



This Week in State Tax (TWIST)

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Washington State: Taxpayer's Services Were Not Data Processing

In a recently released determination, the Washington State Department of Revenue's Administrative Review and Hearings Division concluded that a taxpayer was selling credit bureau services, rather than data processing services. The taxpayer's primary service was recommending to retail clients whether to accept a check as a form of payment. The objective of this service was to reduce a client's risk of business loss. The taxpayer's recommendations were based on it analyzing certain data, such as the customer's driver license or state-issued identification, information on the customers recent purchases, and product information. The taxpayer also provided similar services to payroll check cashing businesses by providing clients with immediate check acceptance recommendations. Both processes were fully automated. Following an audit, the taxpayer was assessed retail sales and use tax and retailing B&O on its sales on the basis that they were sales of credit bureau services to Washington customers. The taxpayer petitioned the Department's Administrative Review and Hearings Division (Division) for correction of the assessments.

Under Washington law "credit bureau services" are included in the definition of a retail sale and are subject to sales and use tax. The term "credit bureau services" is not defined, but the Department has previously interpreted the term to involve situations in which a business analyzes data and makes recommendations to minimize its clients' business risk of loss. The taxpayer, however, argued that it was providing data processing services because it was extracting information to convert data to useable information. Under Washington law, a "data processing service" means a primarily automated 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, which are not subject to retail sales and use tax, include check processing services. In the Division's view, the taxpayer's services concerned more than simply extracting data provided by its clients; its services involved analyzing the data through algorithms to evaluate business risk. As such, the Division concluded that the taxpayer was selling "credit bureau services" and was subject to retail sales tax and retailing B&O. Please contact [Michele Baisler](#) with questions on Det. No. 18-0025, 42 WTD 001 (2023).



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