



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

NOVEMBER 2, 2010

Online Searchable Databases are Digital Automated Services

Policy

The Department has determined that online searchable databases (OSD) are digital automated services (DAS). As such, they do not qualify for the exemption provided for digital goods used solely for a business purpose.

OSDs are subject to retail sales or use tax unless some other exemption applies.

In recognition of prior inconsistent advice, and in order to accommodate taxpayers adjusting to this guidance, the Department will accept prior reporting of exempt or taxable sales. However, as of January 1, 2011, the Department will enforce this policy.

Background

In 2009, digital automated services (DAS) and digital goods (DG) became subject to retail sales and use tax. However, certain DGs that were also “standard digital information” were exempt when purchased solely for a business purpose. The Department determined that online searchable databases (OSD) were digital goods and that the exemption for standard digital information applied. (ESHB 2075)

In 2010, a new law broadened the exemption for “standard digital information” to include all digital goods purchased for a business purpose. However, after closer review, the Department determined that OSDs are not DGs but are instead DAS, and therefore the digital goods exemption does not apply. (SHB 2620)

Explanation: Retail Sales Tax Applies to OSD

A DAS is defined as any service transferred electronically that uses one or more software applications. (RCW 82.04.192(3)(a))

A DG is defined, in part, as sounds, images, data, facts, or information, or any combination thereof transferred electronically. (RCW 82.04.192(6)(a))

OSDs, such as online legal research services, are DAS because they are transferred electronically and use one or more software applications. While these services provide “data, facts, or information” similar to a DG, they also provide additional functions, such as search, retrieve, and storage capabilities (software applications).

For more information

Visit our website at dor.wa.gov/digitalproducts, send an email to communications@dor.wa.gov, or call the Department’s Telephone Information Center at 1-800-647-7706.

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