



Sales Taxation of Digital Products – Status Report

REPORT TO THE UNIFORMITY COMMITTEE
APRIL 21, 2026

TRADITIONAL SALES TAX BASE

- **Tangible property, broadly defined**
- **Exemptions for certain transactions, which often do not depend on the nature of the property but on other factors (buyer, use, etc.)**

TYPICAL INCLUSION OF DIGITAL PRODUCTS

- Adding certain specifically defined products
- Changing or adding certain specific exemptions

- Digital products change and definitions become outdated (see disruptions being caused by AI)
- States end up doing things differently
- Products and transactions are not treated equitably
- Specific definitions don't eliminate the need to update exemptions
- More line-drawing leads to more complications
- The sales tax scope shrinks

THE PROBLEM

- Is there a way to approach taxation of digital products differently?
- What would that look like and what issues should policy-makers think about?

THE QUESTION

PROJECT REPORT

- **Since the last committee meeting, the work group has:**
 - **Instructed staff to begin drafting the white paper, by section**
 - **Project leadership will review and then circulate drafts to members and the public**
 - **These drafts are meant to give policy-makers important resources and information—not tell them what to do.**



WHITE PAPER – GENERAL OUTLINE

- **Background and Approach**
- **Current State Approaches to Taxing Digital Goods**
- **Overview of Issues Policy-Makers Must Consider**
- **Possible Broad Definition models and Broad Business Inputs Exemption**

BACKGROUND AND APPROACH

- **Project proposal**
- **Review of proposal by the Uniformity Committee and Standing Subcommittee**
- **Stakeholder interviews and results**
- **Drafting the white paper outline**
- **Establishment of the work group**
- **Process of the work group and study groups**

CURRENT STATE APPROACHES TO TAXING DIGITAL GOODS

- Staff research –
 - Identify different ways in which states have included digital goods into their sales tax base – and whether this resulted in taxing fewer or more of the digital products and how that approach was structured.
 - Goal was to learn from state experience and identify possible approaches—NOT to be a comprehensive guide to these states' rules.

OVERVIEW OF ISSUES POLICY-MAKERS MUST CONSIDER

- Again – the goal is not to tell policy-makers WHAT to tax—but rather, to identify issues that must be considered given the structure and operation of the sales tax system.
 - Bundling
 - Sourcing
 - Exemptions
 - ITFA



BUNDLING

- **What is bundling**
- **Streamlined rules**
- **The study group's exercise**
- **Findings of the study group**
- **Summary of resources**

SOURCING

- Background on state approaches
- Streamlined rules
- Difficulties sourcing digital products
- Multiple Points of Use

EXEMPTIONS

- Typical state sales tax exemptions
- Nature of the exemption –
 - Based on item
 - Based on buyer
 - Based on use
 - Other or combination
- Adding digital products and review of state exemptions that may apply
- Possible effect of a broad business-inputs exemption

ITFA

- What is ITFA
- Absence of clear guidance due to the nature of the law and lack of any federal regulations and little litigation
- What provisions are important when adding digital products to the tax base
- How should policy-makers approach questions on ITFA



POSSIBLE BROAD DEFINITIONS

- Review of the study group's efforts
- Proposal of the study group and ways in which it addresses the issues identified

OTHER

- Appendix and links to the project pages
- Findings and recommendations for consideration by states

PROCESS - GENERALLY

- Review of draft sections by work group with public input
- Consolidation into a white paper and work group approval
- Review of white paper by the Uniformity Committee
- Recommendation of white paper to the Executive Committee
- Resolution by Executive Committee and/or Commission



QUESTIONS OR FEEDBACK

