

Excise Tax Advisory

Excise Tax Advisories are interpretive statements authorized by RCW 34.05.230.

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Prepaid Telephone Debit Cards

Individuals may purchase telephone debit cards¹ (card) which will allow the user of the card to prepay for future long-distance telephone service. When purchasing the card, the customer is charged a fee based on the number of minutes for which the user is able to access and use long-distance telephone services. In some cases, this card is dispensed through a vending machine. The seller of the card may provide part or all of these services with its own equipment or contract with other service providers to provide some or all of the services to the card holder.

Does the sale of telephone debit cards constitute a retail sale?

Yes. The sale of these cards is a retail sale and may be subject to the retailing business and occupation (B&O) tax and the retail sales tax. In purchasing the card, the customer is purchasing the services that the card represents. In this case, the customer is purchasing prepaid access to transmission services related to voice, data, audio, video, etc. between locations. The sale of this type of service is a retail sale under RCW 82.04.050(5) and RCW 82.04.065.

The seller is subject to retailing B&O tax and must collect and remit retail sales tax when cards are sold to consumers. If the seller does not itself provide the telephone services, but purchases these services from other telephone service providers, these sellers may provide resale certificates (WAC 458-20-102A) prior to January 1, 2010, or reseller permits (WAC 458-20-102) on and after January 1, 2010, to the telephone service provider and will not pay retail sales tax on these purchases for resale. These sellers are the consumers of any equipment and supplies which are used to provide the telephone services or dispense the cards and are subject to payment of the retail sales or use tax on these items. This would include the card vending machines and the cards themselves.

How do I determine the appropriate local sales tax to apply to sales of cards?

¹ This Excise Tax Advisory only applies to those sales of prepaid telephone services through debit telephone cards. Telephone debit cards are distinct from other telephone calling cards which are associated with a specific telephone line located through which the customer receives services, these sales occur at the time the telephone call takes place.

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WAC 458-20-245 provides that sales of long-distance calls are taxable when the call either originates or terminates in Washington. Charges for telephone calls which originate outside Washington and also terminate outside Washington are nontaxable sales. However, at the time of sale of these cards, the seller has no way of knowing if the purchaser will be placing the calls from within Washington or be calling someone in Washington.

For card sales before July 1, 2004:

As a practical solution, the Department will presume that the retail sales tax applies if the customer makes the purchase of the card in Washington or the card is delivered by the seller to the customer in Washington. The place of sale for local sales tax purposes will be the location where the customer makes the purchase and receives the card. For example, if the service is purchased and the card is delivered through a vending machine located in Seattle, the local retail sales tax which applies in Seattle should be collected and the sale coded to that city.

For card sales beginning July 1, 2004 and after:

The sale of these cards will be taxable in accordance the requirements of RCW 82.32.520(3)(c).

How is the sale of expired telephone debit cards taxed?

Some telephone debit cards continue to have value even after the telephone services to which they relate are fully used or have expired because of the graphics displayed on the cards and the limited number issued. These cards are often traded, bought, and sold as "collector items." These transactions are similar to any other sales of tangible personal property and are retail sales when sold or traded to consumers under RCW 82.04.050(1).
