



Interim guidance statement regarding changes made by ESSB 5814 for information technology services

September 12, 2025

Purpose

Effective October 1, 2025, Engrossed Substitute Senate Bill 5814, Laws of 2025, Chapter 422 (ESSB 5814) makes information technology services a “retail sale” subject to Washington’s retailing business and occupation (B&O) tax and retail sales tax if sold to a consumer. The purpose of this interim guidance statement is to provide guidance that taxpayers can rely on while the Department of Revenue (department) creates permanent guidance.

This interim guidance is divided into the following sections

- Background and relevant law
- What is the tax treatment of IT Services?
- How do I determine where the sale of IT Services takes place?
- Can IT Services be resold?
- Does the multiple points of use (MPU) exemption apply to IT Services?
- Do non-profits have to pay retail sales tax on IT Services?
- Do state and local governments have to pay retail sales tax on IT Services?
- How do I determine my retailing B&O amount and the correct retail sales tax rate?
- What is the tax treatment of IT Services sold between members of an affiliated group?
- Taxpayer instructions

Examples found in this interim guidance statement identify a number of facts and then state a conclusion. These examples should be used only as a general guide. The tax results of other situations must be determined after a review

of all facts and circumstances.

Background and relevant law

Under ESSB 5814, the sale of information technology services (IT Services) is a retail sale.[1] Accordingly, IT Services will be subject to retailing B&O tax and retail sales tax if sold to a consumer.

“IT Services” are services that include, but are 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.

What is the tax treatment of IT Services?

Effective October 1, 2025, providers of IT Services are generally required to report gross income from sales of IT Services under the retailing B&O tax classification. IT Services providers are also generally required to collect and remit retail sales tax.

The department considers any services that support or assist information technology infrastructure to be taxable as an IT Service. These 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.

IT Services include, but are not limited to, the following types of activities:

- 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.

IT Services do not include:

- Web hosting, domain name registration, and payment processing services.
- Custom website development services (separately classified as a retail sale per ESSB 5814 Sec. 101(3)(g)).[2]
- Sales of digital automated services, including software as a service (separately classified as a retail sale per RCW 82.04.050(8)).
- Sales of remote access software (separately classified as a retail sale per ESSB 5814 Sec. 101(6)(b)).
- Sales of custom software and customization of computer software (separately classified as a retail sale per ESSB 5814 Sec. 101(6)).
- Cryptocurrency mining activities (does not include network system support or operation services).
- Telecommunications services and ancillary services (classified as a retail sale under RCW 82.04.050).[3]

As part of the department's efforts to obtain industry feedback, the department was asked a number of questions related to the tax treatment of IT Services. The department provides guidance as follows:

Whether IT Service providers must have physical presence to be subject to Washington taxes?

If you are an IT Service provider that does not have physical presence nexus in Washington, you may still be subject to B&O tax and need to collect and remit retail sales tax for sales sourced to Washington when you exceed the economic nexus threshold of \$100,000 in combined gross receipts sourced or attributed to Washington.[4] For more information, see the department's webpage on out of state businesses reporting thresholds and nexus.

What if I sell IT Services subject to retail sales tax with other services subject to the S&O activities classification for one, non-itemized price to my customers?

If there are two distinct and identifiable products, sold for one nonitemized price, these sales would generally be considered “bundled transactions” and the bundle would be subject to the retailing B&O tax and retail sales tax, unless an exception to the bundled transaction rules applies.[5] However, generally, if these products are separately itemized to the customer, each product can be treated according to its appropriate tax classification. See RCW 82.08.190(4) for potential exceptions.

How does the department define “data processing services” with respect to information technology services?

For the purposes of IT Services, “data processing services” means:

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. Data processing services include check processing, image processing, form processing, survey processing, payroll processing, claim processing, and similar activities.

If a taxpayer is selling a product or service that more specifically meets the definition of another B&O classification or exclusion, the department will consider that classification or exclusion to apply, even if it includes elements of data processing. However, a data processing service does not include the services described in Section 101(6)(b), of ESSB 5814, related to custom software or the customization of prewritten software.

Example 1 – IT Services: Network security services

Facts: 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 its own software to test the company's network security vulnerabilities.

Result: The consulting firm is providing IT Services because it is assisting with network operation and support, as well as providing network system support services. The consulting firm must report the gross amount received under the retailing B&O tax classification and must also collect and remit retail sales tax if subject to tax in Washington.

Example 2 – IT Services and custom website development services

Facts: Assume the same facts as described in Example 1, 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.

Result: The services provided are classified as IT Services and custom website development services, both of which are classified as retail sales. The consulting firm must report the gross amount received under the retailing B&O tax classification and must also collect and remit retail sales tax if subject to tax in Washington. Please see the department's interim guidance statement regarding changes made by ESSB 5814 for custom website development services.

Example 3 – IT Services: Network consulting

Facts: A network consulting firm is hired by a customer to analyze a network slowdown issue. The network consulting firm works quickly to analyze, solve, and document the issues with their customer's network. However, the network consulting firm does not implement the solution, they only provide the documented results.

Result: The network consulting firm is providing a retail service classified as IT Services because they provide network system support services. The network consulting firm must report the sale under the retailing B&O tax classification, and they must collect and remit retail sales tax if subject to tax in Washington.

How do I determine where the sale of IT Services takes place?

The sale of IT Services is a retail sale. Retail sales must be sourced in accordance with RCW 82.32.730 for sales and use tax and retailing B&O tax purposes. The term "**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 and is subject to retail sales tax.

IT Services are subject to tax based on the location where the services are received by the purchaser and other default sourcing rules as follows:

1. The seller's place of business if the purchaser receives the retail service at the seller's place of business.

2. If not received at the seller's place of business, the location where the purchaser receives the retail service if known to the seller.
3. If the location where the purchaser receives the retail service is not known, the purchaser's address available in the seller's business records.
4. If no address is available in the seller's business records, the purchaser's address obtained at the time of sale (e.g. purchaser's payment instrument).
5. If no address is obtained at the time of sale, the address where the retail service was provided by the seller.

"Receipt," in relevant part, generally means to make first use of the service.[6] While not binding on the department, the department may be guided by the Streamlined Sales and Use Tax Agreement (SSUTA) when determining the location of receipt.[7] The SSUTA does not directly address the sourcing of IT Services, but does address the sourcing of a service generally, indicating "the location (or locations) where the purchaser (or the purchaser's donee) can potentially first make use of the service is the location (or locations) of the 'receipt' of the service."[8]

Accordingly, in determining the location of receipt, the department provides the following guidance:

- **If the location of service is known:** If the purchaser receives the IT services at multiple known locations, the IT services must be sourced and allocated to those locations. The department will accept proportional allocation to each known location based on the amount of the service received at each location or equal proportional allocation to the known locations.
- **Agreed-upon allocation at time of invoice, reasonable and consistent method:** If the purchaser will receive the IT services in multiple locations, the seller and purchaser may allocate the sale to multiple locations based on a reasonable and consistent method.[9] The locations and agreed-upon allocation in this instance must be provided by the purchaser by the time of the invoice. The reasonableness of the allocation will be subject to review by the department.
- **If the location of the service is unknown:** If the location of receipt is unknown, the service is deemed received at the business address of their client based on their business records provided it is not used in bad faith. [10] If the business address is unavailable, the service may be deemed received at the purchaser's billing address as received in the ordinary course of business, provided that it is not used in bad faith or other similar purchaser address obtained at the consummation of sale.[11]

- **Documentation:** Those that are providing IT services should document in their contracts, invoices, or service agreements where they will be sourcing the services.

Example 4 – Sourcing IT Services: Location Known

Facts: Customer Co. Inc., a Tigard, Oregon-based business that also has a location in Washington, hires IT Business LLC., a Washington-based company, to provide network migration services, including transferring data to the new environment and providing network diagnostics. Customer Co. Inc. indicates in their contract that the network migration services will be received at their office location in Redmond, Washington.

Result: The sale is sourced to Redmond, Washington, the location Customer Co. Inc. indicated as the business location where they will receive the network migration services. IT Business LLC must report the sale under the retailing B&O tax classification, and they must collect and remit retail sales tax based on the rate for the Redmond office location.

Example 5 – Sourcing IT Services: Multiple Locations

Facts: Assume the same facts as described in Example 4, except Customer Co. Inc. does not indicate in their contract the location where the services will be received. IT Business LLC requests clarification on where the services will be received. Customer Co. Inc. states that they will be received at both their Oregon and Washington locations. Additionally, Customer Co. Inc. provides that each location has the same number of employees that will use the service, agreeing on this method to allocate the sales. The contract amount is \$20,000 of which \$10,000 is attributed to each location.

Result: As Customer Co. Inc. receives the services in multiple locations, the seller and purchaser may allocate the sale to multiple locations based on a reasonable and consistent method. The locations and agreed-upon allocation in this instance must be provided by the purchaser by the time of the invoice. The reasonableness of the allocation will be subject to review by the department. In this example, the sales are sourced and allocated equally to both locations where the services are received. IT Business LLC would pay retailing B&O tax and collect retail sales tax on the sales allocated to Washington, which represents \$10,000 of the contract amount, based on the sales tax rate applicable to the specific location in Redmond, Washington. While IT Business LLC will report the entire sale under the retailing B&O tax

classification, it may also take a deduction for interstate and foreign sales on the part of the sale sourced out-of-state (in this case, 50% is sourced to Oregon).

Example 6 – Sourcing IT Services: Location of Service is Unknown.

Facts: Customer LLC, a business based in Wenatchee, Washington, hires IT Business LLC, a Washington-based company, to assist with network operations and support. Customer LLC does not indicate in the contract where the business will receive the operations and support services and the location where the services are received is not otherwise known by the seller. However, Customer LLC provided their headquarters address in Wenatchee on their invoice.

Results: The sale is sourced to Wenatchee, Washington, the location indicated on the purchaser's invoice at the consummation of the sale, if not used in bad faith. IT Business LLC must report the amount received for their contract with Customer LLC under the retailing B&O classification, and they must collect and remit retail sales tax rate for Wenatchee.

Example 7 – Sourcing IT Services: Multiple Services and Locations

Facts: Unequaled Tech LLC is an Oregon-based IT Service business that has established economic nexus in Washington State. Customer Inc., a company based in Tacoma, Washington, hires Unequaled Tech LLC to provide network support and help desk services for Customer Inc.'s staff located in their Washington offices in Forks and Tacoma, as well as for their office location in Idaho. Unequaled Tech LLC remotely provides both the network support and help desk services to all of Customer Inc.'s indicated office locations. The contract indicates that there will be a monthly fee for the network support services, and the help-desk services will be billed on a per-ticket basis billed to the specific location where the help desk service is received. Customer Inc. instructs Unequalled Tech LLC to allocate the monthly fee proportionally to their three office locations based on the number of employees in each office. Customer Inc. establishes in their contract that 10% of its employees are located in Forks, 80% of its employees are located in Tacoma, and 10% of its employees are located in Idaho.

Result: The monthly fee amounts are sourced to Forks, Tacoma, and Idaho based on the proportional allocation method established in their contract. However, the charges billed on the per-ticket basis will be sourced to the location of Customer Inc.'s employees requesting the help-desk services. Unequaled Tech LLC must report the full amount received from their contract with Customer Inc. under the retailing B&O classification (though they may take the interstate and foreign sales deduction for the network support and help-desk tickets sourced to Idaho), and they must collect and remit retail sales tax on the network support and help-desk tickets sourced to their Forks and Tacoma offices.

Example 8- Sourcing IT Services: Multiple Services and Locations

Facts: Same facts as Example 7, except Customer Inc. does not provide an allocation method between their Forks, Tacoma, and Idaho offices where the network support services will be received.

Result: The charges for the monthly fee may be sourced proportionally and allocated equally between the Tacoma, Forks and Idaho locations, using the addresses indicated by Customer Inc. in their contract. The charges billed on the per-ticket basis will continue to be sourced to the location of the employees requesting the help-desk services.

Example 9 – Sourcing IT Services: Multiple Services and Locations

Facts: Assume the same facts as in Example 8, except Customer Inc. instructs Unequaled Tech LLC to source all the monthly fees to their Idaho address.

Result: If the services are sourced solely to Customer Inc.'s Idaho location on a consistent basis, even though the services are also received at their Tacoma and Forks locations, the department will consider use of the Idaho address to constitute bad faith and may seek deferred sales tax, interest, and penalties from Customer, Inc.

Example 10 – IT Services: IT training services

Facts: Wonderful Tech Biz Co. is a Spokane, Washington-based business that provides support for clients' information technology infrastructure.

Nontechnical Supply LLC is a Washington-based business with warehouses in Seattle and Olympia, Washington. Nontechnical Supply LLC hires Wonderful Tech Biz Co. to provide in-person training and support on a new software

suite that Nontechnical Supply LLC purchased from a third party. Nontechnical Supply LLC specifies in the contract that they will have 10 employees at each location who will need to receive the training. The contract price is \$10,000, which reflects \$5,000 attributable to services at each location.

Result: Wonderful Tech Biz Co. is providing training services that are classified as retail IT Services. Wonderful Tech Biz Co. must report the sale under the retailing B&O tax classification, and they must collect and remit retail sales tax based on the rates for both the Seattle and Olympia warehouses based on the employees who will receive the training. The proportional allocation method outlined in their contract means that Wonderful Tech Biz Co. must source sale to both warehouses, paying the retailing B&O tax and collecting the retail sales tax rate for \$5,000 of the contract based on the location of the Seattle warehouse and \$5,000 on the location of the Olympia warehouse.

Can IT Services be resold?

Yes, in certain circumstances. Sellers of these services may use a reseller permit when subcontracting with a third-party service subcontractor in certain situations. However, IT Service providers must maintain documentation to substantiate that the services qualify for resale.

The seller of IT Services may provide a reseller permit to a third-party subcontractor to document that the seller is purchasing the third-party subcontractor's services for resale purpose when both of the following factors are met:

1. The seller of the IT Services is contractually responsible for providing the services to a third-party buyer; and
2. The seller of the IT Services has no intervening use of the services provided by the third-party subcontractor.

Businesses providing IT Services may also accept other approved exemption certificates from their customers. See WAC 458-20-102. To be valid, paper certificates must be fully completed and signed by the customer.

If a seller of IT Services provides a subcontractor with a reseller permit or other approved exemption certificate, the seller does not need to pay retail sales tax. However, the subcontractor would still need to report the sale

under the wholesaling B&O tax classification.

Example 11 – Reselling IT Services

Facts: Helpful Co., a Washington-based business, provides network assessment, planning, and design services on a system integration project for a Washington-based IT Service provider that will incorporate these services into the larger project for their customer without intervening use of these services. Helpful Co.'s contract provides that they will be paid directly by the IT Service provider and will not invoice the third-party customer. The IT Service provider presents Helpful Co. with a reseller permit indicating that the IT Service provider will be reselling their services to a third-party customer.

Results: Helpful Co. does not need to charge retail sales tax on this transaction. Helpful Co. will report the sale under the wholesaling B&O tax classification and maintain documentation that substantiates the sale as a wholesale sale. The IT Service provider will charge their client retail sales tax on the cost of the entire project, including the cost of those IT services provided by Helpful Co.

Does the multiple points of use (MPU) exemption apply to IT Services?

RCW 82.08.0208(4) provides the multiple points of use (MPU) retail sales exemption for certain eligible products, including digital products such as digital automated services (DAS), used by the purchaser concurrently inside and outside of Washington. RCW 82.12.0208(7) works in conjunction with the MPU sales tax exemption to apportion use tax based on the use of these products in Washington. This means that instead of paying retail sales tax at the time of purchase, buyers claiming the MPU exemption are exempt from paying sales tax at the time of sale and must the apportion and report use tax directly to the department.

If a service that is defined as a retail sale under RCW 82.04.050 also meets the definition of a DAS, the department will treat these services as digital products that are eligible for all applicable retail sale and use tax exemptions, including the MPU exemption. A DAS is “any service transferred electronically that uses one or more software applications.” See WAC 458-20-15503(601). The question of whether a service meets the definition of a DAS generally depends on the facts and circumstances of that service. At the time

of this IGS, the department has received no feedback concerning whether any IT services may meet the definition of a DAS. Sellers and their customers will need to make this determination as to whether their service is a DAS.

In order to qualify for the MPU exemption, the DAS must also be concurrently available for use inside of Washington and outside of Washington. To be "concurrently available for use within and outside this state" means that employees or other agents of the taxpayer may use the digital automated services simultaneously at one or more locations within Washington and one or more locations outside of Washington.

If a service meets the statutory requirements described above, purchaser may generally use the MPU sales tax exemption and pay use tax on the amount apportioned to Washington under RCW 82.12.0208.

However, if the DAS is sold as part of a bundled transaction, then the MPU exemption and related apportionment is not available.[12] A bundled transaction is the sale of two or more distinct and identifiable products sold for one nonitemized price.[13] Pursuant to this interim guidance, the department will accept there is not a bundled transaction and the packaged products can each be taxed according to their appropriate classification if:

- The price of the DAS is separately identified by product on a binding sales invoice or other supporting sales-related documentation made available to the customer in paper or electronic form that may include, but is not limited to: an invoice, bill of sale, receipt, contract, service agreement, lease agreement, periodic notice of rates and services, rate card, price list or the sale of any products in which the sales price varies; or
- The sale of any of the products that are negotiable based on the selection made by the purchaser of the products included in the transaction.

Do non-profits have to pay retail sales tax on IT Services?

In Washington, nonprofit organizations are generally taxed like any other business. They must pay B&O tax and collect and remit sales tax on gross revenues generated from the regular business activities they conduct.[14] This means that nonprofit organizations must collect and remit retail sales tax

when making retail sales of IT Services and must pay retail sales tax when purchasing IT Services. For more information, see our Nonprofit organizations industry guide.

Do state and local governments have to pay retail sales tax on IT Services?

In Washington, state and local governments are generally subject to retail sales tax on their purchases just like any other businesses.[15] Sellers must collect and remit retail sales tax on sales of IT Services to state or local governments.

How do I determine my retailing B&O amount and the correct retail sales tax rate?

Washington's B&O tax, including the retailing B&O tax, is calculated on the gross income from activities. This means that there are no deductions for labor, materials, taxes, or other costs of doing business. The B&O tax rate varies by classification, which you can find on the department's business & occupation tax classifications webpage. For more information regarding B&O tax generally, please see the department's business & occupation tax webpage.

Retail sales tax collection is based on the location where the customer receives the service (destination-based sales tax). The department has dedicated tools that help businesses track and determine the location code and sales tax rate that should be charged. This includes a sales tax rate lookup URL Interface that provides direct access to the department's address-based rate lookup technology platform.

Please see the department's Sales & use tax rates and Sales and use tax tools webpages for more information.

What is the tax treatment of IT Services sold between members of an affiliated group?

The sale of IT Services, which include data processing services, when sold between members of an affiliated are generally excluded from the definition of "retail sale" under ESSB 5814. Therefore, if the exclusion requirements are otherwise met, these services would be subject to the service and other activities B&O tax classification.

Taxpayer instructions

The department will continue to review these issues for purposes of developing final guidance. This interim guidance statement will remain in effect until the department issues final guidance, cancels this interim statement, or new legislation is enacted.

Please see our Services newly subject to sales tax webpage for updates, guidance, and opportunities to engage with the department.

If you have questions about this guidance, please contact the department at rulings@dor.wa.gov.

[1] See section 101 of ESSB 5814

[2] See the department's interim guidance statement regarding changes made by ESSB 5814 for custom website development services.

[3] RCW 82.04.065.

[4] RCW 82.04.067

[5] See RCW 82.08.190

[6] RCW 82.32.730(9)(f).

[7] RCW 82.02.210.

[8] SSUTA Rule 311.1 

[9] See generally, SSUTA Rule 309.3 , SSUTA Rule 311.1.

[10] RCW 82.32.730(1)(c).

[11] RCW 82.32.730(1)(d).

[12] ETA 3242.2025 does not extend to apply the MPU to other types of bundled transactions as it is only applicable for sales of software maintenance agreements.

[13] RCW 82.08.190 and RCW 82.08.195.

[14] See WAC 458-20-169(4).

[15] See WAC 458-20-189(5).



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