Study Committee’s Vision & Goals

- Simplicity and fairness
- Revenue neutral
- Conforms with Streamline Sales and Use Tax Agreement (SSUTA)
- Neutrality regardless of industry, content and delivery method while taking the purchase of underlying property rights into consideration
- Consideration given to the potential revenue impact of potential changes to the tax base
- Consideration given to impact of pyramiding business inputs
- Maintain or enhance the competitiveness of businesses located in Washington
- Maintain certainty, consistency, durability, and equity despite changes in technology and business models

Outline of the Key Elements of Proposal

**Focuses on services and products delivered so that it can last over time with minimum tinkering.** This requires neutral and fair imposition which recognizes the ever changing and expanding digital marketplace.

**Limits the tax system’s effect on consumer decisions.** This proposal ensures that similar products and services are taxed in the same method so taxation does not drive consumer choice.

**Help Washington businesses remain competitive.** This proposal includes a reduction in B&O tax for items that are currently considered digital services that are sold to out-of-state customers. It also provides exemptions to address potential pyramiding issues with the Sales & Use tax associated with digital goods.

**Clearly delineates how sourcing will be determined to conform with SSUTA.**
How the proposal works and specific issues it addresses

Under this proposal, digital goods are treated as an entirely new tax category, which includes but is not limited to video, remote access software, music and digital books, and other web-based products.

Transactions involving digital goods would be treated as retail Sales & Use transactions. This means that intrastate sales to the end consumer of the digital good would be assessed at the locally sourced Sales & Use tax rate and that the retail B&O tax rate of .471% would apply.

Sales & Use tax would not be assessed on sales from Washington companies to out-of-state customers.

Reclassifying “digital services” as “digital goods” would result in a B&O tax rate reduction for what are currently considered digital services sold to out-of-state customers. Under this proposal, the B&O tax that would be collected for any digital goods sold to a Washington customer (intrastate retailing) would be .471% rather than the 1.5% that currently applies to digital services.

Examples of how similar services are taxed under the current system

Video rentals vs. downloading video streams, and on-demand video purchases.

DVD rentals from a local store. Currently classified as a retail sale. Sales & Use tax applies; retail B&O rate of .471% applies.

Renting a DVD from a DVD mailing service. Currently classified as a retail sale. Sales & Use tax applies; retail B&O rate of .471% applies.

Purchasing a video download via a web-based service. Currently classified as a retail sale. Sales & Use tax applies; retail B&O rate of .471% applies.

Purchasing a streamed video via a web-based service. Currently classified as a service. Sales & Use tax exempt; and Service B&O tax rate of 1.5% applies.

Purchasing an on-demand video from a cable provider. Currently classified as a service. Sales & Use tax exempt; Service B&O tax rate of 1.5% applies.

This proposal would treat all of the products mentioned above as digital goods. Under the new proposal, Sales & Use tax would apply to intrastate transactions and the retail B&O tax rate of .471% would apply. Sales & Use Tax as well as B&O tax would not apply to transactions between in-state companies and out-of-state consumers.
Software purchased at a local store vs. downloadable software and web-based services

Purchasing income-tax preparation software from a local store. Currently classified as a retail sale. Sales & Use tax applies; retail B&O rate of .471% applies.

Purchase of income-tax preparation software that is downloaded from a website. Currently classified as a retail sale. Sales & Use tax applies; retail B&O rate of .471% applies.

Purchasing the right to use income-tax preparation software hosted on a company’s website but not actually downloaded onto a personal computer. Sales & Use tax exempt; Service B&O tax rate of 1.5% applies.

This proposal would treat all of the products mentioned above as retail sales. Under the new proposal, Sales & Use tax would apply to intrastate transactions and the retail B&O tax rate of .471% would apply. Sales & Use tax and B&O tax would not apply to transactions between in-state companies and out-of-state consumers.

Dealing with Pyramiding of Retail Sales Tax

To deal with potential problems stemming from the pyramiding effect of applying the retail Sales & Use tax, exemptions are made for:

- Digital goods that are purchased for resale (purchasing software from a wholesaler to be resold to the final consumer)
- Digital goods that will be used as components of another good (purchasing music to include in a larger composition)
- Digital goods that are given away as a part of an advertising business model (website that gives away images but also shows advertisements; the images would be exempt from sales and use tax)
How sourcing will be determined to conform with Streamline Sales & Use Tax Agreement (SSUTA)

The national SSUTA requires that all goods be taxed according to where the consumer takes possession of the good. The below list shows how the Department of Revenue will determine which sales and use tax rate applies depending on the available data.

1) Seller’s place of business if digital goods are received by the customer there
2) Location where the purchaser receives the item
3) Purchaser’s address if obtained at the time of sale
4) Credit card billing address if available
5) IP address of purchaser if other address information is unavailable
6) As a last resort, server location for digital goods and services