



This Week in State Tax (TWIST)

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Washington State: Services Provided with Digital Automated Services Held Taxable

The Washington Department of Revenue recently ruled that a taxpayer's electronic signature and document workflow services were subject to the Washington retail sales tax and retailing business and occupation (B&O) tax. The determination held that the taxpayer's offering constituted digital automated services and that certain services offered to customers were provided exclusively in connection with digital automated services, thus making them taxable. The seller offered services allowing buyers to send, sign, and manage legal documents in the cloud, with their electronic signature product accounting for ninety percent of their revenue. Additionally, the seller provided telephone support, data processing, data services, and training and seminars, which were separately itemized on invoices and reported under the wholesaling B&O tax classification.

On audit, the Department reclassified these receipts to the retailing B&O classification and assessed retail sales tax on the support and training services, concluding they were associated exclusively with the sale of digital automated services. The taxpayers appealed, asserting the receipts for telephone support and training and seminars were stand-alone services not subject to retailing B&O tax and retail sales tax. Washington imposes retail sales tax on each retail sale in the state, and income derived from making retail sales is subject to retailing B&O tax. Digital automated services, defined as services transferred electronically using one or more software applications, are classified as retail sales. The retail sale of digital automated services is defined to include any service provided by the seller exclusively in connection with digital automated services, regardless of whether a separate charge is made for such services.

The Department determined that the taxpayer's telephone support and training and seminar services were connected exclusively to their signature and document workflow service because a customer could not access these support services without purchasing the signature and document workflow service. At hearing, the taxpayers conceded that the telephone support and seminars were not useful for those not purchasing the signature and document workflow services; they also failed to provide evidence that these services were offered in connection with other products. Consequently, the Department concluded that the services were part of the retail sale of digital automated services and subject to retailing B&O tax and retail sales tax. For information on [Determination No. 21-0196](#) (issued September 9, 2024), please contact [Michele Baisler](#).

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