



# Interim guidance statement regarding contracts existing prior to October 1, 2025, and changes made by ESSB 5814

August 29, 2025

## Purpose

In 2025, the Washington Legislature enacted Engrossed Substitute Senate Bill 5814, which is designed to modernize the state's retail sales tax laws by extending the tax to certain services, repealing several exclusions that had previously applied to digital automated services (DAS), and providing that certain sales between affiliates are excluded from the definition of a retail sale. See Laws of 2025, Chapter 422 (ESSB 5814). These changes take effect on October 1, 2025. Among other things, ESSB 5814 makes sales of various services a "retail sale" subject to Washington's retailing business and occupation (B&O) tax and retail sales tax, including:

- Information technology services.
- Custom website development services.
- Investigation, security, and armored car services.
- Temporary staffing services.
- Live presentations.
- Advertising services.
- Sales of custom software and the customization of prewritten software.

The purpose of this interim guidance statement is to explain the tax collection and reporting requirements for taxpayers with existing contracts that were entered into prior to the October 1, 2025 effective date of ESSB 5814.

Taxpayers can rely on this interim guidance until the Department of Revenue (department) adopts permanent guidance.

## Background

The department has been asked whether existing contracts entered into prior to ESSB 5814's October 1, 2025 effective date, that were not subject to retail sales tax prior to October 1, 2025, will receive the same tax treatment.

## Examples

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.

### **What is an “existing” contract for the purposes of this guidance?**

An “existing” contract must meet the following requirements:

1. The contract was signed and executed prior to October 1, 2025,
2. The underlying services are to be provided on or will continue after October 1, 2025, and
3. The underlying services of that contract would be considered a “retail sale” effective October 1, 2025.

### **Example 1 – “existing” contract eligible under this guidance**

**Facts:** TechFriendly is an IT firm that specializes in providing IT training and help desk services. They recently signed a contract with Client Co. to provide their services starting October 1, 2025, through October 1, 2026. TechFriendly and Client Co. signed and executed their contract on September 15, 2025.

**Result:** This contract meets the requirements of an “existing” contract for the purposes of this guidance.

### **Example 2 – contract that is not eligible under this guidance**

**Facts:** PaymentsPlus is a payment processing company that processes and routes electronic payments for merchants and payment networks. They recently signed a contract with Client Co. to provide their services starting October 1, 2025, through October 1, 2026. PaymentsPlus and Client Co. signed and executed their contract on September 15, 2025.

**Result:** This contract does not meet the requirements of an “existing” contract for the purposes of this guidance because the underlying services provided by PaymentsPlus would not be defined as “retail sales” as of October 1, 2025.

## What is the tax treatment of “existing” contracts?

### **Situation 1: taxpayer has an “existing” contract and the contract price has been paid prior to October 1, 2025, but the services are provided on or continue after October 1, 2025.**

In this situation, the department deems the sale to have occurred prior to October 1, 2025. Accordingly, the transaction is not subject to retailing B&O tax or retail sales tax and is otherwise subject to the tax classification that applied prior to the changes made by ESSB 5814. It does not matter whether the seller maintains its accounting records on a cash or accrual basis.

### **Example 3 – eligible “existing” contract, payment made before October 1, 2025**

**Facts:** IT Firm LLC provides information technology support and training services that would be considered a taxable retail sale as of October 1, 2025. IT Firm LLC enters into a contract with Big Biz Inc. to provide IT training and support services starting October 1, 2025, and ending June 30, 2026. IT Firm LLC and Big Biz Inc. sign and execute the contract on September 30, 2025, and Big Biz Inc. pays the full contract price the same day.

**Result:** IT Firm LLC may report the gross income it received from Big Biz Inc. on September 30, 2025, under the service and other B&O tax classification and is not required to collect and remit retail sales tax on the gross amount received from this contract.

### **Situation 2: taxpayer has an “existing” contract, but the contract price has not been paid and the services are provided on or continue after October 1, 2025. The terms of the “existing” contract also remain unaltered after the October 1, 2025, effective date.**

In this situation, the department will accept tax reporting under the tax classification that applied to the underlying contract activity prior to October 1, 2025, and will allow this treatment through March 31, 2026. Unless

otherwise stipulated in law, taxpayers must begin reporting retailing B&O and retail sales tax on the gross income received from their existing contracts for tax reporting periods that begin on or after April 1, 2026.

However, if taxpayers in this situation elect to report and pay under the retailing B&O tax classification in accordance with the changes made by ESSB 5814 as of the October 1, 2025 effective date, then they must also collect and remit retail sales tax on those sales, unless a valid retail sales tax exemption applies.

## **Example 4 – eligible “existing” contract, payment made after October 1, 2025**

**Facts:** IT Firm LLC provides information technology support and training services that would be considered a taxable retail sale as of October 1, 2025. IT Firm LLC enters into a contract with Big Biz Inc. to provide IT training and support services starting October 1, 2025, and ending September 30, 2026. IT Firm LLC and Big Biz Inc. sign and execute the contract before October 1, 2025. The contract requires Big Biz Inc. to pay at the end of each month based on the number of their employees that require IT support and training.

**Result:** IT Firm LLC may report the amounts it receives from its “existing” contract with Big Biz Inc. under the service and other B&O tax classification and is not required to collect and remit retail sales tax on the gross amount through March 31, 2026. For reporting periods beginning on or after April 1, 2026, IT Firm LLC must instead report the amounts it receives from Big Biz Inc. under the retailing B&O tax classification and must collect and remit retail sales tax on the gross amount received.

**Situation 3: taxpayer has an “existing” contract, but the contract price has not been paid and the services are provided on or continue after October 1, 2025. The terms of the “existing” contract have been altered after the October 1, 2025, effective date.**

“Existing” contracts that are altered after October 1, 2025, are subject to retailing B&O and retail sales tax at the time the contract is altered.

## What does it mean to “alter” an existing contract?

To “alter” means that the contract is materially or substantively changed or amended. Material or substantive changes may include, but are not limited to:

- The addition, removal, or exchange of the parties subject to the contract,
- Changes to the underlying contract activities,
- Updates to contractual terms that impact any of the parties’ rights, responsibilities, or obligations under the contract,
- Updates or changes to the contractual term, contract amount, or period the contract is in effect, etc.

### Example 5 – Altered existing contract, change of material term

**Facts:** Helpers Inc. provides temporary staffing services that would be considered taxable as retail sales as of October 1, 2025. Helpers Inc. enters into a contract with Customer LLC to provide them with staffing services for 2 of their 7 Washington locations. The contract was signed and executed by both parties prior to October 1, 2025, and is effective through January 1, 2026. On November 1, 2025, Customer LLC asks to expand their contract to cover all 7 of their Washington locations for an additional cost. Helpers Inc. updates the contract and both parties sign the amended contract on November 2, 2025.

**Result:** This is a material alteration of the “existing” contract as it expands the scope of the contractual terms and obligations of the parties. As of the execution of the amended contract on November 2, 2025, Helper Inc. must report amounts received pursuant to the contract under the retailing B&O tax classification and Helpers Inc. must collect and remit sales tax on the gross amount received under the contract.

### Example 6 – Changes to existing contract, not material

**Facts:** Helpers Inc. provides temporary staffing services that would be considered taxable as retail sales as of October 1, 2025. Helpers Inc. enters into a contract with Customer LLC to provide them with staffing services for 2 of their 7 Washington locations. The contract was signed and executed by both parties prior to October 1, 2025, and is effective through January 1, 2026.

On November 1, 2025, the contract is updated to add a new email address for Helpers Inc. where contract notices can be sent, replacing a prior email address that was inactivated.

**Result:** This is not a material alteration of the “existing” contract as it does not materially impact the rights, responsibilities, or obligations of the parties subject to the contract. Helpers Inc. may still report this activity according to the underlying services performed by the assigned worker.

## Taxpayer instructions

The department will continue to review this issue for purposes of developing final guidance. This interim statement will remain in effect until the department issues its final guidance, cancels the 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](mailto:rulings@dor.wa.gov).



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