



Dear Customer:

The definition of taxable retail sales has been recently defined and we are obligated to ensure that we are properly charging sales tax. Please take time to read the following explanation of why rental equipment is considered by statutory definition as a taxable.

Rental equipment used by a contractor is considered by the government as a retail purchase of time. Many building contractors are questioning their need to pay sales tax on "rented equipment".

Question: "I'm a building contractor. Do I need to pay sales tax on the equipment I rent to use on a job? I'm already charging my customer sales tax."

Answer: Yes. You must pay sales tax on equipment you rent, even though you charge your customer sales tax on the contract. This is because you are using the equipment to perform the job you were hired to do, much like the purchase and use of a hammer or other tools. You are not re-renting or re-selling the equipment to your customer, it does not become a part of the finished product, nor will you leave the equipment with your customer when you have completed the job. You are the consumer of the rented equipment. As the consumer, you owe the sales tax.

The sales tax you pay should be included in the contract price charged to your customer as a cost of doing business. See [WAC 458-20-211](#)

Rented equipment is the same as an outright purchase because a rental agreement is like a series of purchases. Each rental period, you "purchase" the equipment to use for a short period of time. These "purchases" (tools or rented time to use tools) are part of your overhead. For this reason, you are the consumer and retail sales tax is due.

"There is no double taxation when you look at the transactions involved."

- As a contractor, you are hired to perform a construction job. You make a bid to your customer, the consumer, which covers your costs, special tools you may need to purchase or rent (making you the consumer at this point) and provides a profit.
- You add sales tax to your cost for services your cost of overhead and your profit. This is what your customer purchased.
- The government considers your rental of the equipment and your contract with the customer as two different transactions. Retail sales tax is due on each transaction.

If you have further questions, please feel free to contact our local store. Once again we wish to thank your for your patronage. We are happy to serve you in all your equipment needs. If we do not have the equipment you need, we will help you locate it.

Sincerely,

Birch Equipment Company, Inc.
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The above definition of rental equipment as being taxable was published by the Washington State Department of Revenue, Tax Topics*. June, 1993, page 11. titled "Questions & Answers" * Tax Topics is a quarterly publication. See also www.dor.wa.gov.