the retail sales tax. The taxpayer uses the “line crossing” method for determining interstate use.

ABC Trucking keeps a journal showing the origin and destination for each haul that identifies each truck/tractor and trailer used on a per unit basis. The journal is reviewed at the end of each calendar year to verify that motor vehicles and trailers are substantially used for transporting persons or property for hire across the boundaries of the state. During the first year of use, all five of the trailers met the “substantial use” threshold. However, in reviewing the journal for the 2007 calendar year, ABC Trucking determined that two of the trailers failed to meet the twenty-five percent “substantial use” threshold. ABC Trucking must remit use tax directly to the department on its December 2007 excise tax return, based on the fair market values of the two trailers as of January 1, 2007. Since the taxpayer maintained specific usage records for each trailer, the “substantial use” in interstate hauling must be met by each trailer for which exemption is claimed. If detailed records for usage of trailers had not been

kept, use tax liability of the trailers would have been based on the tractors. In any event, use tax liability may not be determined based on the overall experience of a fleet of vehicles.

Example: DB Carriers is a motor carrier engaged in both intrastate and interstate for hire hauls. DB purchases and first uses a truck in Washington on January 1, 2007. All the necessary conditions for exemption were met; delivery was made in Washington, and the truck was purchased without payment of the retail sales tax. DB Carriers uses the “line crossing” method for determining interstate use.

DB Carriers keeps a journal showing the origin and destination for each haul which identifies each truck used on a per unit basis. This journal is reviewed at the end of the 2007 calendar year, and DB determines that the truck failed to meet the twenty-five percent “substantial use” threshold. DB Carriers must remit use tax directly to the department on its December 2007 excise tax return, based on the fair market value of the truck as of January 1, 2007. DB Carriers may not compute the use tax liability based upon the December 31, 2007, fair market value as the vehicle never satisfied the substantial interstate use provision.

Leased vehicles: Use tax exemption requirements are the same for leased vehicles as those for purchased vehicles. Motor vehicles and trailers, leased without an operator, are exempt from use tax if the user is, or operates under contract with, an ICC or MC permit holder. The vehicle must be used in substantial part for transporting persons or property for hire across the boundaries of the state. This requires that the leased vehicle be used a minimum of twenty-five percent (25%) in interstate hauls.

TIP: The taxpayer may elect to use either the fiscal year of the business or a calendar year to determine if the leased vehicle meets the substantially use minimum required for interstate hauls for hire.

If the leased vehicle does not meet the substantial use requirement during for the “view period,” use tax applies only to the portion of the lease payment which is for use in Washington during the “view period.”

Mileage is an acceptable basis for determining instate and out-of-state use for leased vehicles or trailers. When use tax is determined to be due all miles traveled in Washington by the leased vehicle is instate miles. In order to claim that a portion of any lease payment was exempt of use tax because of out-of-state use, the motor carrier must maintain accurate records of actual instate and out-of-state use. For example, if a truck was leased for the years 2006 and 2007 and failed to meet the substantial use requirement in 2006, but met the requirement in 2007, use tax would only be due for the usage in Washington which occurred in 2006.

The following examples show how this method would be applied to typical situations. These examples should be used only as a general guide. The tax status of each situation must be determined after a review of all of the facts and circumstances.

Example: BG Hauling is a for hire carrier that entered into a lease agreement for a truck without operator on January 1, 2006. All the necessary conditions for the retail sales and use tax exemptions for the first year of the lease were met. BG Hauling verifies compliance with the twenty-five percent substantial use threshold on a calendar year basis.

BG determines that this truck failed to meet the twenty-five percent substantial use threshold for calendar year 2007. Use tax will be due beginning with the period for which the exemption was not met, in this case beginning with January 2007. However, BG Hauling will report use tax only on the portion of each lease payment attributable to actual instate use, provided accurate records substantiating the trucks instate and out-of-state activity were maintained. Only mileage incurred while actually outside Washington will be considered out-of-state mileage. If BG Hauling continues to lease this truck in 2008, usage will again be reviewed for that period and use tax may or may not be due for the 2008 lease payments, depending on whether the vehicle was used substantially in interstate hauls during that year.

Example: MG Inc. is an equipment distributor which, in addition to hauling its own product to customers, is engaged in hauling for hire. MG is a holder of an ICC or MC permit. MG enters into a lease agreement for a truck without operator on January 1, 2006. All conditions for retail sales and use tax exemption are satisfied for the first year of the lease.

Based upon the truck's for hire hauling activities during the 2007 calendar year, MG determines that the use of the truck failed to meet the twenty-five percent substantial use threshold. MG must remit use tax on the amount of lease payments made during 2007 at the time it files its last tax return in 2007. MG may remit use tax only upon that portion of each lease payment attributable to actual instate use if accurate records were maintained to substantiate instate and of out-of-state use. While only the hauling for hire activities are reviewed when determining whether the truck satisfies the substantial interstate use threshold, once it is established that the exemption cannot be maintained, the use tax liability is based upon all instate activity, including the motor carrier's hauling of its own product.

Component parts: A use tax exemption also applies for the use of tangible personal property which becomes a component part of any motor vehicle or trailer used for transporting persons or property for hire. This exemption is available for motor vehicles or trailers owned by, or operated under contract with, a person holding an ICC or MC permit. Since carriers are required to obtain these permits only when the carrier is hauling for hire, the exemption applies only to tangible personal property purchased for vehicles which are used in hauling for hire. The exemption for component parts will apply even if the parts are for use on a motor vehicle or trailer which is used less than twenty-five percent in interstate hauls for hire, provided the vehicle is used in hauling for hire.

Vehicles taken directly outside the state: For vehicles purchased in Washington, there is a use tax exemption for the use of any motor vehicle or trailer while being operated under the authority of a trip permit and moving from the point of delivery in this state to a point outside this state.

Taxability of vendors selling to truckers

Taxability of vendors selling to truckers

In general, the activity of hauling for hire is not subject to the business and occupation (B&O) tax. However vendors selling to truckers are subject to tax as follows:

Retailing of interstate transportation equipment

This B&O tax classification applies to persons who sell items to businesses that perform interstate hauling-for-hire. In order for this B&O tax classification to apply, the purchaser must be operating under an ICC or MC permit. The following sales are subject to the Retailing of Interstate Transportation Equipment B&O tax classification, when purchased by the holder of an ICC or MC permit:

- Sales of motor vehicles, trailers, and component parts;
- The lease of motor vehicles and trailers without operator; and
- Charges for labor and services rendered in respect to constructing, cleaning, repairing, altering or improving vehicles and trailers or component parts.

The term "component parts" means any tangible personal property which is attached to and becomes an integral part of the motor vehicle or trailer. It includes such items as motors, motor and body parts, batteries, paint, permanently affixed decals, tires and includes the axle and wheels, sometimes referred to as converter gear or dollies, used to connect a trailer behind a tractor and trailer. Component parts can include tangible personal property which is attached to the vehicle and used as an integral part of the motor carrier's operation of the vehicle, even if the item is not required mechanically for the operation of the vehicle. It includes cellular telephones, communication equipment, fire extinguishers, and other items, whether they are permanently attached to the vehicle or held by brackets which are permanently attached. If held by brackets, the brackets must

be permanently attached to the vehicle in a definite and secure manner with these items attached to the bracket when not in use and intended to remain with that vehicle.

Component parts does not include antifreeze, oil, grease, and other lubricants which are considered as consumed at the time they are placed into the vehicle, even though required for operation of the vehicle. It does include items such as spark plugs, oil filters, air filters, hoses and belts.

Retailing B&O Tax applies to the following:

- Sales and services as described above which do not qualify as retailing of interstate transportation equipment (sold to someone who is not an ICC or MC permit holder).
- Sales of equipment, tools, parts and accessories which do not become a component part of a motor vehicle or trailer used in transporting persons or property;
- Sales of consumable supplies, such as oil, antifreeze, grease, other lubricants, cleaning solvents and ice; and
- Towing charges.

Collection of retail sales tax

Businesses making retail sales must collect and remit the retail sales tax to the state of Washington unless a specific exemption applies. (See Chapter on Retail Sales Tax – Carrier Property.) The tax rate is based upon the location of the sale. In the case of a long-term lease with periodic payments, the retail sales tax is based on the location of the lessee.

TIP: To determine sales tax rates for a specific location use our [Tax Rate Lookup Tool](#).

Dump truck operators

Dump truck operators

Dump truck operators perform a variety of activities and the taxability of the operators depends on the activity performed. For example, when an agreement calls for the mere transportation or loading and dumping dirt, the operator is subject to the public utility tax under either the motor or urban transportation classification.

See [Excise Tax Advisory \(ETA\) 3050.2021](#) -Dump Truck Operators for several different types of operations and the resulting tax liability.

Log truck drivers

Log truck drivers

Most situations that apply to trucking activity, in general, also apply to deliveries by log trucks. However, there are certain exemptions and taxability issues that apply specifically to log truck drivers. Following is information on the PUT tax rate for hauling of logs over public highways, on export sites, hauling on private roads, and fuel refunds:

PUT tax rate for log trucks

Effective August 1, 2015, the PUT tax rate for hauling logs over public highways is 1.3696 percent of gross income.

Export sites

With proper documentation, log truck drivers can deduct amounts received for logs delivered to an export site. The “interstate and foreign sales deduction” is taken on the Deduction Detail page of the Excise Tax Return. The hauler is responsible for getting the Exemption Certificate for Logs Delivered to an Export Facility. All documents must be retained for a period of five years.

TIP: Export sites are located on the water and a docking facility must be present for ships.

Taxability of hauling on private roads

Hauls: In some instances, log truck drivers conduct hauls which are entirely on private roads. If a haul is entirely on private roads the income is reported under the service and other B&O tax classification. The tax rate for service and other activities is 1.5%. Records that document private road hauls must be retained for a period of 5 years.

TIP: Proof of private road hauls include a contract and record of beginning and ending points of a haul.

Fuel: An exemption is allowed for fuel tax paid when the fuel is used off-road. This includes fuel used on private roads to haul logs. If you pay the “special fuel tax” on the purchase of fuel and use the fuel for non-highway purposes, you are eligible for a refund of the special fuel tax. When the special fuel tax is refunded, use tax is due on the fuel.

To get a refund, you must submit a request to the Department of Licensing’s Fuel Tax Section. Send your refund request to:

Fuel Tax Section
Washington State Department of Licensing
PO Box 9228
Olympia, Washington 98507-9228

TIP: If you have questions about fuel tax refund you may call the Fuel Tax Refunds Unit at (360) 664-1838.

Truck stop and diesel truck owners tax incentive

Truck stop and diesel truck owners tax incentive

Effective June 7, 2006, owners of truck stops and heavy duty diesel trucks are allowed certain tax incentives for providing or using auxiliary power through on-board or stand alone electrification systems as external power sources to reduce air and noise pollution or reduce the consumption of diesel fuel. This incentive expired on July 1, 2015.

Truck stop owners are eligible for:

- A B&O tax deduction for income received for providing non-metered auxiliary power to heavy duty diesel trucks meeting certain qualifications.
- An exemption from retail sales tax and use tax for the construction of pedestals at truck stops and equipment to deliver power to the trucks.

Heavy duty diesel truck owners are eligible for an exemption from retail sales tax and use tax for equipment and labor which enables heavy duty diesel trucks to accept power through on-board electrification systems.

Recordkeeping requirements

All businesses must keep complete and adequate records from which the Department of Revenue may determine any tax for which the business may be liable. Such records must be preserved for a period of five years.

In general, records are to be kept, preserved, and presented upon request of the Department of Revenue which will demonstrate:

- The amount of gross receipts and sales from all sources, including barter or exchange transactions.
- The amount of all deductions, exemptions, or credits claimed through supporting documentation.

Such records may include general ledgers, sales journals, together with all bills, invoices, cash register tapes, or other documents or original entry supporting the books of account entries. The records should include all federal and state tax return reports and all schedules or work papers used in the preparation of tax reports or returns.

Suggested records:

- Federal income tax returns
- Washington Combined Excise Tax Returns
- General and subsidiary ledgers
- Sales and/or cash receipts journals
- Sales invoices
- Purchase/cash disbursement journals
- Purchase invoices for assets and expense items
- Financial statements
- Reseller permits and resale certificates (for sales on or before 12/31/2009) for wholesale sales
- Documentation for any exemption claimed or given and any deductions taken

Audit process

As a registered business, you may be selected for an audit. Audits are a routine procedure used to determine whether state excise taxes have been reported and paid correctly. The majority of businesses selected for audit are chosen at random using statistical methods.

What occurs during an audit?

During an audit, the auditor will:

- Verify income – amounts and classifications reported on return
- Reconcile calendar year sales
- Verify deductions and exemptions
- Verify sales or use tax paid on capital assets, consumable supplies, and articles manufactured for commercial or industrial use
- Review Washington State tax returns, along with state apportionment schedules and consolidated work papers
- Review federal income tax returns for the business
- Review summary accounting records and source documents
- Review journals, such as check registers, the general ledger, sales journal, general journal, cash receipts journal and any other records used to record income and expenses
- Review/test sales invoices
- Review/test purchase invoices (i.e., accounts payable, receipts)

- Review depreciation schedules, listing all assets acquired during the audit period along with purchase invoices for those assets
- Review reseller permit/resale certificate for any wholesale sales made
- Review supporting documentation for all deductions and exemptions
- Review annual reports
- Review other documents as necessary

Departmental services

Departmental services

The Department of Revenue offers many services to make reporting your taxes as convenient as possible. The following list contains a sampling of the Department's services.

Our web site offers a wide variety of information and resources for your business, including:

- [Electronic filing \(e-file\)](#): File and pay taxes electronically using My DOR
- [Business information update](#): You can notify us online if your business has moved, closed, or changed activities
- [Local offices](#): Find telephone numbers, office hours, and directions to a local office near you
- [Motor & Urban Transportation Lookup Tool](#) - Determine which tax applies to a trip based on the starting and ending address.

Telephone and one-on-one assistance

Telephone Information Center (360-705-6705) - One-on-one telephone assistance during business hours 8:00 am to 5:00 pm

Notifications

Sign up to receive tax information and updates electronically. Topics include:

- Electronic filing
- Excise taxes
- Sales tax rates

To join our distribution list, [visit our sign up page](#).

Letter rulings

To obtain a binding letter ruling write to:

Interpretations & Technical Advice
Washington State Department of Revenue
PO Box 47453
Olympia, Washington 98504-7453

** Only those letters that contain the name(s) of the party(ies) involved are legally binding.

Other agencies to contact

Other agencies to contact

For help starting your business, a list of appropriate registrations, permits, and requirements, visit Access Washington's [Doing Business in Washington](#).

Agency and information about:

[**Internal Revenue Service**](#)

Information on:

Federal employee withhold Social Security Medicare

[**Business Licensing Service**](#)

Information on:

Business License
Trade name registration

[**Department of Licensing**](#)

Information on:

Fuel tax questions Fuel tax refunds

[**Employment Security Department**](#)

Information on:

Unemployment insurance for employees

[**Department of Labor & Industries**](#)

Information on:

If you employ one or more persons you must apply for industrial insurance coverage with the Washington State Department of Labor & Industries.

[**WA Utilities and Transportation Commission**](#)

Information on:

Common Carrier Permit
Transportation Regulation

[**Secretary of State**](#)

Corporations Division information on:

Articles of Incorporation
Certificate of Limited Partnership Trademarks

[City and county taxing offices](#)

Information on:

If your city or county has business taxes and you are located within the city limits, you will need to register with the city taxing authority, such as the city auditor. Businesses located outside city limits should register with the county taxing authority, such as the county clerk's office. Also, remember to contact your county assessor as soon as your business opens. Businesses are required to report personal property – assets used in the operation of a business – to the assessor. Personal property includes furniture, office equipment, machines, and supplies used in the course of doing business.