



This Week in State Tax (TWIST)

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RHODE ISLAND



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Rhode Island: Ruling Addresses Taxability of SaaS, PaaS, and IaaS

In Ruling Request No. 2023-01, the Rhode Island Department of Revenue addressed whether sales and use tax applied to a taxpayer's charges related to its provision of employee recognition programs. In doing so, the Department confirmed its position on the taxability of SaaS, IaaS, and PaaS. Under the employee incentive programs by the taxpayer, a customer's employees were awarded rewards points that could be redeemed for merchandise and gift cards. The taxpayer charged customers a fee to create customized websites to facilitate the administration of employee incentive programs. Customers never had control over the websites, which were used by the taxpayer to administer its customers' employee recognition incentives. The Master Agreement between the taxpayer and its customers granted customers a "non-exclusive, non-transferable right to use and access the Web Site and the related software" The website referenced in the agreement was an administrative tool used by the taxpayer to administer employee recognition incentives on behalf of its customers. The taxpayer also provided merchandise and gift cards for which clients' employees could redeem reward points. Customers were charged a transaction fee based on the U.S. dollar value of the rewards points that were issued to employees and later redeemed. The taxpayer requested a ruling as to whether sales and use tax applied to charges for consulting, startup, and website design and the transaction fees charged to customers upon the issuance of rewards points. The taxpayer also requested that the Department rule on whether sales and use tax should be collected on the retail sales price of merchandise as well as gift cards sold by the taxpayer.

With respect to the website consultation and design fees, the Department of Revenue responded that the computer software the taxpayer sells directly to its customers is "tangible personal property" subject to Rhode Island sales tax. To the extent the taxpayer charges Rhode Island customers to access its website and software services, those charges are taxable as Infrastructure as a service (IaaS), platform as a service (PaaS), and software as a service (SaaS), and as part of the sale and/or license of the software to the customer. With respect to the transaction fees charged to customers, the Department concluded that because the Master Agreement provided customers a license to access the taxpayer's website and software, the transaction fee charged for the issuance of the reward points was also subject to sales tax. The Department also ruled that sales tax must be collected on merchandise sold to Rhode Island residents through the redemption of rewards points, but it was not required to be collected when rewards points were redeemed for gift cards. Please contact [Michael Cyzeski](#) with questions on this ruling.



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