

# Direct sellers/multilevel organizations

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Direct selling (multi-level) organizations sell products to consumers using independent consultants. This tax guide was written to help direct selling (multi-level) organizations understand their tax liability in the state of Washington.

## Tax collection agreements

Generally, each independent consultant selling in the state of Washington is responsible for registering to report business and occupation (B&O) tax and collect and remit retail sales tax to the Department of Revenue. See our tax topics article titled Direct sales independent consultants. However, direct selling organizations may agree to report taxes on behalf of their independent consultants, relieving the consultants of their sales tax remittance obligation and under certain agreements, also relieving their consultants from the obligation to pay B&O tax and litter tax.

While some tax collection agreements differ as to certain details, most agreements outline that direct selling organizations will:

- collect sales tax based on the suggested retail selling price of the merchandise and then remit the sales tax to the Department with the direct selling organization's excise tax return, *and*
- inform their Washington consultants regarding the Tax Collection Agreement and/or information regarding Washington's registration and filing requirements.

The Department offers two standard tax collection agreements to direct sellers and multi-level organizations:

**Collection Agreement for All Taxes:** Under this agreement, the direct selling organization assumes responsibility for collecting and paying the Sales, Use, Litter, and B&O taxes, on behalf of their independent consultants. See Collection Agreement for All Taxes (pdf).

**Collection Agreement without B&O Taxes:** Under this agreement, the direct selling organization assumes responsibility for collecting and paying the Sales, Use, and Litter taxes, on behalf of their independent consultants. In this case, the direct selling organization agrees to disclose to the Department any consultant that has sales or commissions exceeding predetermined thresholds during a calendar year. See Collection Agreement without B&O Taxes (pdf).

## Sales for resale

Direct selling organizations owe Wholesaling B&O tax on sales for resale to independent consultants located in Washington. Direct Selling Organizations that purchase items in Washington for resale must obtain a reseller permit to document the wholesale transaction.

## Commission income

Independent consultants (and direct selling organizations reporting B&O tax on behalf of their independent consultants) owe Service and Other Activities B&O tax on commissions (including prizes, awards and trips) earned as a direct seller's representative.

## Shipping and handling

Shipping and handling charges are considered part of the total selling price and are subject to tax in the same manner as the item sold. See WAC 458-20-110. Therefore:

- If the item purchased or sold is subject to sales tax, the shipping and freight charges are also subject to sales tax.
- If the item purchased or sold is not subject to sales tax (or it is purchased using a reseller permit), then the item (and any applicable shipping and freight charges) are exempt from retail sales tax.



## Use tax

Direct selling organizations are subject to use tax on the retail value of free (incentive based or promotional) products given to independent consultants, party hosts, and/or customers, etc.

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