

# Crowdfunding

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## What is crowdfunding?

Crowdfunding is a way to raise money for a certain project. This process usually takes place online and can reach a large group of people. Individuals or small businesses can set financial goals for each project. Generally, the fundraising goal must be met to collect any money.

## Who participates in crowdfunding?

Crowdfunding participants include:

- **Host** – The host is usually an online platform. **Project creators** post their project on the platform and requests funding for the project. The host receives funds from **backers** and passes them along to the project creator after retaining a hosting fee. If the project doesn't meet its financial goal, some hosts require that the project creators return the funds to the backers. Other hosts allow project creators to keep all funding that is raised.
- **Project creator** – A project creator can be an individual or a business. The project creator posts the project ideas on the host website and asks backers for funding. Project creators set the funding goal and deadline. They may also provide the backers with rewards for funding the project.
- **Backer** – A backer is a business or individual who offers funding to project creators. This group is usually made up of the public, friends, and family. In exchange for helping fund a project, backers may receive rewards from the project creators. These rewards can be anything from a thank you note to books, dinners, event tickets, or anything else.

## What's an example of crowdfunding?

You are a book author. You want to turn one of your books into a movie, so you decide to use crowdfunding to raise money for your project. You decide to reward your backers for offering you money toward this project.

As the project creator, you are responsible to make sure backers get their rewards.

## **I am an individual using crowdfunding to raise money for a personal project. Do I need to register with the Department of Revenue (DOR)?**

If your annual gross income (funding amount before the host fee is deducted) from crowdfunding is more than \$12,000, or you are required to collect sales tax on a reward, then you must register with the department. For more registration information, including additional nexus thresholds, see Apply for a business license.

## **When do state taxes apply to the funding received from crowd funding?**

The project creator needs to report the amounts received in the reporting period when the project is fully funded. For example, if the project is fully funded in December and the project creator reports monthly, then you would report all crowdfunding funds received to that point on your December excise tax return.

If the project is not fully funded and the host allows the project creator to keep all the amounts received, this income becomes taxable at the time the funds are received by the project creator.

## **Do I have to collect and report sales tax when I use crowdfunding?**

Yes, the project creator is required to collect sales tax on the amounts received if you provide retail services (such as meals), digital products or tangible personal property (books, videos, copies of games, etc.) as rewards. You don't have to collect sales tax on items exempt from sales tax (such as prepackaged food items).

We recommend you state, when appropriate, that all pledged amounts include sales tax. Otherwise, we will assume that the pledged amount does not include sales tax.

## **What is the value subject to sales tax?**

The minimum funding amount at each level is the value of the item. Amounts received beyond the minimum funding amount are considered to be donations and are not subject to tax. (See our examples below).

## What sales tax rate do I use?

The sales tax rate is based on where the backer receives the goods or retail services. For example, if a backer in Spokane receives taxable, tangible personal property then you would use Spokane's sales tax rate and location code.

## The host is charging me a fee for their services. Can I deduct this fee?

No. You must report the full funding amount without deducting this fee. This is part of your gross income. The amount kept by the host is a cost of doing business for the project creator and therefore it cannot be deducted.

## What tax classification should you use with crowdfunding?

Your business and occupation (B&O) tax classification is based on the rewards you give your backers.

### General B&O tax classification rules:

- Amounts received for items with no significant value (such as thank you notes, posting a name) **are not** subject to B&O tax.
- Amounts received as bona fide donations (no goods or services provided) **are not** subject to B&O tax.
- Amounts received for providing tangible personal property, digital products, and retail services in Washington **are** subject to B&O tax under the Retailing classification.
- Amounts received for providing non-retail services *are* subject to B&O tax under the Service and Other Activities Classification.

**Note:** If you are a Washington business, your service income (regardless of state boundaries) must be reported on your excise tax return. However, you may be able to apportion your income. You can do this if the business is taxable in another state or country.

### B&O tax classification example

Using the example from earlier, you are a book author. You want to turn one of your books into a movie, so you decide to use crowdfunding to raise money for your project.

The following table lists - for each tier - the donation amount, possible reward(s), which B&O tax classification that would apply, and an explanation of why.

<b>Donated amount</b>	<b>Rewards</b>	<b>B&amp;O tax classification</b>	<b>Why?</b>
Tier 1: \$1	You write the backer a thank you note.	Not taxable	Insignificant value of reward. Amounts more than \$1 and less than the next tier, is considered a donation.
Tier 2: \$5	All the previous rewards and list the backer's name online as a supporter.	Not taxable	Insignificant value of reward. Amounts more than \$5 and less than the next tier is considered a donation.
Tier 3: \$25	All the previous rewards and you give the backer a signed copy of your book.	\$25 Retailing	Sale of tangible personal property. Amounts more than \$25 and less than the next tier is considered a donation.
Tier 4: \$100	All the previous rewards and you invite the backer to a private screening of your movie.	\$100 Retailing	This transaction is a mix of retail (the book is retail) and service transactions. The amount is subject to Retailing B&O tax unless the value of all the previous rewards is less than 10% of the whole award's value. Amounts more than \$100 and less than the next tier is considered a donation.
Tier 5: \$250	All the previous rewards and you invite the backer to a cast dinner.	\$250 Retailing	This transaction is a mix of retail (the dinner is retail if it's held in Washington) and service transactions; the rewards don't have specific prices. The amount is subject to Retailing B&O tax unless the dinner value is less than 10% of the whole award's value. Amounts more than \$250 and less than the next tier is considered a donation.

<b>Donated amount</b>	<b>Rewards</b>	<b>B&amp;O tax classification</b>	<b>Why?</b>
Tier 6: \$500	You invite the backer and two guests to a private screening of your movie, and to cast dinner. Backer also gets a cameo movie appearance.	\$500 Retailing	This transaction is a mix of retail (the dinner is retail if it's held in Washington) and service transactions; the rewards don't have specific prices. The amount is subject to Retailing B&O tax unless the dinner value is less than 10% of the whole award's value. Amounts more than \$500 and less than the next tier is considered a donation.
Tier 7: \$1,000	You buy the backer a place ticket to the movie opening in Los Angeles, and tickets to attend the opening.	\$1,000 Service and Other	Plane ticket and movie opening tickets are not retail transactions. Income taxable under the service and other activities classification is apportionable. Amounts more than \$1,000 is considered a donation.

## Questions about reward values or crowdfunding?

Request a tax ruling.

## References

WAC 458-20-101 – Tax registration and tax reporting

RCW 82.04.050 – Sale at retail

RCW 82.04.290 – Tax on service and other activities

RCW 82.04.4282 – Deductions – Fees, dues, charges (including donations)

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