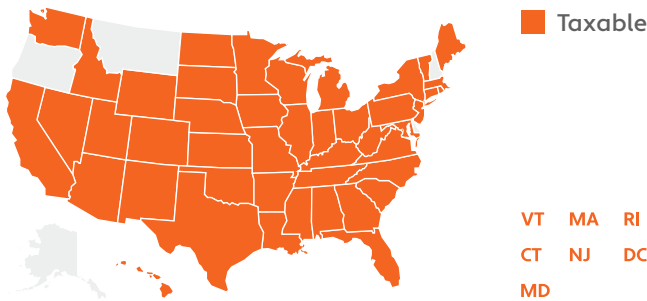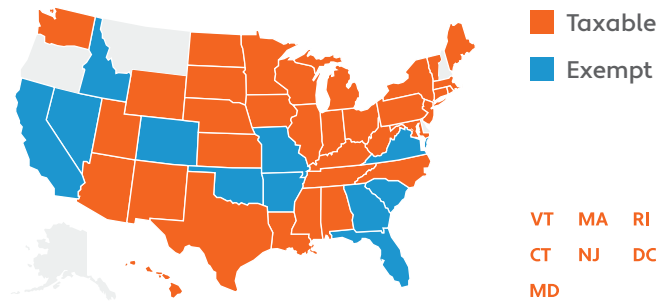# Avalara

THE COMPLEX NATURE OF SOFTWARE TAXABILITY

It's easy to see why software companies struggle with getting sales tax right. How do you apply a tax meant for tangible personal property to an intangible product or service? Attempts by states to solve for this challenge have resulted in a complex tapestry of tax rates and rules for software and software as a service (SaaS).
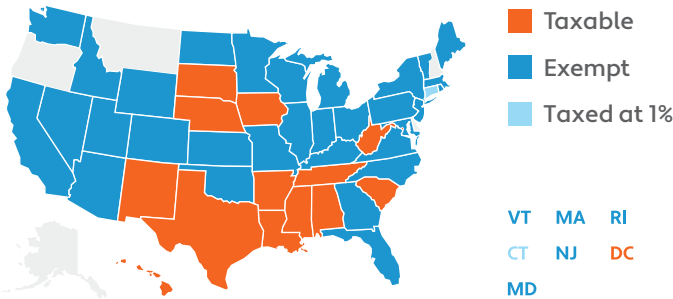
SOFTWARE TAXABILITY BREAKDOWN

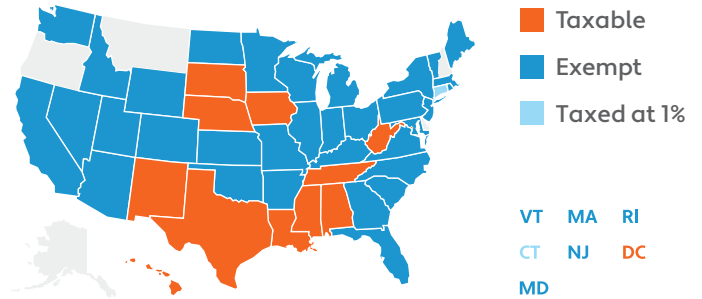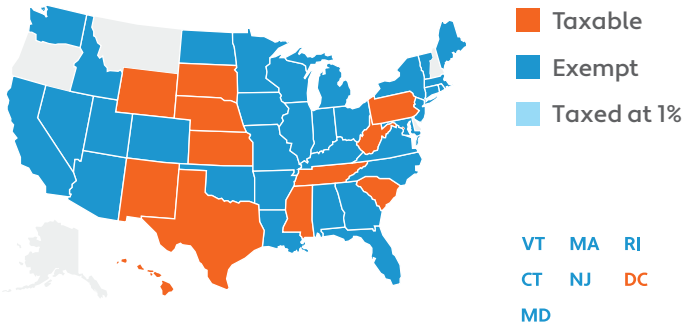### CANNED SOFTWARE DELIVERED ON TANGIBLE PERSONAL PROPERTY

■ Taxable

VT   MA   RI
CT   NJ   DC
MD

CANNED SOFTWARE DOWNLOADED

■ Taxable
■ Exempt

VT   MA   RI
CT   NJ   DC
MD

CUSTOM SOFTWARE DELIVERED ON TANGIBLE PERSONAL PROPERTY

■ Taxable
■ Exempt
■ Taxed at 1%

VT   MA   RI
CT   NJ   DC
MD

CUSTOM SOFTWARE DOWNLOADED

■ Taxable
■ Exempt
■ Taxed at 1%

VT   MA   RI
CT   NJ   DC
MD

CUSTOMIZATION OF CANNED SOFTWARE

■ Taxable
■ Exempt
■ Taxed at 1%

VT   MA   RI
CT   NJ   DC
MD

SOFTWARE AS A SERVICE

■ Taxable
■ Exempt
■ 80% of the charges are taxable

VT   MA   RI
CT   NJ   DC
MD

*Alaska, Delaware, Montana, New Hampshire, and Oregon have no state sales tax as of November 2022. Local jurisdiction sales tax may apply. | **Published by Avalara, November 2022**
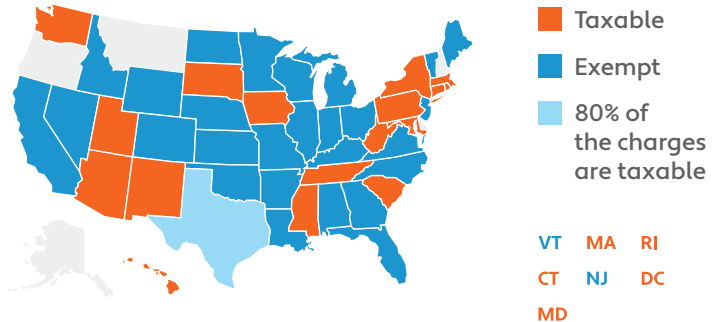
SOFTWARE AS A SERVICE

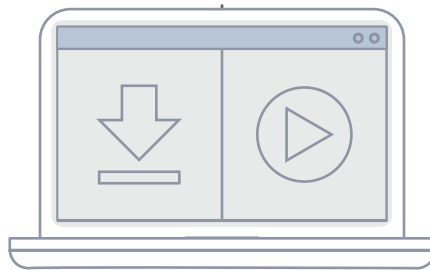**19** states + D.C. charge sales tax on software as a service,

1 state *partially* charges sales tax on software as a service, and

1 state *exempts* sales tax on B2B software as a service.

'NETFLIX' TAX

25 states + D.C. charge sales tax on video programming streamed over the internet.

31 states + D.C. charge sales tax on streamed or digitally delivered movies.

DON'T BUNGLE THE BUNDLE

SOFTWARE TRAINING

25 states + D.C. charge sales tax on training associated with the sale of on-premises software;

6 states charge sales tax on training *not* associated with sale of on-premises software.

INSTALLATION SERVICES

28 states + D.C. charge sales tax on installation associated with the sale of tangible personal property;

19 states + D.C. charge sales tax on installation *not* associated with sale of tangible personal property.

DOWNLOADED SOFTWARE

29 states + D.C. charge sales tax

4 states *partially* charge sales tax

on optional maintenance agreements associated with of downloaded software that includes support services and updates.

PHYSICAL MEDIA

35 states + D.C. charge sales tax

8 states *partially* charge sales tax

on optional maintenance agreements associated with software delivered on physical media that includes support services and updates.

IT'S NOT JUST SOFTWARE

Taxed in **31** states + D.C.	Taxed in **25** states + D.C.	Taxed in **23** states + D.C.	Taxed in **35** states + D.C.*	Taxed in **31** states + D.C.
Digital movies	Streaming video programming	Digital photography	Purchased digital games	Rented digital games

*When ownership is permanent

Having a reliable tax solution in place that instantly applies the right sales tax rates and rules to digital goods and services was ranked highest as "very important" by technology decision makers.

Source: Avalara Sales Tax Survey for Software Companies

The reality is that sales tax isn't going to get easier for software companies anytime soon. The more you can predict and plan for these changes in your business, the better off you'll be. **Tax automation software from Avalara integrates with your ERP, ecommerce, and other financial systems, making it easier to prove compliance and plan for growth.**

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AVALARA.COM/SOFTWARE

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