



**BUILD  
YOUR  
OWN  
BUSINESS**

# Business Tax Basics Kit

These materials provide you additional information on the top 5 things to know about Washington State business taxes.

## **1. Registration with the Department of Revenue**

### *Who Needs to Pay:*

If your business has gross income of \$12,000 (this means the total amount of money made by the business minus the cost of goods sold) or more per year or your business is required to collect or pay any taxes, then the business is required to file business taxes.

### Ask the following questions:

1. Will the business bring in \$12,000 or more of income per year?
2. Is the business a retail business and therefore required to collect retail sales tax from customers? See section 2 on Retail Tax.
3. Is the business required to collect any special taxes? See the section 3, which covers on industry guides for further information.

If you answered yes to any of the above questions, then your business is required to file for business taxes.

### *How to Register:*

When you apply for a business license with the Department of Revenue, the registration starts the process for to register the business taxes. (Information on applying for a business tax license can be found at: <http://bls.dor.wa.gov/file.aspx> and the BYOB video *How to Apply for a Business License Application*. Once you set up your DOR account, which is needed to apply for a business license, you will have an account to manage your business taxes online.

### *How Business Taxes are Paid:*

Your businesses tax information will be submitted on the Combined Excise Tax Return, which can be accessed through your DOR account or submitted on a paper form. The forms can be accessed online at <https://dor.wa.gov/get-form-or-publication/forms-subject/excise>.

## **2. Types of Taxes**

### *Business and Occupations Tax (B&O)*

Every business is subject to B&O tax. B&O tax is assessed on the gross receipts (this means the total amount the business receives from all sources during its annual accounting period, without subtracting any costs or expenses). The B&O tax is paid directly by the business. The B&O tax will

differ based on the industry of the business and the location; to see a list of classifications go to: [http://dor.wa.gov/Content/FileAndPayTaxes/BeforeIFile/doingBus\\_CommonBusActivities.aspx](http://dor.wa.gov/Content/FileAndPayTaxes/BeforeIFile/doingBus_CommonBusActivities.aspx) and to see tax rates go to: <http://dor.wa.gov/Content/FindTaxesAndRates/BAndOTax/BandOrates.aspx>. The business can choose to pay taxes monthly, quarterly or annually. There are state B&O taxes and some cities also apply an additional B&O tax. While the additional charge is small, it is important to comply with all necessary B&O taxes. For information on local taxes go to <https://dor.wa.gov/get-form-or-publication/publications-subject/tax-topics/city-bo-tax-question>.

### *Retail Sales Tax*

Any retail facing business must collect retail sales tax from its customers at the time of sale.

A retail sale is every sale of a tangible or digital product. It also includes the sale of services such as installation, repair, cleaning, altering, improving, construction, and decorating. Other services include improving real or personal property, amusement and recreational activities, lawn maintenance, and physical fitness activities. For more information go to: <https://dor.wa.gov/find-taxes-rates/retail-sales-tax#Whatis>.

When the business collects the retail tax from the customer, those funds are considered “trust funds” of the state and must be readmitted to the Department of Revenue. If you or your employees forget to charge a customer the retail tax on a sale, the business is still required to pay the retail sales tax on the purchase.

### *Use Tax*

A use tax is paid by the consumer when there was no retail tax charged at the time of purchase. Use tax is most common when items are purchased from a state that does not charge retail sales tax (like Oregon) and then used for the business in a state that imposes use tax (like Washington).

This issue would come up during an audit and there was no indication that taxes were paid on the sale. Keeping good records to account for all purchases and if taxes were paid at the time of sale is very important to prevent fines and penalties during an audit. This information should also be recorded on the Excise Tax Return.

### *Personal Property Tax*

Property tax is administered by the county accessor and treasurer. For information on where to pay property tax go to: <https://dor.wa.gov/find-taxes-rates/property-tax/pay-my-property-tax-or-appeal-my-property-assessment>. Property tax items are listed on the Personal Property Listing Form due by April 30<sup>th</sup> of each taxable year.

There are two types of personal property tax: 1) land property and 2) personal property. Land property is also known as real property and is for the land, structures, equipment affixed to the land or improved made to the land, which is owned by the business. Personal property tax is for large items that can be moved such as furniture, machinery and equipment (including computers). Inventory is not included for personal property tax.

### *Payroll Taxes*

The first thing to think about when hiring someone is if the person is a contractor or employee. This classification will affect what taxes the business must pay and if payroll taxes are required. For help on classifying workers go to: <https://www.esd.wa.gov/employer-taxes/independent-contractors>.

For employees, the business is required to have workers compensation insurance, administered by Labors and Industries (L&I). This registration is triggered when you apply for your business license and indicate that the business will hire employees. The L&I will then contact you about the next steps. If you don't indicate that the business is hiring employees, you will need to reapply for a Business License, once you start hiring employees. For more information go to: <http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/Open/Existing.asp>. The business is also required to pay unemployment insurance taxes, administered by the Employment Security Department. This tax requirement is also triggered by the business license registration. For information regarding unemployment taxes go to: <https://www.esd.wa.gov/employer-taxes/register-your-business>.

All contractors who are paid \$600 or more per year should receive an IRS form 1099 from the business. A good practice is to receive a W-9 when a contractor starts working with the business and then the business will have the necessary information to issue a 1099 form, if needed. For information from the IRS on paying contractors go to: <https://www.irs.gov/businesses/small-businesses-self-employed/forms-and-associated-taxes-for-independent-contractors>.

## **3. What Affects Taxes?**

### *Industry*

Some industries and products have special taxes. Some commonly known special taxes are alcohol and cigarettes tax, but there are many special taxes that may apply to your business. The video includes an example of the Industry guidelines for Beauticians. As shown below, Beauticians are subject to wholesale B&O tax, litter tax and use tax. The guidelines also provide resources for licensing that may be required and necessary tax return forms go to: <http://dor.wa.gov/Content/DoingBusiness/BusinessTypes/Industry> to see the full list of industry guides.

## **Beauticians**

- [Definitions](#)
- [Service and Other Activities Business and Occupation \(B&O\) Tax Classification](#)
- [Retail Sales Tax/Retailing B&O Tax](#)
- [Wholesale B&O Tax](#)
- [Litter Tax](#)
- [Use Tax](#)
- [Chair and/or Booth Rental](#)
- [Specific Licensing Required](#)
- [Tax Exercise](#)
- [Sample Tax Return "A" \(pdf\)](#)
- [Sample Tax Return "B" \(pdf\)](#)

### Exemptions

Exemptions apply to businesses that may qualify for deductions or an elimination of certain taxes, such as B&O Taxes. The following types of businesses are considered “exempt organizations”:

- Nonprofits
- Government
- Financial
- Farming

To see if your business may qualify for an exempt tax status or to learn more about these exempt business go to: [a.%09http://dor.wa.gov/Content/DoingBusiness/BusinessTypes/Industry](http://dor.wa.gov/Content/DoingBusiness/BusinessTypes/Industry).

### Credits

Credits can lower your tax liability. The credit that is most likely to apply to small business owners is the Small Business B&O Tax Credit. If the business is a service business and has gross receipts under \$56,000 or is a retail business with gross receipts under \$178,556, the business may meet the criteria for the Small Business B&O Tax Credit. If you meet the criteria, the credit will offset the B&O tax and no B&O will be due! If you file online, the B&O tax credit will be automatically calculated. More information can be found in the Industry Guidelines go to:

[a.%09http://dor.wa.gov/Content/DoingBusiness/BusinessTypes/Industry](http://dor.wa.gov/Content/DoingBusiness/BusinessTypes/Industry).

### Reseller Permits

If you are in a business that buys products or inputs, modifies them, or sells them as is, a reseller permit will lower your tax liability. In a retail business, the retail tax is only intended to be paid by the end user. However, if your business is purchasing a product that is sold again in your business, the retail tax would be paid twice. With a reseller permit, you would present the permit to the business you are purchasing the product from and then you would not be charged retail sales tax. Here’s a chart to explain the difference:

Without Reseller Permit	With Reseller Permit
<ol style="list-style-type: none"><li>1. Business buys t-shirt from wholesaler.</li><li>2. Wholesaler charges business sales tax.</li><li>3. Business sells t-shirt to customer.</li><li>4. Customer pays sales tax.</li></ol> <p>Tax is paid 2 times!</p>	<ol style="list-style-type: none"><li>1. Business buys t-shirt from wholesaler.</li><li>2. Business provides <u>reseller permit</u> to wholesaler.</li><li>3. Wholesaler verifies permit.</li><li>4. Business makes purchase with <u>no sales tax</u>.</li><li>5. Business sells t-shirt to customer.</li><li>6. <u>Customer pays sales tax</u>.</li></ol> <p>Tax is now only paid 1 time, saving the business money!</p>

For more information on reseller permits go to: <https://dor.wa.gov/find-taxes-rates/retail-sales-tax/reseller-permits>

## **4. Audits**

Business tax audits are common in Washington State. The audit will cover the last four years of business records. This is one of the many reasons that record keeping is very important. If you don't have accurate records, there can be fines and an accumulation of unpaid taxes. What makes a finding in an audit worse is that those fines can be applied to all activities in the business. You will need your records to prove that you have paid the necessary taxes. Remember that if you are audited and you don't agree with the findings, you have a right to appeal. For more information on auditing go to: <https://dor.wa.gov/doing-business/audits/audit-process-questions>.

## **5. Consult with a CPA or Bookkeeper**

A CPA is "Certified Public Accountant" who has taken extensive classes related to accounting and is licensed, which required the CPA to be up to date on current tax laws. Some CPAs do both bookkeeping and accounting, but CPAs are generally more expensive to work with due to their expertise.

Bookkeepers can help set up and maintain your record keeping system for all business transactions, and help with payroll. There are also many different types of software to help you with your bookkeeping needs. Do some research online to see what best fits your needs. If a software you are interested in or using seems confusing, working with a professional can be a great way to help you learn the system and then allow you to manage the businesses finances on your own.

When it comes to questions about the taxes that effect your business, a CPA will be able to help you. As we've gone over parts of the resources, the WA Department of Revenue provides many resources that will help you handle your business taxes go to: <https://dor.wa.gov/>.