

WASHINGTON STATE DEPARTMENT OF REVENUE



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For more information, contact:  
Mike Gowrylow  
(360) 570-6048

**New Law Clarifies Taxation of Digital Products**

**Olympia, Wash.,** May 19, 2009 —Taxation of digital products, ranging from streaming video to online newsletters, is being clarified under a new law taking effect July 26.

Engrossed Substitute House Bill 2075 updates Washington’s tax laws for the digital age by specifying when products are subject to sales tax. The legislation addresses the evolution of products such as video, music and newsletters, from tangible products to computer bits.

The legislation stems from the findings of the legislatively mandated Committee on the Taxation of Electronically Delivered Products. The committee of business and government representatives recommended that the state update its laws so goods and services are taxed the same way regardless of how they are delivered to customers.

Some digital products, such as downloaded digital music, are already taxed under current law just like compact discs are taxed when purchased in a store. However, the tax laws were less clear about new types of transactions, such as purchases of streaming video or online gaming subscriptions. The new technology-neutral law clarifies how activities are taxed and treats all purchases the same way, leveling the playing field between online merchants and traditional brick-and-mortar stores.

The new law allows businesses that sell digital products, including certain services, to pay the lower business and occupation tax retailing rate rather than the higher services rate for selling products not subject to sales tax.

Many purchases of digital products will qualify for an exemption. For example, digital products purchased for resale, incorporated as an ingredient or component of a new product for resale, and given away will not be subject to sales or use tax.

More information is available at <http://dor.wa.gov/digitalproducts>.

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