

Cost reimbursements

Sellers can incur costs (expenses) on the sale of a good or when providing a service to a customer. This can include costs for:

- Materials.
- Labor.
- Delivery.
- Travel.
- Interest.

Sellers may choose to request a cost reimbursement from the customer or include the costs to cover expenses in the selling price.

Are cost reimbursements taxable?

Generally, yes. The amount a seller bills a customer for costs associated with the sale of a good or service are subject to tax, even if the customer agrees to reimburse the seller for the costs.

Amount billed - what is included in the gross income?

The gross income includes the total amount billed for the sale of a good or service, including the amount of cost reimbursements. Deductions for cost reimbursements are not allowed even if amounts are separately stated on the invoice or there is not a 'mark-up' in price for the costs billed.

How to report cost reimbursements?

Cost reimbursements are taxable under the same tax classification used for reporting the sale of a good or service.

Examples

The examples provided below are to be used only as a general guide. The tax results of other situations must be determined separately after review of all the facts and circumstances.

Example 1

Liddle Company hires Design LLC, an engineering firm in Seattle. Paul from Design LLC provides building plans for a construction project, which is in Spokane. Under the agreement, Paul will work on site in Spokane and Design LLC is paid a daily amount to cover his airfare, meals, rental car, and lodging costs while in Spokane.

The gross income from Design LLC's engineering services is taxable under the service and other activities business and occupation (B&O) classification. The gross income from this project includes the costs that Liddle Company reimburses Design LLC for Paul's time in Spokane.

Example 2

Build Co. is a construction company in Kent. The company will perform the construction on the above project in Spokane for Liddle Company. Under the agreement, Larry from Build Co. is reimbursed for fuel to get his equipment to and from the construction site, meals and lodging while in Spokane.

The gross income from Build Co.'s services is generally taxable under retailing B&O tax. The contractor must also collect and report retail sales tax on the gross income. The gross income includes the amount that Liddle Company reimburses Larry to cover his fuel, meals and lodging.

References

RCW 82.04.070 – “Gross proceeds of sales.”

RCW 82.04.080 – “Gross income of the business.”

WAC 458-20-111 – Advances and reimbursements.

WAC 458-20-207 – Legal, arbitration, and mediation services.

WAC 458-20-195 – Taxes, deductibility.



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