



MCDONALD JACOBS

ACCOUNTANTS & CONSULTANTS

Strength in Numbers

August 2010

This letter is to inform you about significant changes in the way the State of Washington taxes business activity that could affect your business. Washington has a Business & Occupation Tax (B&O tax) which is similar to a sales tax on services. It is assessed on gross receipts and not on net income. Washington does not have an income tax.

Effective June 1, 2010 there is a new standard for taxing service and royalty income whether or not your business is located in Washington State. Under the prior rules, you generally were not subject to B&O tax unless you had some physical presence in Washington. Normally, that physical presence would have been created when employees (or owners) of your company entered Washington and performed services in Washington.

In a search for more dollars, Washington has thrown out that standard and the new rules have an "economic" nexus standard as opposed to a "physical presence". Nexus is the minimum amount of activity to create the ability for a state to assess taxes.

This means that if you have a client with business activity in Washington and you perform services for that client, then you may meet the new "economic" standard and be subject to B&O tax. For example, if your business is in Oregon and all work is performed in Oregon, but the client is in Vancouver, Washington and therefore the client derives the economic benefit from your services in Washington, you must now file B&O tax in Washington.

Your business may be affected by the new economic standard if your business earns:

- Income from performing professional services, including advertising, information technology, investment services, legal services, accounting, engineering, or design.
- Loan interest and fees, including such amounts related to mortgage loans, business loans, personal loans, credit cards etc.
- Royalties, including franchise fees, copyrights, patents, etc.
- For a full list of business activities subject to the new economic nexus standard, go to <http://dor.wa.gov/economicnexus>.

There are de minimus rules, however. If your business earns qualifying income attributable to Washington **and exceeds one** of the following thresholds, you have economic nexus with Washington:

- More than \$50,000 of payroll in Washington
- More than \$50,000 of property in Washington
- More than \$250,000 of gross income in Washington
- At least 25 percent of your total property, payroll, or income in Washington

If you have economic nexus, you must register your business with the Washington State Department of Revenue and report and pay Washington B&O tax. Filing the returns is fairly straightforward.

If you have questions, you can contact us to assist with analyzing whether you meet the new economic nexus standard and how to report B&O taxes. You can also review the rules at the Washington Department of Revenue website <http://dor.wa.gov/economicnexus>, email questions to communications@dor.wa.gov or call 1-800-647-7706.

Regards,

McDonald Jacobs, P.C.

McDonald Jacobs, P.C.