

This Week in State Tax (TWIST)

May 12, 2025



New York: ALJ Holds Document Management System is Taxable Prewritten Software

An Administrative Law Judge (ALJ) in the New York Division of Tax Appeals recently affirmed an assessment by the Department of Taxation and Finance (Department) that classified a company's cloud-based service offerings as taxable prewritten software. Under New York law, prewritten computer software is considered tangible personal property regardless of the medium through which the software is delivered to the purchaser, including in Software-as-a-Service transactions.

The taxpayer provided a comprehensive document management system that included integrated workflow tools, enabling users to move, organize, and store files efficiently. The company offered optional add-ons to the base service for document markup and editing, storage, and other services. The core functionality of the software was present, even if the add-ons were absent. The taxpayer argued its service offering was not the sale of software but a comprehensive system providing document storage and security that are not taxable in New York. During its audit, the Department found that certain contractual provisions involved intellectual property protections and licensing commonly found in software transactions, charges for the service were generally on a per user basis, and the service was described and presented as software. The ALJ agreed that these findings provided a rational basis for the Department's determination.

The taxpayer also argued that certain nontaxable components of the service were included in the assessment. The service was, however, sold as a mixed bundle of tangible personal property and services for a single, undivided charge. Under New York law, the entire transaction is subject to taxation in such instances. The taxpayer also contended it was entitled to apportion the tax based on the location of its users; the ALJ found it failed to provide sufficient documentation to support this claim. As a result, the ALJ denied the apportionment request and agreed that the Department had taken steps to limit the assessment only to customers in New York. For questions regarding [the Matter of the Petition of NETVOYAGE CORP. AKA NETDOCUMENTS.COM](#), please reach out to [Judy Cheng](#) and [Jenn White](#).

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