

Seattle Rule 5-502

~~Taxation of Information Technology Services and computer related services.~~

1. **Introduction.** This rule explains the business license tax and utility tax treatment of ~~activities related to information technology services and services related to information technology services and computer related services.~~

~~Examples included in this rule identify facts and then state a general conclusion; they should be used only as a general guide. The tax consequences of all situations must be determined after a review of all facts and circumstances. Additionally, each fact pattern in each example is self-contained (i.e., "stands on its own") unless otherwise indicated by reference to another example. Examples concluding that business license tax applies to the transaction assume that no exclusions or exemptions apply, and the sale is sourced to Seattle.~~

2. Definitions.

- a. A "bundled transaction" is the retail sale of two or more products, which are distinct and identifiable for one non-itemized price.
- b. "Data processing services" with respect to information technology services means
 - i. a service provided to a business or other organization where the primary object of the service is the systematic performance of operations by the service provider on data supplied in whole or in part by the customer to extract the required information in an appropriate form or to convert the data to usable information.
 - ii. Data processing services include
 - A. check processing,
 - B. image processing,
 - C. form processing,
 - D. survey processing,
 - E. payroll processing,
 - F. claim processing, and
 - G. similar activities.
 - iii. Data processing services include services related to the right to access and use prewritten computer software, custom software and/or customization of prewritten computer software defined by SMC 5.30.510 C. 4. and Dir. Rule 5-500(2)(a) & (b) to perform data processing.
- ~~a-c. Data warehousing service.~~ "Data warehousing service" means the service of a provider offering server space for a customer to store its data and to access, retrieve, or use the data as needed.

d. ~~Information services.~~ “Information Technology Services” (IT services) means training services, technical support, and other services including, but not limited to, assisting with network operations and support, help desk services, in-person training related to hardware or software, network system support services, data entry services, and data processing services. ~~every business activity, process, or function by which a person transfers, transmits, or conveys data, facts, knowledge, procedures, and the like to any user of such information through any tangible or intangible medium.~~

“IT services” consist of any services that support or assist information technology infrastructure. “IT services” may include but are not limited to providing network assessments, planning, design, migration services, network security services, system upgrades, and other network maintenance services to a client’s information technology infrastructure.

The following types of activities are defined within the class of IT services:

- Support activities such as telephone consulting, help desk services, and remote training related to network hardware or software.
- Services that provide network diagnostic, analysis, advisory support, quality assurance testing, localization services, network information logistics, and maintenance support services on new or existing network infrastructure.
- Onboarding and offboarding services (e.g., setting up users with laptops and accounts).
- Managed IT services, including infrastructure network configuration, analysis, and implementation.
- Consulting or project management services, including planning efforts, analysis, engineering, testing, or deployment.
- Project management and technical program manager services that manage engineers and consultants who are providing IT Services.
- Migrating services and support, including the transfer, relocation of services from one environment to another, and associated project management services.
- Consulting and support services in connection with digital products, including digital automated services.
- Services that troubleshoot hardware and software issues and that provide information technology solutions.
- Network security management and implementation of network security strategies.

a- “IT services” do not include the following:

- Web hosting, domain name registration, and payment processing services.
- Custom website development services.

- Sales of digital automated services, including software as a service.
- Sales of remote access software.
- Sales of custom software and customization of computer software.
- Cryptocurrency mining activities (does not include network system support or operation services).
- ~~“Information services” does not include, however, any sale of standard information available to any customer that is delivered through any tangible storage medium or through electronic download. The sale of such standard information available to any customer is considered a retail sale of tangible personal property subject to tax under the retail sales and retail services classification. “Information services” does not include t~~Telephone business as defined under Seattle Municipal Code 5.30.155060.

~~a.e. Internet.~~ “Internet” means the myriad collection of computer and telecommunications facilities, including equipment and operating software, which comprise the interconnected world-wide network of networks that employ the Transmission Control Protocol/Internet Protocol, or any predecessor or successor protocols to such protocol, to communicate information of all kinds by electronic transmissions through electronic or radio infrastructure.

~~b.f. Internet access provider.~~ “Internet service access provider” means a person engaged in the business of providing a computer and communications facility through which a customer may obtain access to the Internet.

~~c.g. Internet access services.~~ “Internet access services” means the provision of computer and communications services through which a customer using a computer and a modem or other communications device may obtain access to the Internet but does not include telecommunications services provided by a common carrier. See Seattle Rule 5-300 for more information regarding telecommunications services.

~~d.h. Internet service.~~ “Internet service” means a service that enables users to access content, information, electronic mail, or other services offered over the Internet, and may also include access to proprietary content, information, hosting of information for retrieval over the Internet, and other services as part of a package of services offered to users. The term “Internet service” does not include telecommunications services. See Seattle Rule 5-300 for more information regarding telecommunications services.

~~e.i. Intranet service.~~ “Intranet service” or “integrated employee experience platforms” means the service of providing a private or intra-company network used by a person to facilitate the sharing or accessing of internal information by the person’s employees or other authorized parties.

~~f.j. Network system support.~~ “Network system support” activities include analyzing and

interpreting problems using diagnostic software, monitoring network to ensure network availability to users, and performing network system configurations. Network system support activities may be performed through remote telephone support or onsite consulting.

k. ~~(i) Proprietary subscriber network.~~ “Proprietary subscriber network” means ~~proprietary or corporately owned a communications system network privately owned and controlled by a single entity whose in which its services are available to customers to the public in consideration for fees.~~ A proprietary subscriber network does not include intranets.

l. ~~Website development service, website hosting service.~~ “Website development service” means ~~the design and development of a website provided by a website developer to a customer.~~ A “website developer” means a person who performs any of the following business activities for a customer:

- Website design services. (e.g. planning efforts, analysis, engineering, programming, testing, and deployment)
- Development services, (e.g. front-end, back-end, or full-stack).
- Supporting the functionality or operation of a website (e.g. testing new applications, monitoring site performance, and website optimization services).

m. “Website development service” means the design, development and support of a website provided by a website developer to a customer.

~~n.~~ “Website hosting service” means the service of a provider offering server space to host a customer’s website.

3. Information Service activities Seattle nexus.

- Engaging in business within the City of Seattle, including but not limited to maintaining a place of business or a server within Seattle creates responsibility for Seattle tax purposes.

4. Business license tax classification of gross income derived from Information Technology Services and other related services.

~~Examples included in this rule identify facts and then state a general conclusion; they should be used only as a general guide. The tax consequences of all situations must be determined after a review of all facts and circumstances. Additionally, each fact pattern in each example is self-contained (i.e., "stands on its own") unless otherwise indicated by reference to another example. Examples concluding that business license tax applies to the transaction assume that no exclusions or exemptions apply, and the sale is sourced to Seattle.~~

a. Effective January 1, 2026, gross income derived from Information Technology Services is subject to the business license tax under the retail sales and retail services classification.

Examples included in this rule identify facts and then state a general conclusion; they should be used only as a general guide. The tax consequences of all situations must be determined after a review of all facts and circumstances. Additionally, each fact pattern in each example is self-contained (i.e., "stands on its own") unless otherwise indicated by reference to another example. Examples concluding that business license tax applies to the transaction assume that no exclusions or exemptions apply, and the sale is sourced to Seattle.

Example 1: In 2027, XY Statistical Data Inc. (XY) operates a market research firm located in Seattle. Based on specifications provided by individual customers and based at least in part or in whole by data supplied by their individual customers, XY generates and sells statistical data analysis tailored to their customers' needs. XY does not make available statistical information generally applicable to all their customers. Each customer submits their own request for statistical information based on their needs and supplies data that XY uses in their statistical analysis. XY compiles, analyzes, and summarizes the statistical information they gather along with the data supplied by their client and transfers their statistical analysis to their customers electronically. Gross income that XY derives from their sale of data processing services in the form of statistical data analysis (i.e., data processing) is subject to business license tax under the retail sales and retail services classification.

Example 2. In 2027, YY Statistical Data Inc. (YY) operates a market research firm located in Seattle. YY generates and sells statistical data that it makes generally available to any of their customers. All customers receive the same standardized statistical data through electronic download. YY's customers do not supply any of the data that YY uses to perform their statistical analysis. Customer W purchases standardized statistical data from YY. YY is subject to business license tax under the retail sales and retail services classification. Whether delivered in hard copy or transferred electronically or in any other way, sales of standardized statistical data qualify as retail sales subject to business license tax under the retail sales and retail services classification.

Example 3. In 2027, ZZ Statistical Data Inc. (ZZ) is a data provider in Seattle. ZZ offers to their customers an online research service that allows their customers access to statistical information stored on their database. ZZ bills its customers a monthly fee in consideration for online access to their research database. Their customers may or may not download the information onto their computers. ZZ is providing digital automated service and is subject to tax under the retail sales and retail services classification. See Dir. Rule 5-503 Digital Products.

Example 4. In 2027, WW Travel Inc. (WW) operates as a travel agent within Seattle. WW provides information services online to its customers. WW charges their customers a monthly fee in consideration for online access to their travel reservation system. WW is selling a digital automated service and is subject to tax under the retail sales and retail services classification for providing access to its travel information services in Seattle. See Dir. Rule 5-503 Digital Products.

- b. If a person engaging in business in Seattle sells two distinct and identifiable products for one nonitemized price, the city will consider these sales "bundled transactions" subject to the business license tax under the retail sales and retail services classification, unless an exception to the bundled transaction rule applies. If a person engaging in business in Seattle

sells to their customer two products that are separately itemized, the business may treat each product according to its appropriate business license tax classification.

c. Generally, IT Services include data processing services. However, if an activity such as selling a product or a service includes elements of data processing, but more specifically meets the definition of another business license classification or exclusion, the Director will consider that more specific classification or exclusion applicable to the activity.

d. Effective until January 1, 2026, gross income derived from providing

- i. information services to a specific person is subject to business license tax under the service and other business activities classification,
- ii. standard information that is available to all customers is subject to business license tax under the retail sales and retail services classification.

Example 5. Same facts as Example 1, except that XY sells statistical data to their customers in 2024. Gross income that XY derives from their sale of statistical data is subject to business license tax under the service and other business activities classification because XY is providing an information service at the specific request of each customer.

1. ~~**Taxable activities under the service and other business activities classification of the Business License Tax.**~~

- (a) ~~**Sales of information services. The gross income received for providing information services is subject to tax under the service and other business activities classification. Gross income from providing standard information that is available to all customers is subject to tax under the retail sales and retail services classification. The maintaining of a place of business or a server within Seattle creates taxing responsibility for Seattle tax purposes. Below are some examples of taxing information services:**~~

Example 6. Same facts as Example 2 except that YY completes the sale of statistical data to their customers in 2024. YY is subject to business license tax under the retail sales and retail services classification on the sale of tangible personal property to their customers.

~~Example 1. XY Statistical Data Inc. maintains an information supplying operation located in Seattle and sells statistical data at the specific request of each customer. XY does not compile such statistical information to be available for all customers. Instead, each customer submits its own request for statistical information based on its needs. XY compiles, analyzes, and summarizes the statistical information it gathers and sends the information to customers revenue income in a tangible medium. XY is subject to tax under the service and other business activities classification for the sales of statistical information because XY is providing an information service at the specific request of each customer.~~

Example 2. YY Statistical Data Inc. maintains an information-supplying operation located in Seattle and sells standardized statistical data to customers. Any customer would receive the same standardized statistical data through electronic download. Customer W purchases standardized statistical data from YY. YY is subject to tax under the retail sales and retail services classification on the sale of tangible personal property. Standardized statistical data is considered to be tangible personal property whether it is delivered in hard copy or through electronic download or transmitted in any other way. See Rule 5-503 for information on Digital Automated Services.

Example 3. ZZ Statistical Data Inc. maintains an information operation in Seattle and allows its customers to perform online research of statistical information through its database. ZZ bills its customers a monthly fee for having online access to the database for research. Its customers may or may not download the information onto their computers. ZZ is providing digital automated service and is subject to tax under the retail sales and retail services classification.

Example 74. Same facts as Example 4 except that WW completes the sale of information services online to their customers in 2024. WW Travel Inc. maintains an information operation within Seattle and provides information services online to its customers. WW bills its customers a monthly fee for having online access to a travel reservation system that includes a charge for dedicated telephone lines. WW is selling a digital automated service and is subject to tax under the retail sales and retail services classification for providing access to its travel information services in Seattle. See Dir. Rule 5-503 Digital Products. The provider of dedicated telephone lines to WW must pay Seattle's telephone business utility tax on the sale of telephone or telecommunications service to WW. WW is the consumer of the telephone business services.

— (b) Sales of Internet access services. After June 30, 2008, gross Gross income derived from providing-received for Internet -access services is exempt from tax. The following examples clarify Internet access services that are exempt from city utility tax and activities distinguished from Internet access services that are subject to city utility taxare some examples of taxation of other activities distinguished from Internet access services.

e. _____

Example 85. LOA Inc. is an Internet service provider that provides customers with access to the Internet. LOA does not furnish any telephone lines to its customers. LOA maintains Internet operations within Seattle. Customer Q is charged a monthly Internet access fee from LOA for access to the Internet. LOA's gross income from Internet access services is exempt from the City of Seattle Business License tax.

Example 96. Same facts as Example 85, except that LOA provides customers with access to the Internet using its own telephone lines. Customer Q, located in Seattle is charged a combined monthly fee for telephone services and access to the Internet using LOAs telephone lines. LOA is

subject to Seattle's telephone utility tax for the combined fee. If LOA separates out the Internet service charge from the telephone line usage charge or can reasonably distinguish the value of the two activities, then LOA would report the telephone line usage charge under the telephone classification of Seattle's utility tax, ~~and~~ LOA's gross income from Internet access would be exempt from the business license tax.

Example 107. DD Computers Inc. (DD) is a real estate data provider. In consideration for a fee, DD ~~allows customers to access the data on their website for which it charges the users a fee.~~ DD maintains its website in Seattle. DD charges Customer Z, an out-of-state customer, a transaction fee to use DD's website to search and retrieve real estate appraisal information. DD is not providing Internet service because DD is not an internet service provider (ISP) and does not provide customers with access to the Internet. DD, however, is providing Z access to its website for informational search and retrieval, which is subject to tax under the retail sales and retail services classification. See Seattle Rule 5-503 for more information regarding digital products.

f. Sales of network system support services.

- i. Effective January 1, 2026, network system support services qualify as IT Services.
~~Gross income derived from Sales of network system support services. Gross income received for network system support services is subject to business license tax under the retail sales and retail service service and other business activities classification.~~

Example 11. In 2027, a network security consulting firm is contracted to review a company's internal cyber security protocol. The contract specifies that the consultant will provide cyber security policies for the organization. The consulting firm uses their own software to test the company's network security vulnerabilities. The consulting firm is providing IT Services because they are assisting with network operation and support, as well as providing network system support services. The consulting firm is subject to the business license tax under the retail sales and retail services classification.

- ii. Effective until January 1, 2026, gross income derived from network system support services is subject to business license tax under the service and other business activities classification.

Example 12. Same facts as Example 11 except that the network security consulting firm provides their cyber security services in 2024. Gross income that the network security consulting firm derives from providing network operation and support as well as providing network system support services is subject to the business license tax under the service and other business activities classification.

g. Sales of website development services.

- i. Effective January 1, 2026, website development services qualify as IT Services. Thus, Sales of website development or hosting services. Gross income derived from received for website development or hosting services is- subject to the business license tax under the retail sales and retail services classification.
- ii. Effective until January 1, 2026, gross income received for website development or hosting services are subject to tax under the service and other business activities classification.

h. Sales of website consulting and training services.

- i. Effective January 1, 2026, website consulting and training services qualify as IT Services. Website consulting and training services that support the functionality and operation of a website are subject to business license tax as “website development services.” Therefore, website consulting and training services are generally defined as a retail sale that are subject to the business license tax under the retail sales and retail services classification.

Example 13. Assume the same facts as described in Example 11. However, the consulting firm also provides network security services related to their client’s new website. The invoice separately itemizes the services and the charges for each service. The services provided are classified as IT Services and custom website development services, both of which are classified as retail sales. The gross amount that the consulting firm receives is subject to the business license tax under the retail sales and retail services classification.

Example 14. In 2027, Website Business LLC (WB) assists Seattle clients in comparing and selecting a website design based on their client’s needs and budget. The clients receive these services in Seattle where Website Business has nexus based on their activities that meet the definition of engaging in business in Seattle. WB is making a retail sale of website development services. WB is a website developer because they are providing a service that supports the functionality and operation of a website. These services are retail sales that are subject to the business license tax under the retail sales and retail services classification.

Example 15. Website Business LLC (WB) provides training to their clients about how to update and manage their own website. The clients receive these services in Seattle where WB has nexus based on their activities that meet the definition of engaging in business in Seattle. WB is making a retail sale of website development services. WB is considered a website developer since they provide a service that supports the functionality and operation of a website. These services are a retail sale subject to the business license tax under the retail sales and retail services classification. However, if sales are received outside of Seattle, WB will report this sale under the business license tax under the retail sales and retail services classification and take the intrastate or interstate sales deduction for this sale.

- ii. Effective until January 1, 2026, gross income received for website development or hosting services are subject to tax under the service and other business activities classification.

Example 16. Same facts as Example 14, except that Website Business LLC (WB) assists Seattle clients in 2024. Gross income that WB derives from their website development services are subject to business license tax under the service and other business activities classification.

Example 17. Same facts as Example 15 except that Website Business LLC (WB) assists Seattle clients in 2024. WB's website training services are subject to the business license tax under the service and other business activities classification.

- ~~or~~
 - i. Web hosting services, domain name registration, and payment processing services do not qualify as IT Services. Therefore, gross revenue income derived from web hosting services, domain name registration and payment processing services are subject to business license tax under the service and other business activities classification.

~~f.~~ **Example 18.** Super Host, LLC (SH) provides a cloud-based service that allows their customers to access their computer servers so that the customer can make their website information available to users of the internet. In consideration for its web hosting service, SH charges its customers a fee. Gross revenue income that SH derives from its web hosting service is not defined as an IT Service. Thus, gross income that SH derives from its web hosting service is subject to the business license tax under the service and other business activities classification.

~~(1)~~ Data warehousing services do not qualify as IT Services. Thus,

- ~~(e)~~ Sales of online advertising services. Gross income received for online advertising services is subject to tax under the service and other business activities classification.

~~(2)~~

~~(3)~~ **Example 8.** BB.com Inc. is located in Seattle and engaged in the business of selling souvenir items through the Internet. BB.com also provides online advertising services for third parties. Income received for online advertising services on its website is subject to tax under the service and other business activities classification.

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- ~~g.~~ Sales of data warehousing services. Gross income derived from income received for data warehousing services are subject to business license tax under the service and other business activities classification.

Example 199. HH Recovery Inc. provides ~~substitute a service that allows their customers to access their computer servers to back up their data computer systems in Seattle so that its customers may access HH Recovery's computer facilities~~ for disaster recovery purposes or for unplanned computer system failures. Customer K pays a monthly subscription fee for this service. For gross income revenue derived from their monthly data backup and restoration services, HH is subject to

business license tax under the service and other business activities classification on the sale of data warehousing services to K.

5. Effective January 1, 2026, sales between members of an affiliated group.

- a. Information technology services. For sales between members of an affiliated group, information technology services (as defined in section 2. d. of this rule) do not qualify as a retail sale whether provided in person or transferred electronically. Gross income derived from sales of information technology services between members of an affiliated group is subject to the business license tax under the service and other business activities classification.
- b. Custom website development. For sales between members of an affiliated group, custom website development services (as defined in section 2. m. of this rule) do not qualify as a retail sale whether provided in person or transferred electronically. Gross income derived from sales of custom website development services between members of an affiliated group is subject to the business license tax under the service and other business activities classification.
- c. Data processing services. For sales between members of an affiliated group, certain defined data processing services do not qualify as retail sales. The data processing services that qualify for this business license tax treatment are defined as the systematic performance of operations on data to extract the required information in an appropriate form or to convert the data to usable information (as defined in section 2. b. i & ii. of this rule).

For sales between members of an affiliated group, gross income derived from data processing services that concern the right to access and use prewritten computer software, custom software, and customization of prewritten computer software to perform data processing qualify as a retail sale (as defined in section 2. b. iii. of this rule).

Example 20. In 2027, B Corp., in preparation for litigation, hires an affiliate to use the affiliate's automated technology to search B Corp's computers and gather documents relevant to the lawsuit. The affiliate's service also provides software tools that allow B Corp to categorize, copy, store, and notate the gathered documents. The affiliate's service is not data processing. The services performed primarily involve gathering data and providing software tools that allow the affiliate to categorize, copy, store and notate documents in preparation for litigation. The affiliate is selling a digital automated service to B Corp. Therefore, gross income derived from the affiliate's sale of litigation automated technology services to B Corp. is subject to business license tax under the retail sales and retail services classification.

Example 21. In 2027, Affiliate provides check processing services to W Corp., a bank operating in Seattle. Affiliate accepts scanned checks provided by W Corp and then uses its software and technology to extract the check dollar amount, account number, and verify the check has been signed. Affiliate then provides this extracted and reformatted data back to W Corp allowing them

to reconcile their customers' accounts. Affiliate is providing data processing services defined as a digital automated service.

Effective January 1, 2026, for sales between members of an affiliated group, certain defined data processing services do not qualify as retail sales. The data processing services that qualify for this business license tax treatment are defined as the systematic performance of operations on data to extract the required information in an appropriate form or to convert the data to usable information. Therefore, gross income that Affiliate derives from sales of these services to W Corp. would be subject to business license tax under the service and other business activities classification.

Example 22. Same facts as Example 21, except that Affiliate accepts checks provided directly by W Corp's customers. Thus, check images come from both W Corp and W Corp's customers. Effective January 1, 2026, sales of Affiliate's data processing services directly to W Corp. are excluded from the definition of retail sale. However, check processing services that Affiliate performs for checks submitted by W Corp's customers do not qualify as sales between members of an affiliated group. Gross income that Affiliate derives from sales to W Corp itself for check processing services will be subject to business license tax under the service and other business activities classification. Gross income that Affiliate derives from check processing services to W Corp's customers arise from sales of a digital automated service and will be subject to business license tax under the retail sales and retail services classification.

4. ~~Intranet Services.~~ ~~Sales of intranet services are subject to the telecommunications services or telephone business utility tax.~~ Gross proceeds of sales of intranet services in Seattle are sales of telephone business activities as such term is defined under SMC 5.30.155060, and as such subject. Therefore, gross income derived from sales of intranet services are subject to Seattle's telephone business utility tax. See Seattle Rule 5-300 (Telephone business, telecommunications, and telephone service.) for more information.

6.

7. Distinguishing between sales of tangible personal property and sales of IT-information services.

- a. Effective January 1, 2026, gross income derived from sales of IT Services is subject to the business license tax under the retail sales and retail services classification. Gross income derived from a sale that includes both tangible personal property and sales of IT services will be subject to business license tax under the retail sales and retail services classification.

Example 23. ML Computers Inc. (ML) maintains its operation in Seattle and sells online music to customers. Customers purchasing music online may download the music and retain the downloaded music in perpetuity. Customer H, a customer located within Seattle, purchases music files online from ML. The sale to customer H is subject to the business license tax under the retail sales and retail services classification.

Example 24. Same facts as Example 23, except that customers can only retain the downloaded music files if they maintain their periodic subscription. Once the subscription ends, the right of ML's customers to access and listen to the music ends. Gross income that ML derives from the sale of music files downloaded by their customers is subject to business license tax under the retail sales and retail services classification.

Example 25. Same facts as Example 23, except that customers stream the music files from ML's cloud-based servers and do not download music files. Customers can access an unlimited amount of music as long as they maintain their subscription. ML's sale of streamed music qualifies as the sale of a digital automated service (DAS). Gross revenue income that ML derives from their streamed music sales is subject to business license tax under the retail sales and retail services classification. See Dir. Rule 5-503 Digital Products.

Example 26. In 2027, OST Inc., a Seattle business, organizes customer records in consideration for a monthly fee. OST organizes customer J's records and transfers the summarized data directly to customer J electronically. OST charges J a fixed monthly fee for its work. Gross income revenue that OST derives from its data processing services for J is subject to the business license tax under the retail sales and retail services classification.

5.b. Effective until January 1, 2026, gross income derived from the sale of IT Services is subject to business license tax under the service and other business activities classification. Some sales of IT Services include sales of tangible personal property. Until January 1, 2026, for sales of IT Services that include a sale of tangible personal property, a business must analyze whether the true object of the sale is the sale of tangible personal property or the sale of IT services. In deciding under which business license tax classification to report, the taxpayer must determine whether the true object of a sale is the sale of tangible personal property or the sale of information services. If services are performed such that the only tangible personal property in the transaction is the paper or medium on which the information is printed or carried, the activity constitutes the rendering of a service, and the transaction is subject to business license tax taxable under the service and other business activities classification. If, on the other hand, the true object of a sale is the sale of tangible personal property, the transaction is subject to business license tax taxable under the retail sales and retail services classification.

c. Retail sales of downloaded music, videos, books, and other written works are sales of digital goods subject to tax under the retail sales and retail services classification. The downloaded music, videos, books, and other written works are tangible personal property because they are electronic representations of items that would be tangible personal property if they were delivered in hard copy form. These are not one-of-a-kind products; they are meant to be mass produced and distributed. See Seattle Rule 5-503 for more information regarding sales of digital goods.

Example 27. Same facts as Example 23, except ML sells online music to customers in 2024. The sale to customer H is subject to the business license tax under the retail sales and retail services classification.

Example 28. Same facts as Example 24, except ML sells the subscription to allow Customer H to download music files in 2024. Gross income that ML derives from the sale of music files downloaded by their customers is subject to business license tax under the retail sales and retail services classification.

Example 29. Same facts as Example 25, except that ML's customers stream the music files in 2024. Gross income that ML derives from the sale of music files downloaded by their customers is subject to business license tax under the retail sales and retail services classification.

Example 30. Same facts as Example 26, except in 2024 OST organizes customer records for J and sends the summarized data directly into J's computers. OST charges J a fixed monthly fee for its work. OST is subject to tax under the service and other business activities classification because OST is providing data processing service to J.

Example 10. ML Computers Inc. maintains its operation in Seattle and sells online music to customers. Customers purchasing music online may download the music and keep the downloaded music in perpetuity. Customer H, a customer located within Seattle, purchases music online from ML. The sale to customer H is subject to the retail sales and retail services business license tax.

Example 11. Same facts as Example 10, except that customers can only keep the downloaded music as long as they maintain their periodic subscription. Once the subscription ends, the right of ML's customers to listen to the music ends. ML is subject to tax under the retail sales and retail services classification on the sale of downloaded music.

Example 12. Same facts as Example 10, except that customers cannot download the music but can listen to an unlimited amount of music as long as the subscription is maintained. ML is subject to tax under the retail sales and retail services business activities classification because ML is providing a digital automated service to H for listening to music online.

Example 13. OST Inc., a Seattle business, organizes customer records for microfiche and sells the microfiche to its customers. OST charges Customer J for the purchase of the microfiche based on the number of sheets of microfiche made. Microfiche is tangible personal property. OST delivers the microfiche to J in Seattle. OST is subject to tax under the retail sales and retail services classification on the sale of microfiche in Seattle. OST is also subject to tax under the manufacturing classification and may subsequently take a multiple activities tax credit (MATC).

~~Example 14. Same facts as 13, except OST organizes customer records for J and sends the summarized data directly into J's computers. OST charges J a fixed monthly fee for its work. OST is subject to tax under the service and other business activities classification because OST is providing data processing service to J.~~

8. Other Rules May Apply.

- a. Seattle Director's Rule 5-031 Measure of Tax – Retailers and Wholesalers
- b. Seattle Director's Rule 5-032 Measure of Tax – Service and Other Business Activities
- c. Seattle Director's Rule 5-300 Telecommunications Service, Telephone Business and Telephone Service
- d. Seattle Director's Rule 5-500 Computer Software
- e. Seattle Director's Rule 5-503 Digital Products

DIRECTOR'S CERTIFICATION

I, ~~Dwight Dively~~Jamie Carnell, City of Seattle ~~Interim City~~ Finance Director, do hereby certify under penalty of perjury of law, that the within and foregoing is a true and correct copy as adopted by the City of Seattle, Office of City Finance.

DATED this — day of ~~October~~August 20263.

CITY OF SEATTLE, a Washington municipality.

By: ~~Dwight Dively~~Jamie Carnell, _____,

City of Seattle ~~Interim City~~ Finance Director

Effective date: ~~October~~August — , 20263.