Washington State
Department of Revenue

Nonprofit Organizations

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Discussion Topics

• Overview – nonprofits and tax
• Specific tax exemptions for nonprofits
• Recent law change from resale certificates to reseller permits
Taxpayer Rights

- Timely, fair, and equitable treatment with dignity and respect
- Accurate written information on reporting instructions, appeal procedures, refund claims, and reasons for assessment
- Confidentiality of financial and business information

Taxpayer Responsibilities

- Know your tax reporting obligations and seek instructions when you are uncertain
- Keep accurate and complete business records
- File returns and pay your taxes in a timely manner
Washington’s Tax Structure

- No income tax
- Property tax
- Excise tax
  - Business and occupation (B&O) tax
  - Retail sales tax
  - Use tax

Nonprofit Organizations

- Generally taxed like any other business
- Must collect sales tax on retail sales (except sales as part of a qualifying fundraising activity)
- Must pay sales tax or use tax on all goods and retail services purchased as consumers
- Unless the law provides a specific exemption
Registering with DOR

Must register with DOR if:

- Engage in any activity that requires you to collect sales tax; or
- Receive $12,000 or more annual gross receipts from sales or services subject to B&O tax

Note: Not required to register if you only conduct tax exempt fundraising activities

Registering with DOR

- Complete Master Business Application
  - In addition to registering with Secretary of State
- Your Unified Business Identifier (UBI) number
  - Becomes your tax reporting/tax registration #
The law provides limited tax exemptions for nonprofits:

- **Income earned by an “Adult family home” - B&O tax** (RCW 82.04.327)
- **Camp/conference centers property tax exempt – B&O/sales tax** (RCWs 82.04.363 and 82.08.830)
  - Rooms, parking, license to use real property
  - Food & meals
  - Books, tapes, etc. not available to general public
- **Child care referral/resource services - B&O tax** (RCW 82.04.3395)
- **Specialized credit/debt services - B&O tax** (RCW 82.04.368)
- **Daycare by property tax exempt churches –B&O** (RCW 82.04.339)
- **Student loan services** (RCW 82.04.367)
- **Health & Social Welfare organization receiving Government payments** (RCW 82.04.4297)
Tax Exemptions for Nonprofits

General exemptions include:

- **Contributions** (grants, donations, endowments, gifts, awards and any other transfer of money/property) but only when the donor receives no significant goods, services or benefits in return. (RCW 82.04.4282)

- Certain **fundraising** activities (RCW 82.04.3651, RCW 82.08.02573)

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Fundraising Exemption

- Organizations exempt from federal tax under Section 501(c)(3), (4) or (10);
- Nonprofit organizations that would qualify for tax exemption under these codes except that it is not organized as a nonprofit corporation; or
- Nonprofit organizations meeting all of the following criteria:
  1. Members, stockholders, officers, directors, or trustees of the organization do not receive any part of the organizations’ gross income, except as payment for services rendered,
  2. Compensation received by any person for services rendered does not exceed a reasonable amount, and
  3. Activities of the organization do not include a substantial amount of political activity.
Qualifying Fundraising Activities

- Directly soliciting money or other property, or selling goods or services to further the nonprofit organization’s goals.
- Does not include operating a regular place of business:
  - Bookstore, gift shop do not qualify.
  - Food booth at fair for 2 wks/yr qualifies.

Washington’s change from resale certificates to

Reseller Permits
The transition to reseller permits

- Why the change?
- How to get a permit
- How to use a permit
- Resources

Senate Bill 6173

- Eliminated resale certificates
- Effective January 1, 2010, businesses may no longer accept, honor or use resale certificates
- Must use a permit issued by DOR
- Permits are free
- Issued only to businesses that make wholesale purchases
Why the change?

Misuse of self-issued resale certificates costs the state over $100 million dollars in lost revenue each year

- Anyone can download the form, fill it out and make purchases without paying sales tax
- Some don’t know the law and use it to buy everything for their business/organization

How is the reseller permit different?

- Changes process from “an honor system with audits” to a managed system with oversight
- Reseller permits: issued by the Department to qualifying businesses
- Permits can be verified online (available 1/1/2010)
- The Department will continue to examine wholesale activities during audits
Eligible for a reseller permit
Retailers, Wholesalers, Manufacturers
✓ Actively reporting income
✓ No documented misuse of resale certificates

Nonprofit Organizations
✓ Engaging in qualifying fund raising activities

Apply for a permit
Get an application:
• Online at dor.wa.gov
• Call 1-800-647-7706
• Apply online through “My Account”

please allow up to 60 days
Required information

Application requires:

• Tax registration number
• Description of activity
• Description of items to be purchased
Use the permit to buy

- Merchandise & inventory that you sell
- Ingredients, components, or chemicals used to process new products for sale
- Materials and contract labor for retail/wholesale construction projects
- Feed, seed, fertilizer, and pesticides (farmers only)
**Don’t use permit to buy**

- Items for personal or household use
- Items for business use (office supplies/equipment, furniture)
- Promotional items or gifts
- Tools, equipment, or equipment rentals
- Materials and contract labor for speculative construction projects, federal government projects or public road construction

**What if I don’t qualify for a permit but on occasion buy goods to resell?**

- Pay sales tax on your purchases and
- Recover the tax you paid on qualifying purchases
  - Take a “Taxable Amount for Tax Paid at Source” deduction on your excise tax return, or
  - Request a refund from the Department
Use Tax

- Companion to sales tax on goods acquired for use in Washington
- When sales tax is not paid, use tax is due
- Generally, the buyer must pay directly to Department of Revenue
- Value is taxable amount, including delivery costs
- Rates same as sales tax, based on location of first use in Washington

Use Tax Examples

- Purchases from out-of-state vendors
- Furniture, fixtures and equipment that are purchased with an existing business
- Equipment used on construction jobs
Use Tax
Exemptions, Credits & Exclusions

- Trade-ins
- Credit for sales or use tax paid in another state
- Donations to nonprofits
- Personal affects of new residents
  - Furniture/household goods
  - Automobiles
  - Clothing

Additional Assistance

- 12 local office locations
- Washington State Department of Revenue
  Taxpayer Information & Education Section
  PO Box 47478
  Olympia, WA  98504-7478

1-800-647-7706
Web Site: dor.wa.gov

- Overview of Washington taxes
- Electronic filing (E-file)
- Tax Rate Lookup Tool (GIS)
- State business records database
- Unclaimed Property database
- Taxpedia
- Search publications, rules and laws

More information

Web: dor.wa.gov
Phone: 1-800-647-7706
E-mail: communications@dor.wa.gov

You may also request a written ruling or contact us at:
Department of Revenue
Taxpayer Services
PO Box 47478
Olympia, WA 98504-7478
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Questions?