

Seattle Director's Rule 5-806

Advertising Services agencies

1. ~~(1)~~ **Introduction.** This rule explains how the business license tax applies to advertising services both effective January 1, 2026 and effective until January 1, 2026.
 - a. **Effective January 1, 2026,** the sale of advertising services as defined in section 3 of this rule qualifies as a "retail sale." Gross revenue income derived from advertising services is subject to the business license tax under the retail sales and retail services classification.
 - b. **Effective until January 1, 2026,** gross income received for advertising services, including commissions or discounts received for articles purchased as agents on behalf of clients is subject to business license tax under the service and other business activities classification.
 - c. Persons engaged in advertising may make sales of tangible personal property to their clients or others or make purchases of such articles as agents on behalf of their clients. (See SMC 5.45.040 (C) - Agency). Persons engaged in advertising may acquire or produce tangible personal property for their own use in connection with the rendition of an advertising service. They also may offer a resale of tangible personal property to their clients with the sale of advertising services
 - d. Advertising agencies are primarily engaged in the business of rendering professional services, but may also make sales of tangible personal property to their clients or others or make purchases of such articles as agents on behalf of their clients. (See SMC 5.45.040 (C) - Agency). Articles acquired or produced by advertising agencies may be for their own use in connection with the rendition of an advertising service or may be for resale as tangible personal property to their clients. Examples included in this rule identify facts and then state a 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. 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. "Advertising agency" means a business primarily engaged in providing advertising services and may be involved in other related activities such as the buying, selling, or producing of tangible personal property for or on behalf of clients, or for the agency to use in connection with providing advertising services.

- b. "Advertising services" means all services directly related to the creation, preparation, production, or the dissemination of advertisements. Advertising services include layout, art direction, graphic design, mechanical preparation, production supervision, placement, and rendering advice to a client concerning the best methods of advertising that client's products or services. Advertising services also include providing online referrals, search engine marketing and lead generation optimization, web campaign planning, the acquisition of advertising space in various media outlets such as the internet, television, radio, newspaper, and magazines, and the monitoring and evaluation of the effectiveness of an advertising campaign.
- c. "Affiliate" and "affiliated" means a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with another person;
- d. "Affiliated group" means a group of two or more persons that are affiliated with each other
- e. "Magazine or periodical" means any printed publication, other than a newspaper, issued and offered for sale regularly at stated intervals at least once every three months, including any supplement or special edition of the publication. Any publication meeting this definition qualifies regardless of its content.
- f. "Publishing" means communication (as of news or information) to the public, public announcement, proclamation; the act or process of issuing copies (as of a book, photograph, or musical score) for general distribution to the public; a published work.
- g. "Radio and television broadcasting" means delivery of audio, video, and written information by a person operating as a radio or television broadcasting station licensed, regulated, and issued a call sign by the Federal Communications Commission (FCC) including, but not limited to, delivery by wire, satellite, or any other means.
- h. "Source," "sourced," or "sourcing" refer to the location (as in a state, local taxing district, jurisdiction, or authority) where a sale is deemed to occur.

3. ~~(2)~~ Business License Tax.

- a. ~~(a)~~ **Effective January 1, 2026**, sales of advertising services (as defined in this section 3) are classified as a retail sale. Gross income derived from advertising services, including commissions or discounts received for articles purchased as agents on behalf of clients, is subject to the business license tax under the retail sales and retail services classification.

- i. For purposes of activities defined as a retail sale, "advertising services" means all digital and nondigital services related to the creation, preparation, production, or dissemination of advertisements including, but not limited to:
 - A. Acquisition of advertising space (including in the internet media),
 - B. Layout, art direction, graphic design, mechanical preparation,
 - C. Lead generation optimization,
 - D. Monitoring and evaluation of website traffic for purposes of determining the effectiveness of an advertising campaign,
 - E. Advertising production supervision and placement,
 - F. Advertising referrals including online referrals,
 - G. Rendering advice concerning the best methods of advertising products or services,
 - H. Search engine marketing,
 - I. Paid services rendered in respect to search engine optimization, and
 - J. Web campaign planning.
- ii. For purposes of activities defined as a retail sale, "advertising services" do not include:
 - A. Web hosting services and domain name registration;
 - B. Services rendered in respect to the following:
 - (1) "Newspapers" as defined in SMC 5.30.280.A and Dir. Rule 5-810(1)(a)-(c);
 - (2) Printing or publishing under RCW 82.04.280; and
 - (3) "Radio and television broadcasting" within this state as defined in RCW 82.04 (section 1, chapter 9, Laws of 2025); and
 - (4) Services rendered in respect to out-of-home advertising.
- iii. ~~Service and other business activities. The gross income received for advertising services, including commissions or discounts received for articles purchased as agents on behalf of clients, is taxable under the service and other business activities classification. Amounts derived from advertising services that are attributable to sales of tangible personal property, regardless of whether charges for such articles are separately stated in billings rendered to clients, are (See Seattle Rule 5-150 for commissions or discounts allowed by printers.) Included under the business license tax retail sales and retail services in this classification are amounts attributable to~~

sales of tangible personal property, unless charges for such articles are separately stated in billings rendered to clients.

iv. Out-of-Home Advertising is excluded from advertising services.

Out-of-home advertising is

- A. Billboard advertising,
- B. Street furniture advertising,
- C. Transit advertising,
- D. Place-based advertising, such as in-store display advertising or point-of-sale advertising,
- E. Dynamic or static signage at live events,
- F. Naming rights, and
- G. Fixed signage advertising.

Depending upon the applicable business activity, gross revenue income derived from services rendered in respect to out-of-home advertising is subject to business license tax under the printing/publishing classification or the service and other business activities classification.

Out-of-home advertising does not include direct mail.

Example 1. In 2027, ADco, a Seattle-based company, sells advertising services to Purchaser A, which sells pizza for its pizza business. Purchaser A contracts to have advertising disseminated exclusively in Seattle on digital and social media platforms. The contract price is \$5,000. ADco is subject to the business license tax for the \$5,000 of gross income that they derived from selling advertising services to Purchaser A under the retail sales and retail services classification.

Example 2. In 2027, ADco6, a Seattle-based company, sells advertising to Purchaser F for its Seattle-based real estate business. In consideration for \$20,000, Purchaser F contracts to have the advertising placed on Seattle benches and signage on specific billboards. ADco6 hires Company B who prints the advertising displayed on bus benches and billboards. ADco6 is providing a service to Purchaser F rendered in respect to out-of-home advertising. Thus, ADco6's services do not qualify as "advertising services" and are not subject to the business license tax under the retail sales and retail services classification. Rather, the gross revenue income that ADco6 derives from performing services for Purchaser F which are disseminated as out-of-home advertising are subject to business license tax under the service and other business activities classification. If ADco6 printed the advertising displayed on bus benches and billboards and created a separate charge for the printing services on its invoice, ADco6 would report the gross

revenue income derived from the printing services under the printing/publishing classification.

v. The business license tax classification that applies to gross income derived from direct mail advertising depends upon whether a taxpayer is engaged in printing or performing some other service in respect to direct mail.

A. Gross income derived from persons engaged in the activity of printing direct mail is subject to the business license tax under the printing and publishing classification.

B. Gross income derived from persons engaged in the activity of publishing or performing any other service in respect to direct mail is subject to the business license tax under the retail sales and retail services classification.

Example 3. GroceryCo operates a chain of grocery stores located in Seattle. In 2027, in consideration for \$10,000, GroceryCo contracts with Purchaser I to advertise Purchaser I's products in print advertisements directly mailed to customers. GroceryCo contracts with Acme Printing Co. (Acme) (also located in Seattle) who, in consideration for \$2,000, agrees to print the advertisements. GroceryCo's sale of advertising services disseminated as direct mail advertisements qualifies as a sale of an advertising service and a retail sale. The \$10,000 in gross revenue income that GroceryCo derives from the sale of direct mail advertising subject to the business license tax under the retail sales and retail services classification. The \$2,000 in gross revenue income that Acme derives from the printing of the direct sale advertisements is subject to the business license tax under the printing/publishing classification.

vi. Radio and television broadcast advertising is excluded from advertising services. Advertising disseminated on a radio or television broadcast does not qualify as advertising services and is excluded from the definition of retail sale.

Example 4. In 2027, BroadcastCo, a television broadcaster licensed, regulated and issued a call sign by the Federal Communications Commission (FCC), sells advertising airtime on its station to Purchaser G. Purchaser G contracts to have advertisements placed on BroadcastCo's specific television programming for \$100,000.

BroadcastCo's advertising airtime does not qualify as advertising services and is excluded from the definition of a retail sale. Gross revenue income that BroadcastCo derives from their sale of advertising time broadcast on its television station is subject to business license tax under the service and other business activities classification.

vii. Advertising services disseminated as printed or published material. Services rendered in respect to printing and publishing newspapers and printing materials other than newspapers is excluded from advertising services. Services rendered

in respect to publishing periodicals or magazines (hard copy only) is also excluded from advertising services.

Gross revenue income derived from services rendered in respect to

- A. Newspapers (either digital or hard copy),
- B. Printing or publishing periodicals or magazines (hard copy only), or
- C. Printing material other than a newspaper (hard copy only)

is excluded from the definition of advertising services and does not qualify as a “sale at retail,” “retail sale.” Depending on the nature of the activity that generates the income, the income is subject to the business license tax under the printing/publishing classification or the service and other business activities classification.

Example 5: In 2027, Client B retains ABC advertising (ABC) to provide consulting and graphic design services which they render in respect to advertising space that ABC procures in a newspaper. The newspaper agrees to publish Client B’s advertising.

Client B pays ABC an hourly rate for the consulting and graphic design services. Client B earns a commission for procuring the advertising space in the newspaper. For gross income received for the consultation and graphic design services ABC is subject to the business license tax under the service and other business activities classification. ABC should also report the commissions earned from purchasing advertising in a newspaper under the service and other business activities classification.

Example 6. In 2027, GroceryCo operates a chain of grocery stores located in Seattle. For a single charge of \$10,000, GroceryCo contracts with Purchaser I to advertise Purchaser I’s products in print advertisements provided to customers at GroceryCo’s store.

GroceryCo also agrees with Purchaser I to disseminate Purchaser I’s advertisements in material directly mailed to customers, as in-store display advertising, and as point of sale advertising. Finally, GroceryCo also agrees to disseminate Purchaser I’s advertisements electronically as internet advertisements. GroceryCo enters a contract with Printer B who prints the direct mail, in-store display and point of sale advertisements.

GroceryCo’s sale of in-store display advertising and point of sale advertising will be excluded from retail advertising services because they are services disseminated as out-of-home advertising. Gross income that GroceryCo derives from the in-store display and point-of-sale advertising is subject to business license tax under the service and other business activities classification. Advertising services that GroceryCo renders in respect to direct mail do not qualify as out-of-home advertising. Gross revenue income that GroceryCo derives from services rendered in respect to direct mail are subject to business license tax under the retail sales and retail services classification.

Services rendered in respect to advertising disseminated over the internet do not qualify for an exclusion from advertising services and would be subject to the business license tax under the retail sales and retail services classification. If GroceryCo performs all of the advertising for one non-itemized price, the sale may qualify as a bundled transaction. (See Dir. Rule 5-503(7) for the definition of a “bundled transaction.”)

Example 7. In 2027, Company X (X) provides advertising services to their Client Z. X purchases as a principal and not as an agent for Client Z, advertising space from a digital advertising publisher and resells it to Client Z. Client Z disseminates the advertising on digital platforms located in Seattle. X is primarily responsible for payment to the publisher for the costs of the advertising space. X does not earn a commission for procuring the advertising space as Client Z's agent, but rather realizes a profit from this business activity by marking up the cost of the advertising space to Client Z. The gross receipts from the resale of this advertising space to Client Z are subject to the business license tax under the retail sales and retail services classification. Whether X is acting as an agent when procuring advertising space for Client Z or as a principal who resells the advertising space to Client Z is irrelevant. X's sale of advertising services to Client Z disseminated on digital platforms is a retail sale.

However, if Client Z disseminated the advertising deliverable in the form of advertising in a digital newspaper, then the gross income that the digital advertising publisher derived from the sale of the publication of the advertising deliverable in the digital newspaper would be subject to the business license tax under the printing/publishing classification. If the digital advertising deliverable is disseminated in a digital newspaper, the revenue income that X earned from the resale of the advertising space would be subject to business license tax under the service and other business activities classification.

viii. Sales of advertising services (as defined in section 3 of this rule) between members of an affiliated group (as defined in subsections 2. c. and 2. d. of this rule) do not qualify as a retail sale.

Example 8. Omnipresent Co. (Omnipresent) enters an agreement with Cyberdyne Inc. (Cyberdyne), its affiliate. In the agreement, Cyberdyne promises to design a large, national, high-production web campaign for Omnipresent. Omnipresent identifies clear objectives that it seeks to achieve by implementing the web campaign. Omnipresent seeks to 1) increase their website traffic by 20% in three months, 2) generate 5,000 verified leads and 3) increase online sales by 15% year over year. Cyberdyne reviews Omnipresent's objectives and designs a web campaign to meet them. In consideration for Cyberdyne's web campaign, Omnipresent tenders \$200,000 to Cyberdyne. The professional web campaign services that Cyberdyne has agreed to provide for Omnipresent qualify as advertising services. However, this sale of advertising services between Cyberdyne and Omnipresent, two affiliated companies, does not qualify as a retail sale. The \$200,000 in gross income that Cyberdyne received from Omnipresent is

subject to business license tax under the service and other business activities classification.

- ix. Business license tax manufacturing classification as applied to advertising services. The manufacturing classification applies to articles manufactured for sale or commercial or industrial use. See Seattle Rule 5-112. The business license tax manufacturing classification also applies to interstate sales of manufactured articles if stated separately from charges for advertising services in billings rendered to clients.

Example 9. In 2027, Company XYZ (XYZ), an advertising company located in Seattle, provides advertising services to their Client A, also located in Seattle. As part of their advertising services, XYZ performs graphic design and other consultation services on behalf of Client A. Client A requests that XYZ disseminate the advertising deliverables in the form of billboards located in Seattle. XYZ constructs billboards, utilizing their own materials, for Client A. When billing Client A, XYZ segregates the billboard charge from the other advertising services they performed.

Since XYZ's services are disseminated as out-of-home advertising (billboards) and the services (graphic design and consulting) are part of XYZ's advertising campaign (services rendered in respect to out-of-home advertising), XYZ's services are excluded from the definition of retail sale. XYZ should report their gross income from graphic design and consulting under the service and other business activities classification. XYZ should report their gross income for the construction and sale of billboards under the manufacturing and retail sales and retail service classifications and claim the MATC credit against the selling activity under the retail sales and retail services classification.

Alternatively, if Client A's billboards were located outside of Seattle, XYZ would report the gross receipts for the construction of the billboards under the manufacturing classification and gross receipts for the sale of the billboards under the retail sales and retail services classification. XYZ would then deduct from the retailing classification the gross receipts from sales of billboards delivered outside of Seattle. XYZ's gross income derived from the sale of advertising services would be subject to business license tax under the service and other business activities classification.

Example 10. In 2027, Company ABC (ABC) provides advertising services to Client C. ABC maintains their operation in Seattle. In addition to providing consulting and design services, ABC purchases printed material and other articles of tangible personal property, and resells them to Client C. ABC renders the consulting and design services in respect to printed advertising deliverables disseminated in newspapers. ABC is not printing or publishing the advertising deliverables. In their billing statements to Client C, Company ABC does not separate charges for consulting and design services from the sales of tangible goods. The purchase of the tangible personal property will be

considered purchases for consumption by ABC during the course of performing its advertising services, and the total amount billed to Client C is subject to business license tax under the service and other business activities classification.

If ABC separately invoiced Client C for the services rendered in respect to the printed advertising materials, with respect to gross income derived from those services, ABC would be subject to the business license tax under the service and other business activities classification. However, the resale of the printed material to Client C is a sale of tangible personal property to a consumer. Therefore, the gross income that ABC derives from the sale of the printed materials to Client C is subject to business license tax under the retail sales and retail services classification.

b. Effective until January 1, 2026, gross income received for advertising services is subject to business license tax under the service and other business activities classification.

- i. Commissions or discounts received by advertising agencies for articles purchased as agents on behalf of clients are also subject to business license tax under the service and other business activities classification.**
- ii. Unless charges for such articles are separately stated in billings rendered to clients, the service and other business classification applies to amounts attributable to sales of tangible personal property included in sales of advertising services.**

Example 11. Same facts as Example 1 except that ADco sells their advertising services, the deliverables of which are disseminated on digital and social media platforms, in 2024. ADco will be subject to the business license tax under the service and other business activities classification for the \$5,000 of advertising services that they sold to support Purchaser A's pizza business.

Example 12. Same facts as Example 2 except that ADco6 sells advertising to Purchaser F in 2024. The gross revenue income that ADco 6 derives from selling advertising services to Purchaser F disseminated on bus benches and signage on billboards is subject to business license tax under the service and other business activities classification.

Example 13. Same facts as Example 3 except that GroceryCo sells its advertising services disseminated as direct mail to Purchaser I in 2024. The \$10,000 in gross revenue income that GroceryCo derives from the sale of services rendered in respect to direct mail advertising is subject to the business license tax under the service and other business activities classification.

Example 14. Same facts as Example 4, except that BroadcastCo sells their advertising airtime to Purchaser G in 2024. Gross income that BroadcastCo derives from their sale of advertising time broadcast on their television station is subject to business license tax under the service and other business activities classification.

Example 15. Same facts as Example 5 except that ABC Advertising completes the sale of advertising space in a newspaper for Client B in 2024. For gross income received for the consultation and graphic design services, ABC is subject to the business license tax under the service and other business activities classification. ABC should also report the commissions earned from purchasing advertising in a newspaper under the service and other business activities classification.

Example 16. Same facts as Example 6 except that GroceryCo completed their sale of advertising to Purchaser I in 2024. Gross income that GroceryCo derives from the sale of advertising services rendered to Purchaser I and disseminated as direct mail, in-store display advertising, point-of-sale advertising and electronically as internet advertisements will be subject to the business license tax under the service and other business activities classification.

Example 17. Same facts as Example 7 except that Company X purchases the advertising services for their Client Z, as a principal and not as an agent, in 2024. Gross receipts that X derives from the resale of advertising space are subject to business license tax under the service and other business activities classification.

- iii. Business license tax manufacturing classification as applied to advertising services.

Example 18. Same facts as Example 9 except that XYZ provides services rendered in respect to out-of-home advertising, the production of billboards, in 2024. XYZ should report their gross income from graphic design and consulting under the service and other business activities classification. The company should report their gross income for the construction and sale of billboards under the manufacturing and retail sales and retail services classifications. If the location of the billboards was outside Seattle, XYZ would report the gross receipts for the construction and sale of the billboards under the manufacturing and retail sales and retail services classifications and claim an intrastate or interstate deduction against the retailing classification. If the client was located in Seattle, XYZ would report the gross receipts for the construction and sale of the billboards under the manufacturing and retailing classifications and claim the MATC credit against the selling activity under the retailing classification.

Example 19. Same facts as Example 10 except that, in 2024, Company ABC sells advertising services rendered in respect to printed materials. If Company ABC does not separate charges for consulting and design services from the sales of tangible goods in their billing statements to client C, the purchase of the tangible personal property will be considered purchases for consumption by ABC during the course of performing its advertising services, and the total amount billed to client C is subject to business license tax under the service and other business activities classification.

4. Other rules may apply

- a. Seattle Director's Rule 5-112 Commercial and Industrial Use**
- b. Seattle Director's Rule 5-500 Computer Software**
- c. Seattle Director's Rule 5-503 Digital Products**
- d. Seattle Director's Rule 5-810 Publishers of Newspapers, Magazines and Periodicals**

~~(b) Retailing and wholesaling. The retailing or wholesaling classification applies to articles of tangible personal property sold to persons for whom no advertising service is rendered. In the event that both advertising services and tangible personal property are provided to a client, the revenue income from the sale of tangible personal property is taxable under this classification only if it is separately stated from the charges for advertising services in billing statements rendered to such clients.~~

~~(c) Manufacturing. The manufacturing classification applies to articles manufactured for sale or commercial or industrial use (see Seattle Rule 5-1-12), and also to interstate sales of manufactured articles if stated separately from charges for advertising services in billings rendered to clients.~~

~~(3) Examples. The following examples identify a number of facts and then state a conclusion. These examples should be used only as a general guide. The tax status of each situation must be determined after a review of the facts and circumstances.~~

~~(a) ABC advertising provides advertising services to client B. As part of their services, ABC provides consultation, graphic design, and they procure advertising space in a publication on behalf of client B for which they earn a commission. ABC should report its gross income received for the consultation and graphic design services performed under the service and other classification. ABC should also report the commissions earned from purchasing advertising under the service and other business activities classification.~~

~~(b) Company ABC above, also provides advertising services to client C. In addition to providing consulting and design services, ABC purchases printed material and other articles of tangible personal property, and resells them to client C. Company ABC does not separate charges for consulting and design services from the sales of tangible goods in their billing statements to client C. Because ABC did not segregate the charges for the resale of tangible personal property in their billing statements to client C, the purchase of the tangible personal property will be considered purchases for consumption by ABC during the course of performing its advertising services, and the total amount billed to client C is subject to tax under the service and other business activities classification.~~

(d) Company X provides advertising services to their client Z. X purchases as a principal and not as an agent for client Z, advertising space from a publisher and resells it to client Z. X is primarily responsible for payment to the publisher for the costs of the advertising space. X does not earn a commission for procuring the advertising space as client Z's agent, but rather realizes a profit from this business activity by marking up the cost of the advertising space to client Z. The gross receipts from the resale of this advertising space to client Z are reportable under the service and other business activities classification. In this example, X is not acting as an agent when procuring advertising space for client Z. X is purchasing and reselling the advertising space. Therefore, X does not meet the requirements of an agent pursuant to SMC 5.45.040 (C).

I, Dwight Dively, City of Seattle 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.

CITY OF SEATTLE, a Washington municipality.

Effective date: October , 2026.