

# This Week in State Tax (TWIST)

March 17, 2025



## Washington State: Reimbursements to Towing Service Qualify for B&O Pass-through Treatment

The Washington State Board of Tax Appeals (Board) held that reimbursements for payments a taxpayer made to third parties were not subject to Washington Business and Occupation (B&O) tax. The taxpayer, a towing company, was contracted by its customer, an automobile auction business, to transport damaged vehicles from third-party facilities to auction locations. Pursuant to the contract, the taxpayer paid the third-party facilities for the release of the vehicles (e.g., for repairs, storage, etc.) and was subsequently reimbursed by the customer for such payments. The taxpayer reported and paid B&O tax on amounts it was paid by its customer for its towing services but not on the release payment reimbursements received from the customer. Regulations adopted by the Washington Department of Revenue (Department) exempt “advances” and “reimbursements” from B&O tax so long as the customer is solely liable for the underlying payment obligation, and the taxpayer is not liable for such payment other than as its customer’s agent.

On audit, the Department assessed tax on the release payment reimbursements. The Administrative Review and Hearings Division rejected the taxpayer’s appeal, citing the taxpayer’s use of its own checks to make the release payments (indicating that the taxpayer was personally liable for such payments), and the express disclaimer of an agency relationship between the taxpayer and the customer in their contract.

The Board was unpersuaded by these positions, finding instead that the taxpayer acted solely as its customer’s agent in making the release payments to third-party facilities. The customer expressly authorized the taxpayer to make such payments on its behalf by providing the taxpayer with written direction on the vehicles to be retrieved and the amounts of the release payments. Also, based on their interactions with the customer prior to the taxpayer’s retrieval of the vehicles, the third-party facilities presumably knew the customer was the principal authorizing the taxpayer to act as its agent in making the release payments. Finally, as the taxpayer did not itself procure any materials or services from the third-party facilities (but rather paid for them on the customer’s behalf), the taxpayer did not have any payment obligation to the third parties separate from its obligation to its customer. Based on these findings, the Board concluded that the taxpayer’s release payment reimbursements were not subject to B&O tax. For further information on [IST Solution, Inc. v. Washington Department of Revenue](#), contact [Michele Baisler](#).

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