

Restocking fees for returned merchandise

What is a restocking fee?

A restocking fee is charged to a customer when merchandise is returned for a refund.

Are restocking fees subject to tax?

Yes. The restocking fee is subject to business and occupation (B&O) tax under the service and other activities classification.

Can a business take a returns and allowances deduction on their excise tax return?

If a business refunds the customer when products are returned, they may take a “returns and allowances” deduction on their excise tax return. The deduction must be claimed under the tax classification of the original sale. The deduction amount is the total credited for the return, not including the restocking fee.

Example

Stan bought a vehicle part from XYZ for \$85. Sales tax on this purchase was \$7.57. Once Stan got home, he realized he purchased the wrong part. Stan returned the part to XYZ and XYZ decided to refund Stan the total amount back but also charged a restocking fee of \$10. The total amount Stan was credited was \$82.75.

- $\$85.00 \text{ (selling price)} + \$7.57 \text{ (sales tax)} - \$10.00 \text{ (Restocking fee)} = \82.57 .

XZY will report the following information on their excise tax return:

- Under the retailing B&O tax classification, the business would claim an \$85 “returns and allowances” deduction.
- For retail sales tax, the business would claim an \$85 “returns and allowances” deduction.
- Under the service and other activities B&O tax classification, the business would report \$10 as their gross income.

References

WAC 458-20-278 - Returned goods, defective goods.



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