2025

TAX CHANGES

Avalara

A TAX COMPLIANCE GUIDE FOR

SOFTWARE

Software

In a way, the digital era is contributing to an eroding sales tax base because only about half of states currently tax digital products or streaming services. This is bound to change, eventually. States will need the revenue. But when will it change? What will change look like? And how will it affect software tax compliance?

What's ahead:

Businesses and tax jurisdictions jump aboard the AI train

What the numbers tell us about the software industry in 2025

Will there be new taxes on digital goods and services in 2025?

Should states tax B2B sales of digital goods and services?

The rise of the digital services tax

Will digital ad taxes be replaced by link taxes?

The challenge of sourcing digital goods: Multiple taxation and nowhere sales

So, how do you source sales of digital goods?

Tax breaks for software companies: New sales tax exemptions

Property tax considerations for software companies

Looking ahead

Businesses and tax jurisdictions jump aboard the AI train

We can't talk about the software industry today without discussing generative artificial intelligence (AI), so let's just start there. OK?

Like just about every other industry, software businesses are giddy with the promise of generative AI. If the promises prove true, gen AI will help software companies assist customers, **boost developer productivity** (perhaps as much as 45%!), forecast demand, improve marketing, increase profitability, and more.

So, software businesses are investing in machine learning technology. A lot. Global enterprises spent approximately **$15 billion** on gen AI solutions in 2023 alone, representing about 2% of the global enterprise software market. McKinsey expects gen AI to impact almost all software categories. "Gen AI will drive significant growth in the software space," it predicts. "By 2027, spending on the technology could reach between $175 billion and $250 billion."

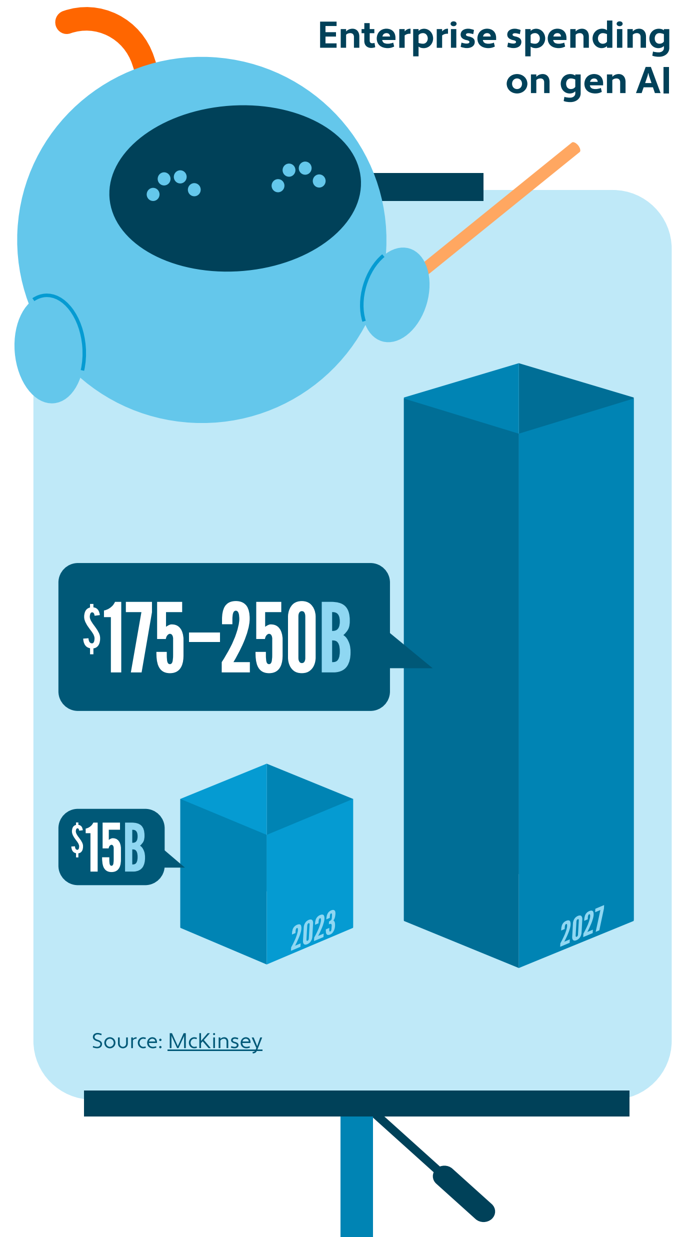
Opportunity abounds for businesses – and tax jurisdictions – prepared to jump on it. The new technology could eventually spark new tax policies too.

David Lingerfelt, Senior Director of Indirect Tax at Avalara, hasn't heard any talk of taxing AI yet. "2024 was a fairly quiet year for states in terms of cutting-edge tax changes." He expects that ultimately, states will treat AI like software, for tax purposes. "States that tax software will likely tax sales of AI."

Tax policies often lag behind developments in technology. Most state tax authorities haven't established metaverse or blockchain tax laws either, and those hogged headlines long before ChatGPT debuted at the end of 2022.

Lingerfelt expects state and tax officials to circle back to metaverse tax laws and blockchain tax compliance once the brouhaha over gen AI recedes. In the meantime, states looking to update sales tax policies affecting the software industry could follow recommendations offered by the **Multistate Tax Commission** (MTC) or **Streamlined Sales Tax** (SST); key areas of focus for these organizations include sales tax sourcing requirements and whether to tax or exempt business-to-business (B2B) transactions.

We'll get into these fun topics and others. But first, let's see what the numbers have to say about the software industry.



Source: McKinsey

What the numbers tell us about the software industry in 2025

Digital goods and services

31

states + D.C.

Source: Avalara

Software as a service (SaaS)

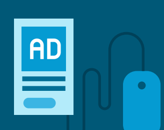
20

states

Source: Avalara

Digital advertising

2

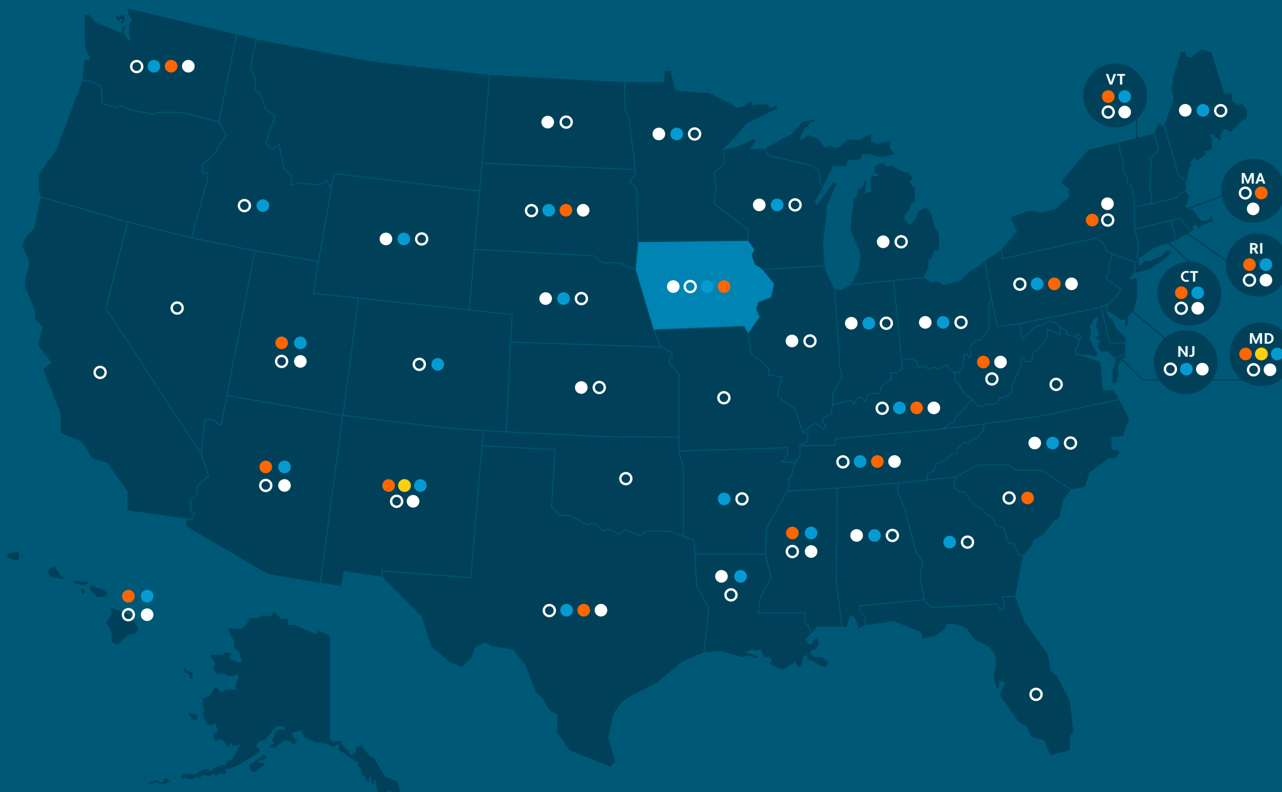


states

Source: Avalara

States subject to software sales tax

as of October 2024



- Digital goods and services
- Software as a service (SaaS)
- Digital advertising

CANNED SOFTWARE

- Delivered through physical media
- Delivered electronically

Iowa is the only state that has a broad sales tax exemption

for business purchases of digital products and services

Source: Multistate Tax Commission

CANNED SOFTWARE

Delivered through physical media

45

states

Delivered electronically

34

states

Source: Avalara

Will there be new taxes on digital goods and services in 2025?

Tax experts from the Tax Foundation and the Institute on Taxation and Economic Policy (ITEP) generally favor a broad sales tax base, which includes taxation of digital services and goods (e.g., streamed music and video, ebooks, digital images). Many politicians do too – but expanding the tax base can be a hard sell.

In 2024, it took Louisiana lawmakers three separate legislative sessions to agree to tax select digital products and services. Starting January 1, 2025, Louisiana sales and use tax will apply to digital audiovisual works, digital audio works, digital books, digital codes, digital applications and games, and digital periodicals and discussion forums.

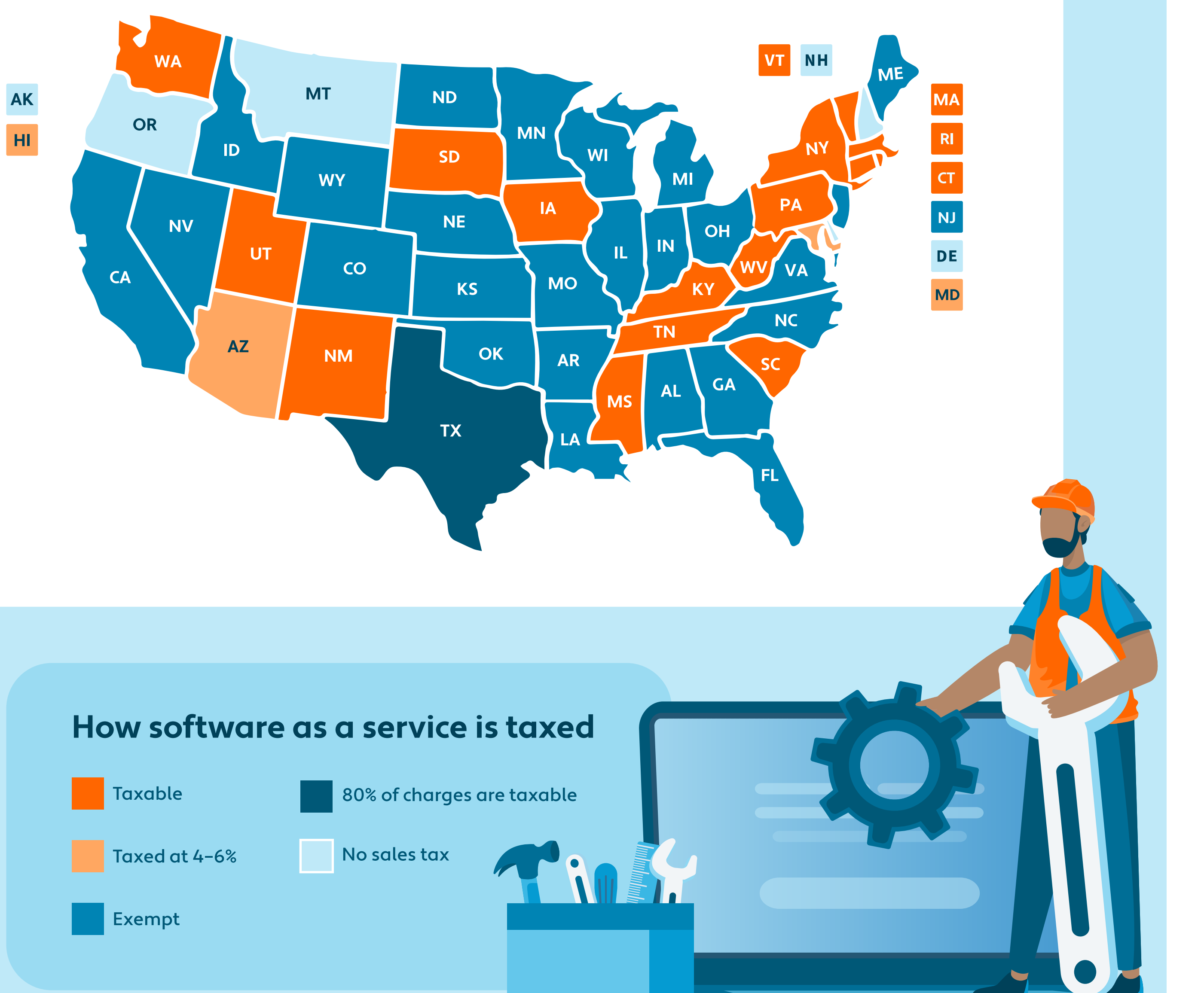
Several states attempted to implement digital products tax changes in 2024.

- Virginia Governor Glenn Youngkin introduced a plan to tax digital goods and services starting January 1, 2025, but the Legislature didn't approve it.
- The Kansas Legislature made a move to tax digital property and subscription services and to allow for a reduced rate in certain circumstances, but the bill died in committee.
- Massachusetts and New York both considered data excise taxes but ultimately chose not to pursue them.
- The DC Tax Revision Commission is exploring a data excise tax and a tax on digital ads and services; progress is slow.

"Most state tax structures have hardly changed from when they were first enacted," explains Scott Peterson, VP of Government Relations at Avalara. "When legislators and governors talk about expanding the sales tax to services and digital goods, it's almost always in conjunction with reducing property or income taxes. The expansion of the sales tax almost always produces less tax revenue than the wanted reductions."

Still, digital goods are being added to the tax base in a growing number of states. Select digital goods and services are subject to sales and use tax in approximately 31 states and Washington, D.C. Georgia started taxing digital products on January 1, 2024; Vermont began taxing software as a service on July 1, 2024; and as noted, Louisiana will tax digital products beginning January 1, 2025.

Moreover, both Texas and Michigan clarified the taxation of digital goods.



Source: Avalara

A [private letter ruling](#) published by the Texas Comptroller in July 2024 explains that a company's charges for a license to install code to track user interactions on a customer's website are taxable sales of software. Monthly subscription fees and fees based on the amount of user sessions are also taxable charges in Texas because they're considered to be data processing.

Per [guidance on the taxability of non-fungible tokens](#) (NFTs) published in August 2024 by the Michigan Department of Treasury, Michigan does *not* tax digital goods or NFTs representing digital goods (e.g., a digital image or sound). However, "if the NFT represents an ownership interest in tangible personal property," the NFT is subject to Michigan sales tax.

Good to know.

There will likely be more clarifications like these in 2025. Whether any states actually extend their sales and use tax to any digital products or services in 2025 remains to be seen. "Each legislative cycle there seems to be momentum around expanding the tax base into digital goods and services," observes David Lingerfelt. "The success of these efforts is largely dependent on the state of a state's budget and general political climate." Learn more about the state of state budgets in the [sales tax section](#) of this report.

Should states tax B2B sales of digital goods and services?

One issue that proved a sticking point for Virginia in 2024 was **whether to tax or exempt business-to-business (B2B) sales** of digital services and goods. The governor and House wanted to tax business-to-consumer (B2C) sales of computer-related services, data storage, software application services, streaming services, and website hosting, but provide an exemption for B2B sales. The Senate supported taxing B2B as well as B2C transactions. In the end, they couldn't get past the stalemate.

Virginia isn't the only state to grapple with this issue, or to take heat for considering a tax on B2B digital goods and services. The Multistate Tax Commission (MTC), which has been studying **state sales tax policies on digital products** for years and is producing a white paper on the topic, has received similar feedback.

The debate over taxing B2B transactions

Some state tax experts are opposed to any kind of tax pyramiding (which is what happens when business inputs are taxed), while others take a more nuanced approach.

During an **MTC panel on business inputs** in July 2023, Karl Frieden of the Council on State Taxation (COST) recommended states limit taxes on business inputs "and focus sales tax as broadly as necessary on the final consumer." Panelist Michael Ettlinger of ITEP agreed taxing business inputs isn't ideal but also held that "taxation of business inputs is not as bad in practice as it is in theory; it's an important part of the state revenue picture."

Clearly, there's no one right way to tax digital products. But if there was, Iowa may come close to it.

Iowa taxes specified digital products, software, and related services but provides an exemption for specified digital products sold to a commercial enterprise for use exclusively by the commercial enterprise. Iowa also exempts specified digital products sold to a "non-end user" or to entities exempt from paying sales and use tax.

Yet Iowa is an outlier. **Maryland**, **New Jersey**, **North Carolina**, and **Washington** provide limited exemptions for business purchases of digital goods or software, and **Connecticut** has a reduced sales tax rate for certain business purchases of digital products. Louisiana specifies that software, information services, and digital products purchased or licensed exclusively for business use are sales tax exempt when certain conditions are met. However, Iowa is the only state that offers a broad sales tax exemption for business purchases of digital products and services.

There's **no one-size-fits-all solution** to taxing businesses' digital sales. Nevertheless, the **Tax Foundation** believes "other states would do well to follow Iowa's example." It strongly supports exempting purchases for business use.

But providing a B2B sales tax exemption for business inputs wouldn't necessarily eliminate compliance complexity.

"While B2B exemptions offer clear advantages, states contemplating their adoption should also focus on simplifying the administrative processes involved," says Stephen Bradshaw, State and Local Tax Partner at Bennett Thrasher. "For example, New Jersey grants a B2B exemption for downloaded software but requires sellers to obtain an exempt use certificate (Form ST-4) from buyers. Streamlining these procedures – perhaps by adopting a model similar to Maryland's, which only necessitates proof of B2B usage – could improve both accessibility and compliance."

Expect to hear more about taxing digital goods and services – and the pros and cons of exempting business inputs – in 2025. Businesses buy *a lot* of digital goods and services. Globally, **spending on digital transformation** is on track to reach $3.9 trillion by 2027. That could generate an awful lot of sales tax revenue. Or not.

A tax on digital services could also fill governments' pockets.

STEPHEN BRADSHAW
State and Local Tax Partner
at Bennett Thrasher

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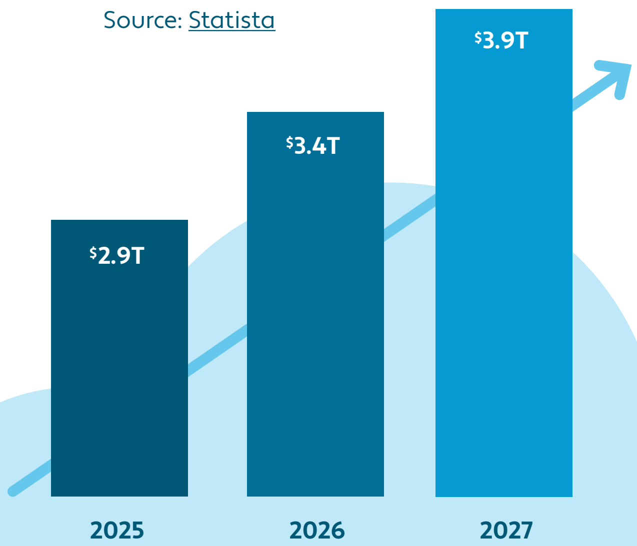
>
> **Streamlining these procedures ... could improve both accessibility and compliance.**

Spending on digital transformation is
EXPECTED TO REACH

$3.9T

by 2027

Source: Statista



By 2030, **the global e-learning market may reach $543B**

Source: Persuasion Nation

By 2027, **the global advertising market may reach $871B**

Source: Sonary

The rise of the digital services tax

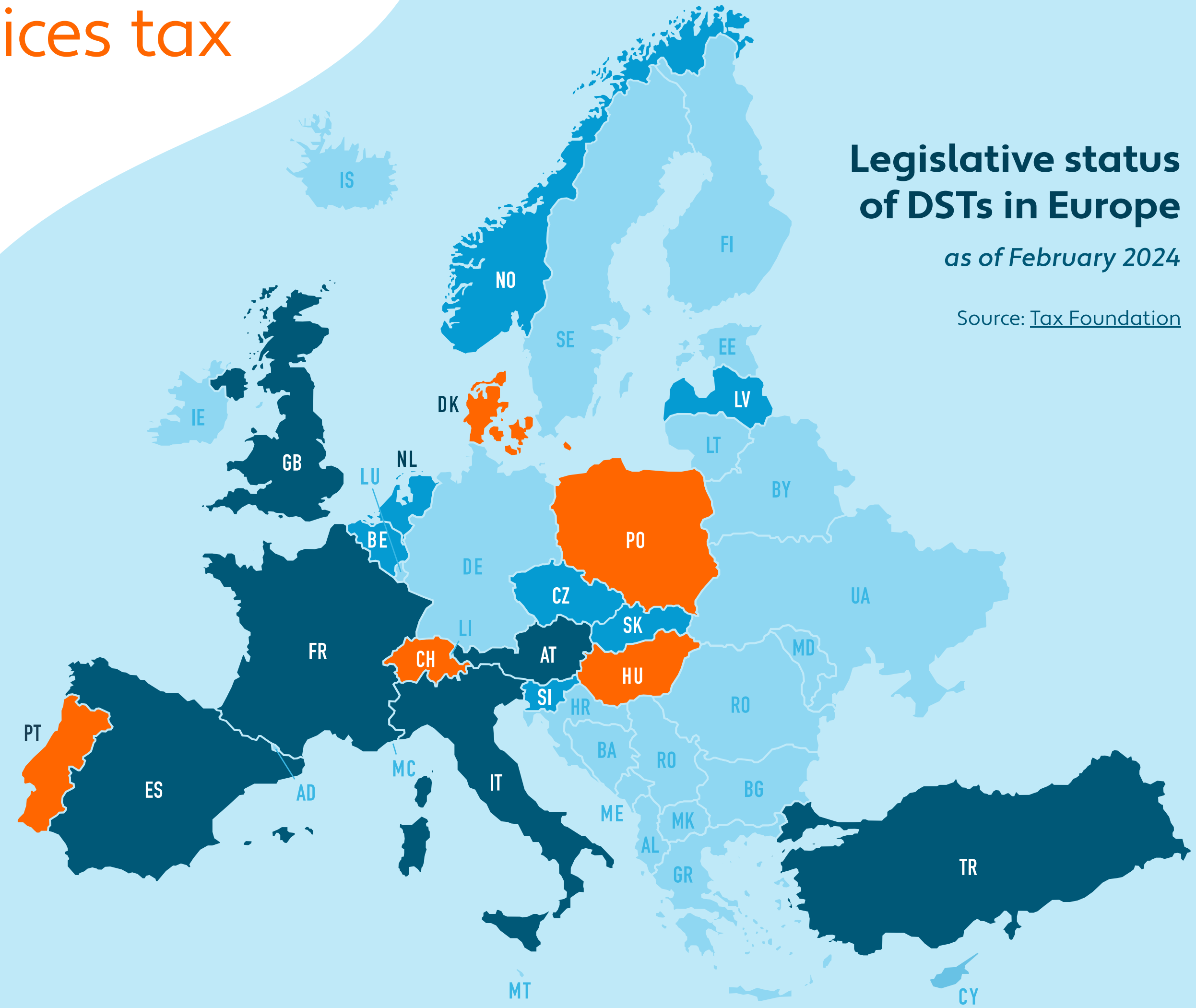
Although controversial, a growing number of countries participating in the Organisation for Economic Co-operation and Development (OECD) have implemented, announced, or proposed a digital services tax (DST).

The OECD is working on a two-pillar plan to modernize the international tax system: **Pillar One** would change where the most profitable multinational digital companies pay taxes; **Pillar Two** would establish a global minimum tax. DSTs, which were meant to be **interim measures**, are proliferating as countries haggle over the details of the plan.

Legislative status of DSTs in Europe

as of February 2024

Source: Tax Foundation



Repeal contingent on Pillar One implementation

Proposed, announced, or shown intentions

Implemented

The Canada digital services tax is finally taking effect

The Canadian government put forward a 3% DST in the fall of 2020 and provided more details in its Budget 2021. Then the waiting began.

"Canada temporarily paused implementation of its DST to allow the OECD to build a framework for ensuring large profit global corporations pay their fair share of tax," explains David Lingerfelt. "When Pillar One of the OECD's plan failed to go into effect in 2023, Canada moved forward with its DST. I believe additional countries will implement DSTs because the OECD has been unsuccessful negotiating consensus with member countries on how to shift tax revenues from home countries to where the global corporation has significant consumer interaction."

In 2024, Canada's Digital Services Tax Act "received royal assent." It came into force on June 28, 2024. The 2024 calendar year is the first year of application of the DST, and it applies to taxable Canadian digital services revenue earned since January 1, 2022.

This is a tax on big businesses: It applies to taxpayers with at least €750 million in total revenue from all sources in a particular calendar year and more than $20 million CAD in Canadian in-scope revenue. There are four categories of in-scope revenue:

- Online advertising services revenue
- Online marketplace services revenue
- Social media services revenue
- User data revenue

Domestic and foreign businesses that meet the threshold for the DST must apply to register by January 31, 2025. The Canada Revenue Agency will publish information about how to file a DST return in early 2025.

The U.S. is opposed to digital services taxes in general and Canada's DST in particular. However, at least one state has adopted a tax on digital advertising services.

DAVID LINGERFELT
Senior Director of Indirect Tax at Avalara

"I believe additional countries will implement DSTs

because the OECD has been unsuccessful negotiating consensus with member countries on how to shift tax revenues from home countries to where the global corporation has significant consumer interaction."

Will digital ad taxes be replaced by link taxes?

With the exception of **New Mexico**, where digital advertising is subject to gross receipts tax, Maryland is the only state to tax digital advertising services. It may not do so for long. The Maryland digital advertising services tax has been repeatedly challenged in court and though the **state won another victory** in July 2024, several more lawsuits are still in play. Attorneys representing the plaintiffs are confident Maryland courts will eventually overturn the law.

If Maryland's digital advertising tax is found to be unconstitutional, the state would have to return the tax it's collected with interest. "That would be an administrative headache for the state," says Lingerfelt. "It would also significantly impact the state's budget. The digital advertising tax was tied to funding the state's public education. The state would be forced to act quickly to increase taxes using less controversial approaches."

Digital advertising taxes have been floated in several other states, including **Massachusetts**, **Nebraska**, **New York**, **Tennessee**, and **Washington, D.C.** None have been approved. The states are probably waiting to see what happens in Maryland.

Interestingly, California came quite close to enacting a tax on digital ads (**AB 886**) and/or data extraction (**SB 1327**) in 2024. Both bills were ultimately dropped after Google agreed to pay what's often called a "link tax." It will pay California more than **$172.5 million over five years** for the right to link to news content. The revenue is to fund journalism in the state.

Link taxes seem to be gaining traction worldwide. The United States Senate started looking into a **federal link tax** in 2023 "to **save local journalism**," though nothing's come of it. Efforts in **Australia**, **Canada**, and some other countries are seeing more success.

"Taxes have long been used as a public policy tool to incentivize or discourage industries and behaviors," observes Lingerfelt. "In that regard, link taxes are not new. There are serious consequences with link taxes. Online platforms could retaliate by refusing to do business in a given jurisdiction. And in the long run, link taxes could fuel consolidation in the newspaper industry, limiting access to diverse news and information."

Canada's Online News Act

- Creates a bargaining framework to ensure online platforms compensate news businesses fairly
- Encourages platforms to reach voluntary commercial agreements with news businesses
- Establishes a mandatory mediated bargaining process for when a platform and news business cannot reach a fair agreement

Source: Government of Canada

The challenge of sourcing digital goods: Multiple taxation and nowhere sales

One reason the Maryland digital advertising services tax is under fire is what the Tax Foundation calls its "**suspect sourcing rules**."

"Figuring out the best way to source sales of digital goods is difficult," says David Lingerfelt. "States haven't made much progress on this issue. Businesses still struggle to appropriately source their digital sales."

A lack of uniformity in sourcing rules might result in "nowhere sales" or "sales subject to multiple taxation," observed a **Multistate Tax Commission Subcommittee** in 2021. Let's pull on those threads.

Multiple taxation

Due to the nature of digital goods, multiple jurisdictions could conceivably tax the same transaction. After all, a resident of Illinois can purchase and download a digital book while vacationing in Florida. A resident of Texas may stream a movie from a hotel in New York City. Which jurisdictions should get the tax: Illinois or Florida? Texas or New York?

Figuring out how to source such transactions is even more complicated when the buyer is a business and the digital products or services are used by dozens, hundreds, or thousands of employees nationwide. Is every state where an employee is located entitled to the tax, or at least some of it? If not, who gets first dibs?

"Digital products can be accessed from anywhere in the world," Lingerfelt points out. "Sellers are not going to monitor and store the IP address location of where the digital product or software was first made available. In practice, sellers of software and digital products will maintain an address for their customers in the ordinary course of business. This is where they will source the sale. In some instances, the address may be nothing but the ZIP code the customer entered for billing. ZIP codes are not precise for tax calculation, but they are practical."

DAVID LINGERFELT
Senior Director of
Indirect Tax at Avalara

"Digital products can be accessed from anywhere in the world.

Sellers are not going to monitor and store the IP address location of where the digital product or software was first made available."

Nowhere sales

Nowhere sales represent the other side of the equation. If digital goods and services are used everywhere, there's a risk they'll be taxed nowhere. A state could assume a business is paying tax to a different jurisdiction, which may (or may not) actually be the case.

"Nowhere sales tax is possible because the location of the sale might differ from where the product is used," explains Scott Peterson. "The use tax is intended to kick in when that happens."

The fact that sellers often don't obtain a complete address for digital transactions further complicates sourcing. It's difficult to figure out which jurisdiction is entitled to the tax if the buyer doesn't provide a complete address, and they're often not required to when no tangible goods are exchanged.

"This creates rate issues that are often discovered only during an audit," Peterson points out. "Colorado and Nebraska both say that using a five-digit ZIP code in lieu of a street address will result in an audit assessment at the highest local rate applicable in the five-digit ZIP code area."

SCOTT PETERSON
VP of Government Relations at Avalara

[Not obtaining a buyer's complete address] creates rate issues that are often discovered only during an audit.

Colorado and Nebraska both say that using a five-digit ZIP code in lieu of a street address will result in an audit assessment at the highest local rate applicable in the five-digit ZIP code area.

So, how do you source sales of digital goods?

The **Tax Foundation** recommends sourcing sales of digital goods and services to wherever the product or service is first used. "This approach cuts down substantially on complexity for taxpayers and tax collectors alike, and squares with sourcing rules for tangible goods."

The Streamlined Sales and Use Tax Governing Board has been working to craft best practices for sourcing digital transactions when the buyer's complete address isn't obtained. To remain in compliance, SST member states like **Washington** must adhere to the standard sourcing rule hierarchy set by the Streamlined Sales and Use Tax Agreement (SSUTA).

SSUTA standard sourcing rule hierarchy

If the digital product is received at the **seller's place of business**, source the sale there.

If not received at the seller's place of business, source to the **location where the purchaser receives the digital product** or remotely accessed software (RAS).

If that location isn't known, source to the **purchaser's address available in the seller's business records.**

If there's no address on record, source to the **address obtained at the time of sale** (e.g., purchaser's payment instrument).

If no address is obtained at the time of sale, source to the **address where the digital product or RAS is first made available for transmission by the seller.**

In July 2024, SST **approved final amendments** to SSUTA sourcing rules for digital sales. It gives member states that have local sales taxes two options.

- If the *five-digit ZIP code* area includes more than one tax rate, the state *may* assign the highest, lowest, or blended rate in the five-digit ZIP code area.
- If the *nine-digit ZIP code* area includes more than one tax rate, the state *must* assign the lowest combined tax rate imposed in a nine-digit ZIP code area.

Each choice comes with consequences. For example, if 1) a state assigns the highest rate in a five-digit ZIP code area, 2) the seller requested address information from the buyer, and 3) the buyer failed to provide it, then the purchaser is *not* entitled to a refund for the difference between the tax collected and the tax that would have been collected if the requested information had been provided.

Tennessee adopts destination sourcing for digital products and software

Tennessee, which is an associate member of SST, has **adopted most of the SST sourcing provisions**. As of July 1, 2024, the Volunteer State applies destination sourcing rules for interstate sales of services performed on tangible personal property and computer software, as well as leased property such as licensed computer software or specified digital products.

For the leased property, recurring periodic payments are no longer sourced to Tennessee if the primary property location moves out of Tennessee during the lease period; they become exempt interstate sales. Likewise, if the primary property location is moved into Tennessee from out of state, subsequent payments must be sourced to Tennessee and taxed accordingly. The primary property location is the address the lessee gave the lessor for the property.

British Columbia clarifies sourcing of SaaS and IaaS

British Columbia has clarified how its **provincial sales tax** (PST) applies to software as a service (SaaS) and infrastructure as a service (IaaS). Like tax authorities in the U.S., Canadian tax authorities have been grappling with sourcing issues.

B.C. PST applies whenever software is purchased for use on an electronic device ordinarily situated in B.C. This holds true whether the buyer is a B.C. resident or nonresident, and whether the purchase took place in or outside of B.C. Therefore, anyone who's liable for the tax and isn't charged PST at the time of purchase must self-assess and pay the tax due.

When software is purchased for use in multiple jurisdictions, the buyer is required to pay "a proportional amount of PST" if the software is used in the course of business on both an electronic device ordinarily situated in B.C. *and* a device ordinarily situated outside of B.C. This is true whether the software is purchased in B.C. or outside of B.C.

David Lingerfelt says British Columbia's approach to sourcing software is not new. "Essentially, British Columbia has tweaked 'the first made-for-transmission' approach to sourcing software to take into account where the user or device is 'normally situated.' Both approaches miss the mark. In reality, the seller collects the minimally required information necessary to bill the customer. The billing address may or may not represent where the device or user is normally situated."

Though British Columbia announced this policy in the spring of 2024, it's enforcing it retroactive to April 1, 2023. This is one reason why it pays to be proactive and automate tax collection and remittance. Implementing **tax automation for the software industry** can help software and SaaS businesses calculate rates for domestic and international sales based on regularly updated, complex taxability rules and exemptions.

DAVID LINGERFELT
Senior Director of Indirect Tax at Avalara

"In reality, the seller collects the minimally required information necessary to bill the customer.

The billing address may or may not represent where the device or user is normally situated."

Tax breaks for software companies: New sales tax exemptions

In 2024, several states considered or adopted new sales tax exemptions that may improve the bottom line for businesses in the software industry. There's fresh information out of Illinois, Kentucky, Oklahoma, and Texas.

Bear in mind that sales tax exemptions don't give you a free pass on tax liability. "SaaS is exempt in Wisconsin," says Myles Metzger, a Use Tax Product Solution Consultant at Avalara, "but under audit, if the SaaS software contains a messaging and/or email notification component and the value of this is not separately stated on the contract or invoice, Wisconsin will likely attempt to tax the entire purchase as a taxable telecommunication service."

In his experience, state audits are getting more aggressive in trying to broaden their tax base.

MYLES METZGER
Use Tax Product Solution Consultant at Avalara

"SaaS is exempt in Wisconsin, but under audit, if the SaaS software contains a messaging and/or email notification component and the value of this is not separately stated on the contract or invoice,

Wisconsin will likely attempt to tax the entire purchase as a taxable telecommunication service."

Illinois codifies exemption for software

The Illinois Department of Revenue has long used a five-part test to determine whether software licenses are subject to tax or exempt. With the enactment of HB 4951 in June 2024, Illinois has codified the department's policies.

The sale of a license for computer software is not taxable provided the conditions outlined in Section 130.1935 are met.

This exemption also applies to the Chicago Lease Transaction Tax and any other local tax adopted prior to January 1, 2023.

Kentucky exempts data center equipment

A sales and use **tax exemption for data center equipment** took effect in Kentucky on July 15, 2024. Equipment eligible for the exemption includes but isn't limited to computer software, connections, routers, and servers.

To qualify for the exemption, the data center must be located in an area with a population of 500,000 or greater, meet certain criteria, and be approved by the Kentucky Economic Development Finance Authority.

Oklahoma exempts digital asset mining

A temporary **sales tax exemption for digital asset mining** took effect in Oklahoma on November 1, 2024. "Digital assets" are defined as "a type of virtual currency that utilizes blockchain technology and that (1) can be digitally traded between users, or (2) can be converted or exchanged for legal tender."

The exemption applies to oodles of machinery and equipment used to mine digital assets, including but not limited to cabling, computers, servers, and software. It's set to expire on December 31, 2029.

Texas rules online admissions tests are exempt

In a private letter ruling, the **Texas Comptroller** said a company's computer-based, secondary education admissions testing services are *not* subject to Texas sales tax. This is a bit surprising because Texas sales tax generally applies to data processing services, and the services in question include some data processing.

According to the Comptroller, "these activities are performed to facilitate the taxpayer's testing service that provides an assessment of a student's readiness for college," and testing a student's readiness for college **isn't a taxable service**. So there you have it.

Examples of data processing services in Texas

- Check preparation
- Accounts payable or receivable preparation
- Web hosting, website creation and maintenance
- Data storage, including offsite backup of electronic files
- Conversion of data from one type of medium to another (e.g., converting paper documents or videotapes to digital files)

Source: Texas Comptroller

Property tax considerations for software companies

There's a tax on real property in every state, though it may apply only locally. And 37 states (plus Washington, D.C.) assess a tax on business personal property. Like any other industry, software companies with significant business in these states must comply with real and personal property tax requirements.

Software companies may not have as much heavy equipment as manufacturers or other industries, but that doesn't make personal property tax compliance any less complex. The desktop and laptop computers, office equipment, and servers owned by software companies are all considered personal property and may be subject to tax. Fiber backhaul or cellular service businesses may also be liable for property tax for the fiber to a cell tower or even the fiber strands running up a tower or on leased equipment – this is true in some states even where business personal property is not generally taxed.

Determining the value of equipment like computers and servers can be particularly challenging because they depreciate quickly. Jurisdictions have different "floors" for different properties; after a certain number of years, the property is typically valued at 10% or 15% of its original value forever. "Yet some computer software can be worth literally nothing after a time," explains Carl Hoemke, GM of Property Tax at Avalara. "It's important to review the assessed value of your equipment, and if it exceeds the fair market value, you can contest the assessment. Avalara helps businesses with this."

Determining software's taxability is also complex. For example, Washington state provides an exemption for custom computer software but not embedded software; canned software is subject to personal property tax, but modifications to canned software are exempt.

Keeping up with property tax changes adds to its complexity. "You can't assume that what happened last year will be the same this year," warns Hoemke. "Exemptions change. Definitions change. People misinterpret statutes. The systemic impact of a change may not be what the legislatures intended. For example, Mississippi exempted broadband a few years back, and now the application of the law is being disputed in numerous counties across the state."

CARL HOEMKE
General Manager of
Property Tax at Avalara

> **"You can't assume that what happened last year will be the same this year.**
>
> **Exemptions change. Definitions change. People misinterpret statutes. The systemic impact of a change may not be what the legislatures intended."**

These are just some of the main issues affecting tax compliance for software industry facility owners; we wish we had the space to cover them all, but there are just too many.

Staying compliant with these and other digital product tax changes and software-as-a-service tax rules requires a lot of resources. Tax automation for the software industry can help.

How Avalara can help

Avalara can help you account for tax changes and improve tax compliance for your business. Learn more about Avalara's cloud-native tax compliance solution for software and SaaS businesses, including tax rate calculation, returns preparation, and exemption certificate management.

EXPLORE SOLUTIONS

Download the full Avalara Tax Changes 2025 report to read about what's happening in other industries and with tax compliance in general.

READ ON

Looking ahead

It's impossible to cover every sales tax change in one report, so we aimed to spotlight the biggest headlines impacting the tax landscape and your business. Leading tax experts take a deeper dive into some of the most pressing issues affecting tax compliance in our 2025 tax changes webinar.

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