

IT Products

State Agency Purchases

John Wack, May 25, 2017

Topics

1. Computer system purchases
2. Digital products and remote access software
3. Vendors
4. Questions

Computer System Purchases

- Hardware
- Software
- Computer systems



Hardware

Purchases of the following are subject to sales or use tax:

- Hardware
- Installation, repairs, or maintenance of hardware
- Maintenance agreements / extended warranties related to hardware

Software

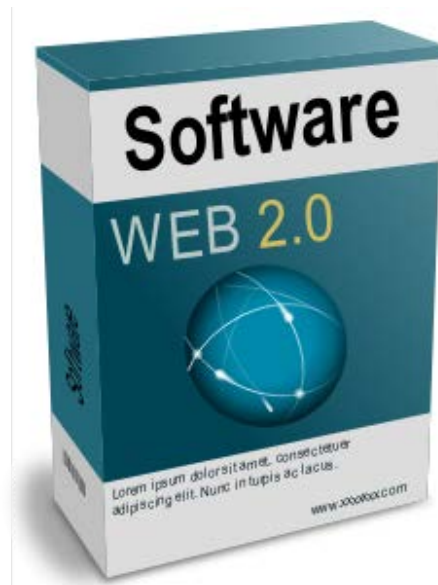
Purchases of the following are subject to sales or use tax:

- Pre-written computer software
- Routine installation of pre-written computer software
- Pre-written computer software updates, upgrades, patches, and keys
- Maintenance agreements for pre-written computer software that includes updates or upgrades

Software

Purchases of the following are not subject to sales or use tax:

- Custom computer software (one unique user)
- Customization of software (both pre-written computer software and custom computer software)



Computer Systems

What is a computer system?

- Hardware: servers, cable and wiring, networks
- Pre-written computer software and/or custom software
- Implementation services
- Other services

Computer Systems

Purchases of the following are subject to sales/use tax:

- Computer hardware, systems, and networks
- Installation of cable and wiring
- Pre-written computer software and applications
- Routine installation of pre-written computer software
- Repair or maintenance of computer hardware
- Pre-written computer software maintenance agreements including updates or upgrades
- Digital products and remote access software

Computer Systems

Separately stated charges for **implementation related** services are not subject to sales/use tax. Examples:

- Customization/configuration of pre-written computer software
- Non-routine installation of pre-written computer software
- Data preparation and conversion
- Project management
- System design and development
- Performance assessment
- Quality assurance services
- System architecture
- Development of project definition and scope
- Programming (code writing)

Computer Systems

Separately stated charges for the following **other services** are not subject to sales/use tax. Examples:

- Business process re-engineering
- Technical writing
- Assisting with network operations and support
- Technology support
- Helpdesk services
- Custom software and related services
- Website design services
- In-person training
- Network system support services
- Consulting services
- Data entry services
- Data processing services

Computer Systems

Help:

- See our online quick reference guide – Taxability of IT Products and Services
- Request a ruling from the Department of Revenue

Digital Products and Remote Access Software



Digital Products

What is this legislation?

- ESHB 2075 and SHB 2620 are a broad tax imposition bills that tax the use or enjoyment of digital products and remote access software with specific exclusions and broad exemptions for businesses and consumers.
- Effective July 26, 2009

What is a digital product?

- Digital goods
- Digital automated services

Digital Products

What is a digital good?

- Sounds, images, data, facts, or information transferred electronically
- Examples: Music, movies, games, video, graphics
- Does not include representations of personal services in electronic form that primarily involves the application of human effort that originates after the customer request for the service (engineering report)

Digital Products

What is a digital automated service?

- Any service transferred electronically that uses one or more software applications
- Examples: Photo sharing service, online searchable databases, Car history reports
- Does not include any service that primarily involves the application of human effort that originates after the customer request for the service

Digital Products

What is remote access software (RAS)?

- The right to access and use prewritten computer software, where possession of the software is maintained by the seller or a third party (application service provider)

Digital Products

Taxability of digital products and RAS

In general, digital products and RAS are subject to sales or use tax, unless an exclusion or exemption from retail sales applies.



Digital Products

Examples of DAS or RAS

- Security platforms
- Filtering engines
- Sender intelligence
- Spam reporting service
- Anti-spam plug-in
- Active filters
- Domain name registration

Digital Products

The following are not retail sales (not DAS or RAS)

- Bandwidth
- Internet access
- Managed support (via e-mail, telephone, live chat, and ticket systems)
- Assisting with network operations and support
- Helpdesk services
- Domain name system (DNS) hosting
- Email hosting
- File synchronization service
- Application specific hosting
- Website hosting
- Troubleshooting
- Basic analysis
- Technical support and productions services (not repairs)

Digital Products

Exclusions from retail sales

- Advertising services
- Data processing
- Payment processing
- Online market place services
- Primarily human effort
- Mere storage, web hosting, and backup
- Certain online education programs
- Live presentations

Digital Products – Advertising Exclusion

Advertising services include:

- Layout
- Art direction
- Graphic design
- Mechanical preparation
- Production supervision
- Placement
- Rendering advice to a client concerning the best methods of advertising that client's products or services.
- online referrals
- search engine marketing
- lead generation optimization
- web campaign planning

- continued

Digital Products – Advertising Exclusion

Continued:

- the acquisition of advertising space in the internet media
- the monitoring and evaluation of web site traffic for purposes of determining the effectiveness of an advertising campaign.

Digital Products – Advertising Exclusion

Examples of qualifying advertising:

- Online banners
- Email blasts used for promotion
- Using mobile, SMS, and media to pass on information
- Email and social media marketing
- Search engine optimization
- Collecting, measuring, and analyzing web traffic
- Form integration
- Surveys

Digital Products – Advertising Exclusion

Examples of non-qualifying advertising:

- Email blast services intended to merely inform rather than persuade (government function)
- Used for non-marketing services, such as security

Digital Products – Data Processing Exclusion

Definition of data processing:

A primarily automated service provided to a business or other organization where the primary object of the service is the systematic performance of operations by the service provider on data supplied in whole or in part by the customer to extract the required information in an appropriate form or to convert data to usable information.

Digital Products – Data Processing Exclusion

Data processing examples:

- Check processing
- Image processing
- Form processing
- Survey processing
- Payroll processing
- Claim processing

Digital Products – Payment Processing Exclusion

Payment Processing

- Credit card processing
- Pay pal

Digital Products – Market Place Exclusion

What are online market place services?

Services that allow the person receiving the services to make online sales of products or services, digital or otherwise, using either:

- The service provider's web site; or
- The service recipient's web site, but only when the service provider's technology is used either to:
 - Create or host the service recipient's web site; or
 - Process orders from customers using the service recipient's web site.

Digital Products – Human Effort Exclusion

Primarily Human Effort:

Any service that primarily involves the application of human effort by the seller, and the human effort originated **after the customer requested the service**

Digital Products – Human Effort Exclusion

Examples of qualifying exclusions:

- Electronic engineering report
- Architectural services
- Tax return filing (by a tax professional)

Digital Products – Storage and Backup Exclusion

Definition:

The **mere** storage of digital products, digital codes, computer software, or master copies of software. This exclusion from the definition of digital automated services includes providing space on a server for web hosting or the backing up of data or other information

Digital Products – Online Education Exclusion

Online educational programs provided by a:

- Public or private elementary or secondary school; or
- An institution of higher education

Digital Products – Live Presentations Exclusion

Definition:

Live presentations, such as lectures, seminars, workshops, or courses, where participants are connected to other participants via the internet or telecommunications equipment, which allows audience members and the presenter or instructor to give, receive, and discuss information with each other in real time.

Digital Products

Sales/Use tax exemptions:

- Digital product available free of charge
- Digital goods purchased for business purposes (not available for government)
- Public records
- Multiple points of use (includes RAS and software)

Digital Products

Help

- dor.wa.gov/digitalproducts
- WAC 458-20-15503

Vendors

Working with IT contractors

Signs that your out-of-state IT contractor needs to be registered with the DOR:

- Retail sales of computer systems or services
 - Office or employees in Washington
 - Meetings with you in Washington
 - Contractor responsible for installation
- Non retail sales of services
 - Office or employees in Washington
 - Revenue from project is at least \$267,000

Assistance

General assistance

- Call center – 800-647-7706
- Rulings (contact us)

Your contact – John Wack

- Telephone – 360-705-6658
- Email – johnw@dor.wa.gov

Questions?

