



Department of
Revenue
Washington State

*"Working together to
fund Washington's future"*

Local Government Partnership

Vikki Smith, Director
June 7, 2017

Taxability of IT Products

Local Government Purchases

John Wack
Tax Information Specialist



Topics

- Computer system purchases
- Digital products and remote access software
- Vendors

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

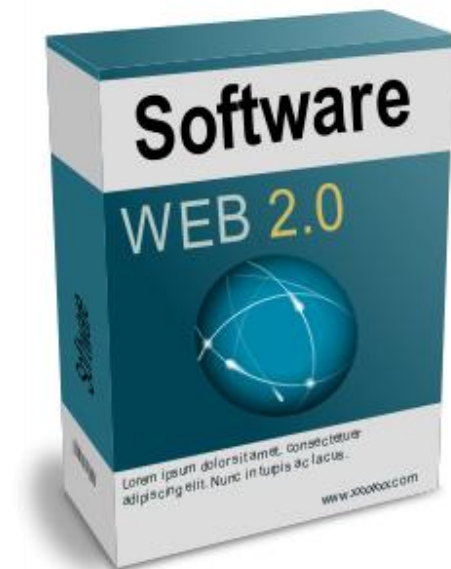
Purchases of the following are subject to sales or use tax:

- 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)



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

Examples of items 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

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

Additional Help

- Online – Taxability of IT Products and Services
- Request a ruling

Taxability of information technology (IT) products and services

This quick reference guide is intended to provide guidance regarding the taxability of information technology (IT) products and services.

Non-itemized charges: Generally, when IT products and services are sold as a non-itemized package, the entire transaction is subject to retail sales or use tax. For example, if prewritten computer software, customization of prewritten computer software, and installation services are sold for one non-itemized price, the entire charge is subject to retail sales tax or use tax.

Itemized charges: When the products and services are separately stated on a sales invoice or contract, charges for computer hardware and prewritten computer software are subject to retail sales or use tax. Separately stated charges for custom software and customization of prewritten software are not subject to retail sales or use tax.

Taxability of products and services when separately stated

Generally subject to retail sales or use tax

Computer hardware: laptops, desktops, tablets, handheld devices, mobile devices
Computers and associated prewritten software
Computer systems with common storage

Digital Products and Remote Access Software



Digital Products

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 customer request for service (engineering report)

Digital Products

What is a digital automated service (DAS)?

- 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 application of human effort that originates after customer request for service

Digital Products

What is remote access software (RAS)?

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

Taxability of digital products and RAS



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

Examples items/services **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

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

Digital Products – Advertising Exclusion

Advertising services include

- Layout
- Art direction
- Graphic design
- Mechanical preparation
- Production supervision
- Placement

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

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



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

- 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

Examples of qualifying exclusions

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

Digital Products – Storage and Backup Exclusion



Digital Products – Online Education Exclusion

Online educational programs provided by

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

Digital Products – Live Presentations Exclusion



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)

Help

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

Digital Products including Digital Goods

What digital products are subject to tax?

Sales or use tax apply to all digital products, regardless of how they are accessed (downloaded, streamed, subscription service, networking, etc.). (See exclusions and the definitions and exemptions from retail sales and use tax below)

Digital products subject to sales or use tax include:

- Downloaded digital goods (music and movies, etc.)
- Streamed and accessed digital goods
- Digital automated services (DAS)

The laws also cover remote access software ("RAS") which is also subject to sales or use tax.

It does not matter if the purchaser obtains a permanent or nonpermanent right.

Questions and Answers

- [Definition of terms](#)
- [How these laws apply](#)

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

- 1-800-647-7706
- Rulings ([dor.wa.gov/contact us](http://dor.wa.gov/contact-us))

John Wack

- 360-705-6658
- johnw@dor.wa.gov

Questions?



Ten Things You Need to Know about Protecting Confidential Tax & Licensing Information

Jacob White
Information Governance Manager

Theresa Gibbs
Public Records Officer



I. Most DOR Information is Confidential

Information your jurisdiction receives from Revenue is confidential and cannot be re-disclosed

Before giving out information ask yourself:

“Is this confidential taxpayer (CTI) or licensing Information (CLI)?”



2. Tax and Licensing Information is exempt under Public Records Act

Public Records

- RCW 42.56.230(4)

Excise Tax

- RCW 82.32.330

Business Licensing Service

- RCW 19.02.115

Property Tax

- RCW 84.08.210
- RCW 84.40.020
- RCW 84.40.340



3. Limited Information is Public

Confidential	Public *
Filing frequency	Name and registration number
If sales were reported	Trade Name or d.b.a.
Sales amounts	Mailing address
Taxes paid	Business Location
Audit or investigation	Type of entity (corp., sole prop...)
Phone number	NAICS
Email address	Reseller permit # & effective dates
TIN (FEIN, SSN)	Account status and open/closed dates
Licensing information created or obtained by DOR about applicants or license holders not made public	License, UBI or dealer number
	Governing people
Tax information relating to less than 3 taxpayers	Tax Preferences and annual reports

* List not for commercial purposes

4. Data-sharing or Partnership Agreements Protect Confidentiality



- RCW 82.32.330
- Know and understand limitations on use of information
- Do not share (re-disclose)
- Safeguard the information at all times
- New Data Sharing Administrator position

5. Tax and License Confidentiality Affidavits Are Required

Revision coming in 2017



Tax and License Confidentiality Affidavit

This form must be completed and signed by every individual (including mayor, councilmember, treasurer, city manager, etc.) with access to confidential tax or licensing information.

An individual who discloses confidential information to an unauthorized person is guilty of a misdemeanor. See RCW 82.32.330(6) and 19.02.115(5)

Acknowledgement of Confidentiality

I _____ employed by _____
(Print name)

swear or affirm that I have read and understand the requirements regarding the protection of tax and/or licensing information provided by the Department as stated in [RCW 82.32.330](#) and [19.02.115](#). I further understand that this information is privileged and confidential, and therefore shall not be disclosed to any person not entitled to knowledge of such information. I understand that my use or disclosure of confidential tax information may be further restricted by an information-sharing agreement.

Dated: _____ (Signature)

SUBSCRIBED AND SWORN TO before me this _____ day of _____

(Signature of Notary Public)



6. Process for Tax and License Confidentiality Affidavit

- Agree to keep confidential information confidential
- Assure understanding of laws and penalties for violation
- Signed by
 - Each employee authorized to access confidential information
 - Authorized by: Finance Director, Treasurer, City Manager, or Mayor
- Complete *before* getting access to confidential information
- Keep it on file at local jurisdiction and send copy to DOR so DOR staff know who can access information

7. Data Security Requirements Apply

- Maintain system and network security, data integrity and confidentiality
- Common security standards help ensure an effective and secure environment
- Remember:
 - Print only information you need
 - Copy or download electronic data only as needed
 - Do not communicate confidential information via unsecured e-mail or text messages
 - Secure all data – electronic or paper – while in transit, in use, “at rest” and during disposal



8. Let us know if there's a breach

- Information about taxpayers is sensitive
- Businesses may need to know if there is a breach in order to protect themselves
- Data Sharing Agreement requires notice of a breach to DOR
- State law requires notification of breaches of personal information held by government agencies in RCW 42.56.590
- Better to report than to find out the wrong way



9. Penalties for Breach of Confidentiality Are Severe

RCW 82.32.330 & RCW 19.02.115

- Misdemeanor sanctions include:
 - ✓ Up to \$1,000 fine
 - ✓ Up to 90 days in jail
 - ✓ Loss of job
 - ✓ Barred from employment by state or local government for two years



10. Help is available!

DOR Information Governance Office

(360) 704-7471

DORPublicRecords@dor.wa.gov

Questions?



Break

Unclaimed Property

Linda Comer
Unclaimed Property Auditor

File a report

**Businesses holding
unclaimed property**

NEW! Special Notice regarding law change ▶
File your Unclaimed Property Report ▶
File a negative (no property) report ▶

What is Unclaimed Property?

RCW 63.29

Unclaimed Property is money or intangible property owed to an individual or business.

Property is considered unclaimed after it is held for a period of time with no owner contact, and a good faith effort has been made to locate the owner.

Fast Facts about Unclaimed Property

- All States have unclaimed property programs
- Three Canadian Provinces have unclaimed property programs
- Washington's program started in 1955

Fast Facts about Washington Unclaimed Property

- Holding over one billion dollars
- Fiscal year 2016
 - Paid over \$72 million dollars
 - Received \$121 million dollars
- 1 in 2 chance of finding unclaimed property
- Program funded from receipts – no tax burden

Definitions

Holder

- Business or individual in possession of property belonging to another

Owner

- Business or individual with a legal or equitable interest in the property

Claimant

- Business or individual claiming the property

Purpose of the Act

- Protect the property rights of the owner
- Relieve holder from liability of the property
- Provide economic benefit to ALL citizens of the State, not individual holders

Benefits for the Holder

- Maintains good customer relations
- Keeps records current
- Reunites property with owners
- Reduces risk of audit findings

Duties of the State

- Notify owner
- Pay owner or heirs
- Keep records
- Safeguard property until claimed

Duties of the Holder

- Identify and protect property
- Notify owner
- Report and Remit property
- Retain records for six years after the property became reportable

Rules of Jurisdiction - Texas vs. New Jersey (1965)

Primary Rule

- Property reportable to state of owner's last known address



Rules of Jurisdiction (continued)

Secondary Rule

- Property is reportable to State of corporate domicile if any of the following occur:
 - Address is unknown
 - Last known address of owner is in a State that does provide for the reporting of that type of property
 - Last known address of a owner is in a foreign country

Reciprocity

Process where states accept property belonging to other states and annually forward that property to the appropriate states.

- Most states accept incidental property:
 - Ten owners or less per state, and
 - Under \$1000 per state
 - California does not allow reciprocity reporting to another state per California law

Reciprocity Considerations

- Property must be remitted and reported per the laws of the entitled state, not the receiving state
- Receiving state cannot indemnify the holder for property not belonging to that state

Report and Remit or Retain?

Cities, counties, other municipal and quasi-municipal corporations must report but may retain certain funds

- Funds must be available anytime for future refund
- Five years after reporting may transfer unclaimed funds to General Fund & archive records
- Remain liable for refund in perpetuity
- Property due to other states must be remitted

Must Report but May Retain

- Uncashed warrants
- Uncashed checks
- Property tax overpayments or refunds



Must Report and Remit

- Accounts receivable credits
- Unclaimed court monies
- Trust accounts
- Unrefunded utility deposits
- Unclaimed debt service payments
- Unredeemed bonds and coupons



Advantages to Remitting

- Indemnified for remitted property
- Owner names remain on the Department of Revenue's website until claimed
- Not responsible for refunds
- No need to establish claim processing function
- Little to no research or contact with claimants
- If you remit, local governments refer claim inquiries to Department of Revenue

Claims Processing: To Remit or Retain...



Considerations to Retaining

- Remain liable to pay the owner of the property indefinitely
- Establish a Claims Processing Unit



Approving Claims

- Photo identification
- SSN or address match
- Business relationship or connection to property
- Estates
 - Death certificate
 - Court papers or Affidavit of Successor



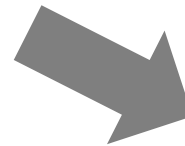
Detecting Fraud

- Multiple refunds to same address
- Letterhead that “doesn’t seem right”
- Font variations in letters
- Forged identification and documents

Claims Resources

- Secretary of State
 - www.sos.wa.gov
- People/Business Finder: www.yellowpages.com
- Death Index: <http://ssdi.rootsweb.com>
- Accurint
 - www.accurint.com

When Does Property Become Unclaimed?



Dormancy Holding Periods

- Varies by property type
- End of a dormancy period = property reportable
- Most dormancy periods - 1 or 2 years

One Year Property

- Payroll
 - Aging begins date payable
- Utilities
 - Aging begins date credit occurred
- Court ordered utility refunds
 - RCW 63.29.080 (2)

One Year Conversion Table - Payroll & Utilities

Items that were issues or had a last activity date during:	Need to be reported on the report by:
7/1/09 thru 6/30/10	November 1, 2011
7/1/10 thru 6/30/11	November 1, 2012
7/1/11 thru 6/30/12	November 1, 2013
7/1/12 thru 6/30/13	November 1, 2014
7/1/13 thru 6/30/14	November 1, 2015
7/1/14 thru 6/30/15	November 1, 2016
7/1/15 thru 6/30/15	November 1, 2017
7/1/16 thru 6/30/17	November 1, 2018

Two Year Property

- Accounts payable checks/warrants
- Property tax overpayments or refunds
- Lunch program credits
- Accounts receivable credits
- Unrefunded bail bonds
- Bonds and interest payments
- Gift certificates
- Court funds

Bonds and Interest Payments

- State's fiscal agent is Bank of New York Mellon
- Bonds issued prior to Bank of New York Mellon are held by the government or fiscal agent
- Types of Bonds
 - Bearer
 - Registered
 - Some computerized ledgers
 - Booked entry

Gift Certificates

- Gift certificates issued July 1, 2004 and after must meet the following requirements:
 - No expiration date
 - No service or inactivity fee may be charged
 - Balances under \$5 must be refundable in cash if requested
 - Gift certificates must be reported when the facility closes

Court Funds - RCW 63.29.130



Two Year Conversion Table - Public Agencies

Items that were issues or had a last activity date during:	Need to be reported on the report by:
7/1/08 thru 6/30/09	November 1, 2011
7/1/09 thru 6/30/10	November 1, 2012
7/1/10 thru 6/30/11	November 1, 2013
7/1/11 thru 6/30/12	November 1, 2014
7/1/12 thru 6/30/13	November 1, 2015
7/1/13 thru 6/30/14	November 1, 2016
7/1/14 thru 6/30/15	November 1, 2017
7/1/15 thru 6/30/16	November 1, 2018

Reporting Considerations

- Items still in an active court process should not be reported until settled
- Child support receipts should be reported even if payments not being sent because custodial parent cannot be found

Frequently Asked Questions – Retained Funds

- How long do reported and retained items remain on the Internet?
- Should we notify you when we refund property?

Other RCW's

- Unclaimed property in hands of city police
 - RCW 63.32
- Unclaimed property in hands of state patrol
 - RCW 63.35
- Unclaimed property in hands of sheriff
 - RCW 63.40
- Unclaimed inmate personal property
 - RCW 63.42

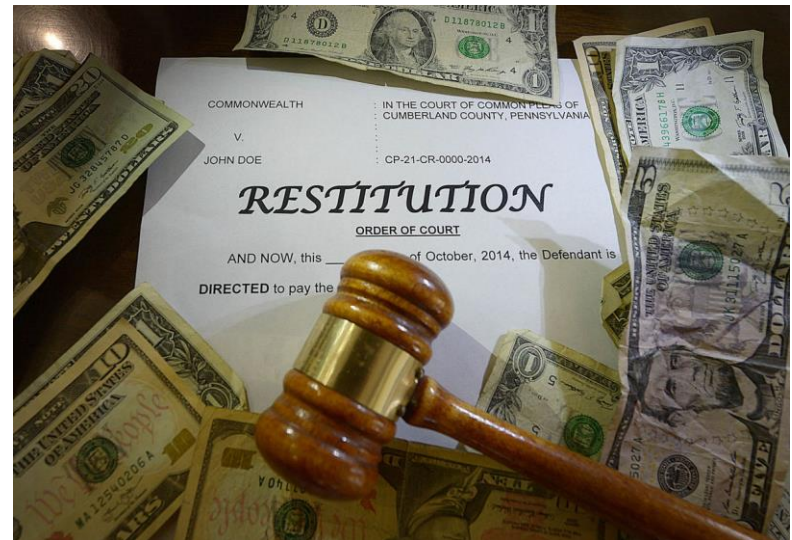
Other RCW's (continued)

- Lost and found property
 - RCW 63.21
- Unclaimed property in hands of Bailee
 - RCW 63.24
- Unclaimed property held by museum or historical society
 - RCW 63.26

Restitution

RCW 7.68.290 (1997)

- Victim can not be located or is deceased
- County Treasurer transfers to State Treasurer monthly
- State Treasurer transfers to Crime Victims Compensation Fund



Due Diligence

What is due diligence?

- Due diligence is a required written attempt by the Holder to locate the owners of dormant property prior to reporting

Due diligence requirements

- Amounts \$75 or greater
- Between May 1 and August 1, prior to reporting
- First class mailing to owners with valid addresses

May 1, 20XX

Owner's Name

Owner's Street Address

City, State Zip Code

We have unclaimed property that belongs to you

Dear *Owner Name*:

We have at least \$75 dollars that belongs to you and would like to return it.

Please write to us at the address below, or call us at (XXX) XXX-XXXX.

Your Company's Name

Your Company's Street Address

City, State, Zip Code

Respond by August 1, 20XX.

If we do not hear from you by the above date, we are required by law to send your funds to the Washington State Department of Revenue. You may file a claim after March 1, at ucp.dor.wa.gov to receive your money.

Sincerely,
Signature

Reporting Unclaimed Property

- Due by November 1st
- Annual reoccurring appointment on your electronic calendar - September



Reporting Unclaimed Property

- Electronic Report Mandatory - NO PAPER REPORTS
- NAUPA II format required
- HRS Pro website
 - Software or Web: www.wagers.net/hrs/index.php
- Online filing and payment through the Department's website
- Payment Options:
 - E-Check
 - ACH Credit

Reporting Penalties

Beginning July 1, 2017

- 10% Late Report penalty
- 10% Assessment penalty
- 5% Additional Late Report penalty
- 5% Report penalty

Common Reporting Errors

- Invalid property type codes
- Invalid date formats MMDDYYYY
- Invalid joint owners/relationship codes
- Incomplete SSN/FEIN
- Including punctuation (dashes, comma, etc)

Your Unclaimed Property System

- Prepare unclaimed property manual
- Establish written procedures
- Conduct internal training and cross training
- Identify personnel responsible for preparing reports
- Develop strong internal controls
- Utilize internal audit function

Your Unclaimed Property System (continued)

- Monitor stale dated checks
- Establish unclaimed property liability account in general ledger and balance to UCP database
- Utilize internal technical assistance
- Monitor changes in unclaimed property laws
- Identify unclaimed company assets held by third parties
- Utilize computer systems to track date of last contact with account owner

Start a search

ClaimYourCash.org

Check to see if the state is holding money or property that belongs to you, a family member or friend.

First name

Last name

Or

Business name

Or

Reference number

Search

Returning user

How to file a claim ▶

Questions and answers ▶



File a report

Businesses holding unclaimed property

NEW! Special Notice regarding law change ▶

File your Unclaimed Property Report ▶

File your negative (no property) report ▶

Reporting guide (.PDF) ▶

Workshops for businesses ▶

Login

Information

About us
Auctions

Contact us
External links

Department of Revenue
Heir finder/asset locator



Information and Help

Washington State

- www.ucp.dor.wa.gov
- Listserv
 - UCP Holder Notifications

NAUPA website

- www.unclaimed.org

Questions

- ucp@dor.wa.gov
- 1-800-435-2429, option 2

Questions?



2017 Property Tax Legislation

Pete Levine
Tax Policy Specialist

Bills Passed – Property Tax

HB 1166

Concerning fire protection district tax levies

SHB 1344

Extending the period for which a bond levy may be increased

SSB 5138

Concerning metropolitan park districts

Bills Passed – Property Tax

SHB 1526

Exempting multipurpose senior citizen centers from property taxation.

SB 5454

Allowing fire protection district annexations and mergers within a reasonable geographic proximity and eliminating cross-county restrictions for annexations to a fire protection district.

ESSB 5628

Providing for fire protection district formation by the legislative authority of a city or town subject to voter approval.

2017 Tax & Administration Legislation

Trice Konschuh
Tax Policy Specialist

Bills Passed – Tax & Administration

EHB 1201

Relating to taxing authorities of public facilities districts

ESHB 1538

Relating to requiring prime contractors to bond the subcontractor's portion of retainage upon request

Bills Passed – Tax & Administration

EHB 2005

Relating to improving the business climate in this state by simplifying the administration of municipal general licenses

SHB 2138

Concerning tax relief for the construction of adapted housing for disabled veterans

Bills Passed – Tax & Administration

SSB 5358

Related to improving tax and licensing laws administered by the Department of Revenue

SB 5734

Relating to bringing Washington state government contracting provisions into compliance with federal law as it relates to small works bonding requirements

Questions?



Tax and Licensing Systems Replacement (TLSR) Project

Andy Van Gerpen
Program Coordinator

Tax and Licensing Systems Replacement (TLSR) Project

The Department of Revenue is:

- Replacing aging tax and business licensing systems
- Implementing browser-based, configurable solution operating on industry standard technology



TLSR Project Improvements

- Safeguard future revenue collections
- Allow changes to be made timely and cost effectively
- Provide taxpayers with increased access to their information and self-service options
- Integrate with SecureAccess Washington (SAW) for one logon that can be used to access multiple state agency systems



TLSR Project

- My DOR = portal for secure online services
- SecureAccess Washington User ID and password integration
- New system for Combined Excise Tax Return, credits and bill pay
- Combined Business License and Business Information look up tool

TLSR Project: Impact to Jurisdictions

- Local sales tax distribution reports available through My DOR Partner Portal
- Different functionality
- Possible interruptions in resources to validate local tax distributions
- Possible change in local tax funding method

TLSR Project Information

Summer/Fall 2017

- Outreach to cities, counties, and associations with information and resources
- Check out dor.wa.gov for updates on the Tax and Licensing System

Questions

Andy Van Gerpen

andyv@dor.wa.gov

Questions?



Miscellaneous Updates & Closing


Patti Wilson
Local Government Liaison

Evaluations will be sent via email, please provide feedback

Partnering with Business Licensing Service (BLS)

Patti Wilson & Eric Jones

BLS Mission



Provide a one-stop customer service center to quickly and efficiently issue business licenses required by law.

EHB 2005

- Most cities join BLS by 2022
 - BLS supports general licenses
 - not temporary and local regulatory
- Cities joining FileLocal by 2020 are exempt
- BLS can delay to 2027 if not budgeted
- BLS gives an onboarding plan to lawmakers every other year

2022



Combined licensing

- One application per business
- One license document with listed endorsements
- One annual renewal payment
- Local regulation
- Public records retention



Joint application process

An Olympia convenience store submits its online BLS application



What does BLS provide?

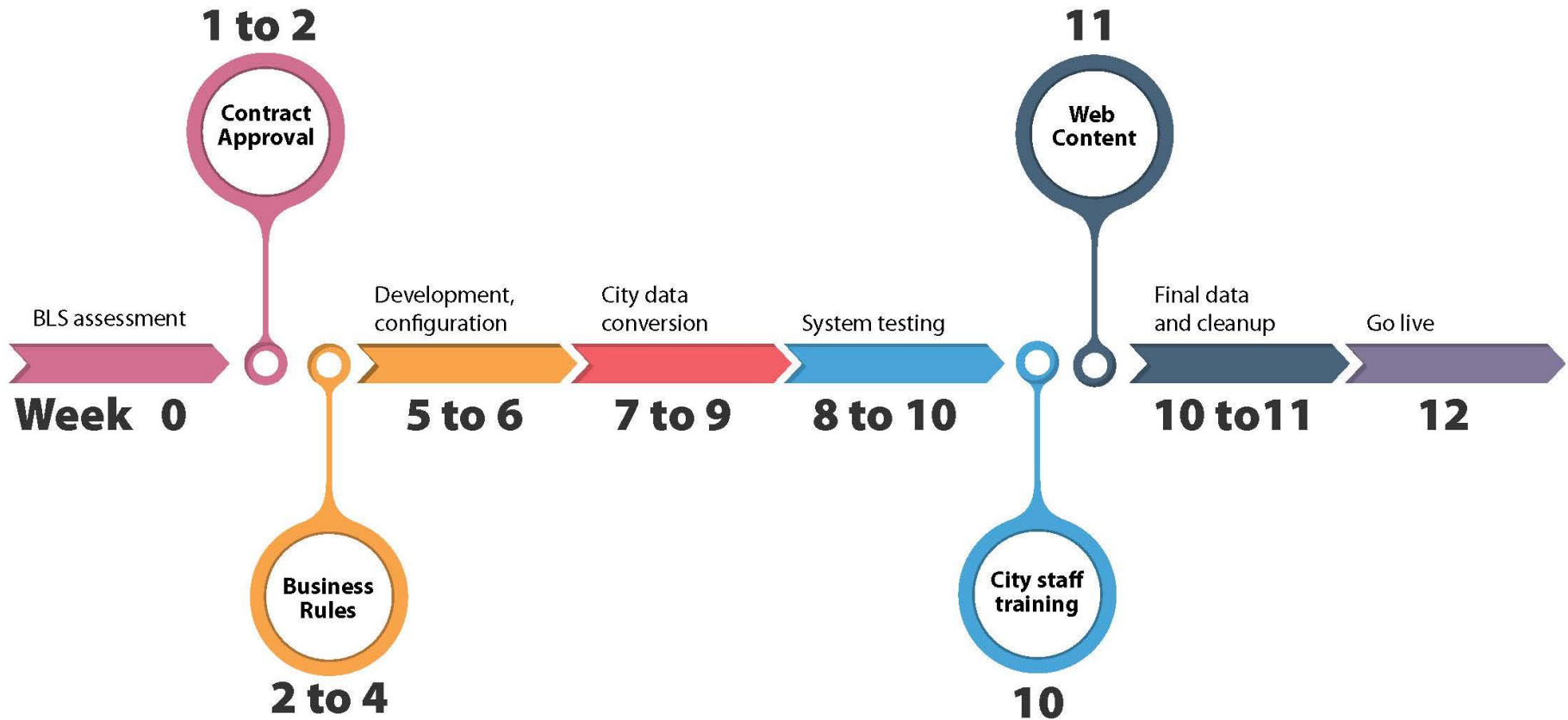
- Intake applications and renewals
- Print & mail licenses
- Collect & distribute fees
- Offer on-demand reporting
- Handle customer service
- Support compliance for partners





FREE

Steps for a city



Contact

Patti Wilson
Local Government Liaison
PattiW@dor.wa.gov

Eric Jones
Business Licensing Service
EricJ@dor.wa.gov

360.705.6777
citypartners.dor.wa.gov

Questions?

