



**MEETING NOTES**  
**MTC Work Group – Sales Taxation of Digital Products**  
**December 4, 2025**

**I. Welcome, Review of Notes from October Call, and Initial Public Comment**

Tim Jennrich (Washington), Chair of the Work Group, convened the meeting and stated the notes from the previous meeting are online. Tim then invited initial public comment.

Karl Frieden (COST) stated as follows: It is good the MTC is giving attention to business-to-business (B2B) exemptions and how to administer those. Any B2C expansion should be matched by a B2B exemption whether it is broad expansion or a limited one, because once it is in the base, it is difficult to remove. He also predicted different states will choose different options. Therefore, he believes that applying a B2B exemption is more important than the exact proposal.

There was no other public comment.

**II. Summary of the Report to the Uniformity Committee**

Tim briefed the work group on the Uniformity Committee meeting and the group's report to the committee. He also noted the work group is still taking input on sourcing and MPU issues and is starting to look at exemptions and exclusions.

**III. Exclusions/Exemptions Issues – Issues for Policy-Makers, Taxpayers, Practitioners, and Administrators**

[See the slides for this part of the meeting.] Tim then turned to Helen Hecht (MTC) to discuss the topic of exclusions/exemptions. Helen began by noting the following: The relevant question is whether digital products raise particular issues with common state exemptions and exclusions, and not necessarily the policy for those exemptions and exclusions. The stakeholder interviews, held when drafting the white paper outline, raised the issue of a general B2B exemption. Stakeholders also noted questions related to exemptions based on the nature or use of the item sold.

Helen also stated that MTC staff had reviewed the various types of exemptions or exclusions. She noted the general difference between exclusions and exemptions. Exclusions being things that are not part of definitions or imposition statutes, and exemptions being separate provisions that carve out something that would otherwise be taxed. She noted that exemptions are often narrower than exclusions. Finally, Helen noted this is general and that there is overlap of these terms when comparing them between states. Exemptions often include different criteria, including the type of item, who the seller or buyer are, what buyer does with the item or what it can be used for, etc. She also noted that when the tax base is broadly defined (in terms of items included) there will generally be more exemptions, versus when the tax is imposed on specific, narrowly defined items.

Common exclusions cover things not treated as part of the sales price or “receipts.” This can be things like separate charges (i.e., shipping or delivery charges) and these don’t seem to raise particular issues for digital products, generally.

Next are the exemptions based on the definition of the item or its purpose. Examples include food, clothing, or medical or health-related items. Diane Yetter (YetterTax) commented that categories like digital art, digital collectibles, and digital currency might overlap with some commonly applied exemptions. She also noted that digital products, like GPS tracking, could be included in other exempt products (i.e., vehicles).

Scott Peterson (Avalara) commented that his company dealt with video games and questioned whether the clothing purchased for an avatar is exempt “clothing.” Mark Nebergall (Softec) stated his opinion that the items Scott mentioned are computer software.

Helen then turned to exemptions based on identity of buyer or seller, like occasional sellers, government, related party transactions, and noted some that would interact with digital products. Tim noted that these are often based on incentives that lawmakers intend to provide to certain sellers or businesses.

Helen also noted that common exemptions may be based primarily on use such as resale or sublease of items and use of items as components of other products that will be sold, like manufacturing and production inputs. These common exemptions would probably have significant overlap with the taxation of digital products. Mark Nebergall stated that relicense should be added to the resale and release list. Helen agreed.

Tim said that the use tax on items purchased for resale and then given away for free should be considered, stating this could have a digital interaction. Helen noted she would follow up with Tim on that.

Karl commented that the production or supply chain for digital is different than for traditional manufacturing where the exemptions focused first on components and materials, then on machinery. He believes a broader exemption is needed for digital because the exemptions cannot be targeted like they were for traditional manufacturing.

Craig Johnson (Streamlined) also noted that the concept of economic consumption might be important. The business producing the digital product might still have the use of the product even after selling it to its customers. Diane stated that a digital component might also be embedded in other products, so might not be a one-to-one transfer of an input for a resale. Diane mentioned that some states, Illinois and New York, exempt computers that create taxable digital products. She noted that this might take a modification of the definition of manufacturing equipment.

Karl reiterated that, while some states have tried to emulate the manufacturing model for exemptions, the production of digital products is entirely different. Tim noted that it might be necessary to consider defining what “industrial” or “commercial” use is.

Helen then mentioned common exemptions based on multiple criteria: example: business purchase of office supplies, so it is the use (business) and what it is (office supplies) that both matter.

Diane commented that the purchase of energy could also be a factor for those that produce digital products since some states have exemptions for things like energy used in crypto mining, treating it akin to energy for manufacturing. She also said some states have sales tax holidays for computers, so digital goods might have a sales tax holiday.

Helen then covered the study group's proposal for an exemption for digital products use "predominantly for a trade or business" which would go along with the broad definition of automated digital products. She noted the proposal recommended states adopting the broad definition should also review their existing exemptions and exclusions and consider which should apply to those products. And she noted that the proposal for the automated digital product definition would draw a line between digital products and services, so that traditional services would not be included in the tax base. Richard Dobson (Kentucky) stated in the chat that he appreciated the mention of the line between digital product and service and noted that the Kentucky legislature had not carried forward many of the traditional exemptions as taxable services have been expanded.

Helen then talked about what is a "trade or business" as that term is used in the exemption. She noted that the term "trade or business" is used in the federal tax code, although it is not defined but is understood as it used in context. Here, we would assume that it is used fairly broadly.

Helen briefly mentioned Iowa's general exemption for digital products—which applies to commercial enterprises, noting that Iowa also went through their other exemptions to consider whether they should be changed to include digital products. Karl commented that he agreed the broad exemption works with the proposed broad definition, and that he thought it would also work for states that want to, instead, take an incremental approach to adopting certain digital products narrowly defined. Helen noted that there might not be time to talk about that idea, but that it might be more complicated to do this with a bunch of narrow definitions.

#### **IV. Next Steps and New Business**

Tim stated the group would continue this discussion at the next meeting and asked the members to consider the bundling white paper draft that was posted. Tim then asked if there was any new business. There was none. Tim stated that the next meeting would be January 8, 2026.

#### **V. Adjourn**

Tim adjourned the meeting.