WASHINGTON STATE USE TAX ON TRACTORS AND TRAILERS THAT CROSS STATE LINES

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Motor carriers that have ICC certificates may purchase tractors, trailers and components without paying sales tax by simply producing their certificate at the time of purchase. But that is only the first step in qualifying for tax exempt or tax deferred treatment from the Washington State Dept. of Revenue. The next hurdle is use tax. Use tax, which is the same rate as sales tax, is due from the users of tangible personal property when sales tax has not been paid on the purchase unless the user continues to qualify for tax exempt treatment.

Motor carriers with ICC certificates do not automatically qualify for exemption from use tax. They must continue to substantially use their equipment, for hire, in interstate hauls during each calendar year to retain the exemption and they must properly report to the Department of Revenue. WAC 458-20-17401 lays out very specific and ongoing requirements for the interstate exemption. The rule only applies to carriers holding ICC certificates and to equipment used "in substantial part" for transporting persons or property for hire across State boundaries.

"In substantial part" according to the rule means that a tractor or trailer for which exemption is claimed actually crosses Washington boundaries a minimum of twenty-five percent in interstate hauling for hire. There are three stated ways to measure the 25% test: Actual crossings of State boundaries (measured by trips); mileage (measured by hauls within and without the State); and revenues (measured by comparing interstate for hire revenues generated by the particular motor vehicle or trailer to the total for hire revenue generated). The rule also allows any other method if approved in advance and in writing by the department.

Interstate usage will be reviewed on a calendar or fiscal year basis and applies fleet-wide. Once a method is chosen, it can't be changed without the Department's permission. Motor carriers must keep appropriate records and determine qualification for the use tax exemption for each individual truck and tractor. Similar records may be kept for each individual trailer but if a carrier has no system of tracking interstate usage a carrier may elect to determine the use tax liability on the basis of tractor usage.

The value of the motor vehicle or trailer subject to the use tax is its fair market value at the time of first use within the review period for which the exemption cannot be maintained. The use tax exemption requirements are essentially the same for leased vehicles as for purchased vehicles, however, there are specific rules for leases. The interstate exemption for component parts will apply even if the parts are for use on a motor vehicle or trailer which is used less than twenty-five percent in interstate hauls for hire. Note that there is no exemption for equipment, tools, parts and accessories which do not become a component part of a motor vehicle or trailer used in transporting persons or property for hire and for consumable supplies.

If you are interested in learning more about this subject, please contact Mike Jonson at mike@jonson-jonson.com or Richard Jonson at richard@jonson-jonson.com

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