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A TAX COMPLIANCE GUIDE FOR
SOFTWARE

10TH EDITION

TAX CHANGES

Avalara

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Introduction

Tariffs didn't dominate every tax discussion in 2025, though sometimes it felt like they did. There was also the One Big Beautiful Bill Act of 2025, which established federal tax and spending policies that will reverberate for years. And states enacted a plethora of tax changes that reduced income or property taxes, expanded sales tax bases, and carved out new sales tax exemptions.

Trade policies remain in flux; as you'll see in the global tax chapter, there's no saying what will happen with tariffs in 2026. And though the full force of the One Big Beautiful Bill Act (OBBBA) won't be felt for quite some time, OBBBA is already influencing 2026 state tax policies. States must assess how federal tariff, tax, and spending policies will impact their bottom line in 2026 and beyond – and what to do about it.

We can't cover every tax policy change here; there are simply too many. So, for the 10th edition of our annual tax changes report, we're returning to our roots and focusing on sales tax. But because the world has changed a lot in 10 years, our 2026 report also covers tariffs, global electronic invoicing mandates, and notable value-added tax (VAT) updates.

Enjoy.

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AI AND INTERNATIONAL TAX COMPLIANCE

DISCLAIMER

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this report is for informational purposes only and does not provide legal or tax advice.



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What's powering software shifts in 2026

AI and connectivity are changing how work gets done – and software companies are leading the shift. Worldwide IT spending is expected to grow 9.8% from \$5.54 trillion in 2025 to \$6.08 trillion in 2026, according to [Gartner](#). And of that total, \$1.43 trillion is projected to be spent on software.

The tax compliance landscape is also evolving as authorities look to amend regulations and create laws to account for new technologies. We highlight some of the most interesting sales tax and global tax changes affecting software companies in this 10th edition of our annual flagship report.

Software taxation used to mean one thing: tax on downloaded programs or physical media. (Who remembers floppy disks?) That's no longer the case. In 2025, several states expanded their sales tax base to include a variety of technologies and services like data processing,

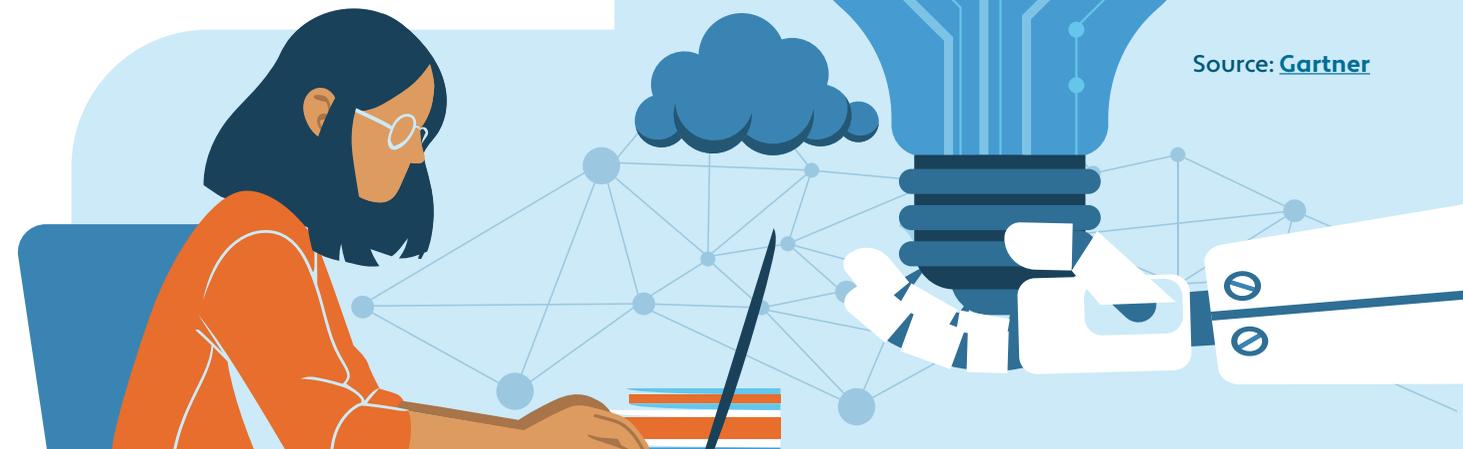
search engine portals, and customization of prewritten software. You can read about these changes in the section on [taxing digital services](#) and find out why tax compliance experts say “the next frontier in sales tax is digital.”

\$6.08T
in 2026

Worldwide IT spending
is expected to grow from

\$5.54T
in 2025 to

Source: [Gartner](#)



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Experts also discuss unique challenges like sourcing rules that can make it difficult to figure out whether a particular digital product or service is taxable, and where, and why some states are offering multiple points of use (MPU) exemptions. An MPU exemption shifts the compliance burden from the seller to a buyer who uses software or a related service concurrently in multiple states.

Newer technologies rarely fit neatly into decades-old sales tax laws but that doesn't keep states from trying to increase revenues. Turn to the section on [taxability trends](#) to learn about recent rulings, including an administrative law judge's decision in favor of taxing cloud-based document management services. While at least one state department of revenue determined that subscription-based AI chatbot services are exempt from sales tax, the decision clearly affirms that artificial intelligence services are under review by tax authorities.

The rest of the world is looking at AI too. As discussed in the section on [AI and international tax compliance](#), the EU AI Act is the world's

first comprehensive law regulating artificial intelligence. It introduces new compliance, transparency, and risk management obligations for software companies.

If your business sells internationally or your customers do, you also need to be aware of VAT in the Digital Age (ViDA) and global e-invoicing reforms. Roughly seven countries in the EU and other parts of the world will require structured e-invoices starting in 2026. Other nations are considering mandates or already have them in place.

These changes impact software companies in important ways.

First, software companies need to be prepared to answer questions from their customers about whether the technology services they provide are compliant.

Second, they need to know how the ERP, billing, and accounts payable systems they use themselves will handle new e-invoicing and real-time reporting requirements.

Read more about how these changes could affect your business in the sections on [Europe since ViDA](#) and [international tax compliance](#) updates.

Shifting tariffs dominated headlines in 2025. While most digital goods aren't directly impacted by tariffs due to a World Trade Organization moratorium, software manufacturers can still be affected in other ways. Indirect impacts may include increased hardware costs, global supply chain disruptions, and pricing pressures if customers opt to tighten spending in response to economic conditions. Learn more in the sections on [tariffs](#) and [trade deals](#).

Taken together, these developments point to a new reality for software and IT businesses: Tax compliance is becoming more complex and more closely tied to how technology itself is built and sold. This report helps software companies understand what's changing, why it matters, and where to focus next. Keep reading for a closer look into the factors that can influence strategy around finance, operations, and market expansion for 2026.



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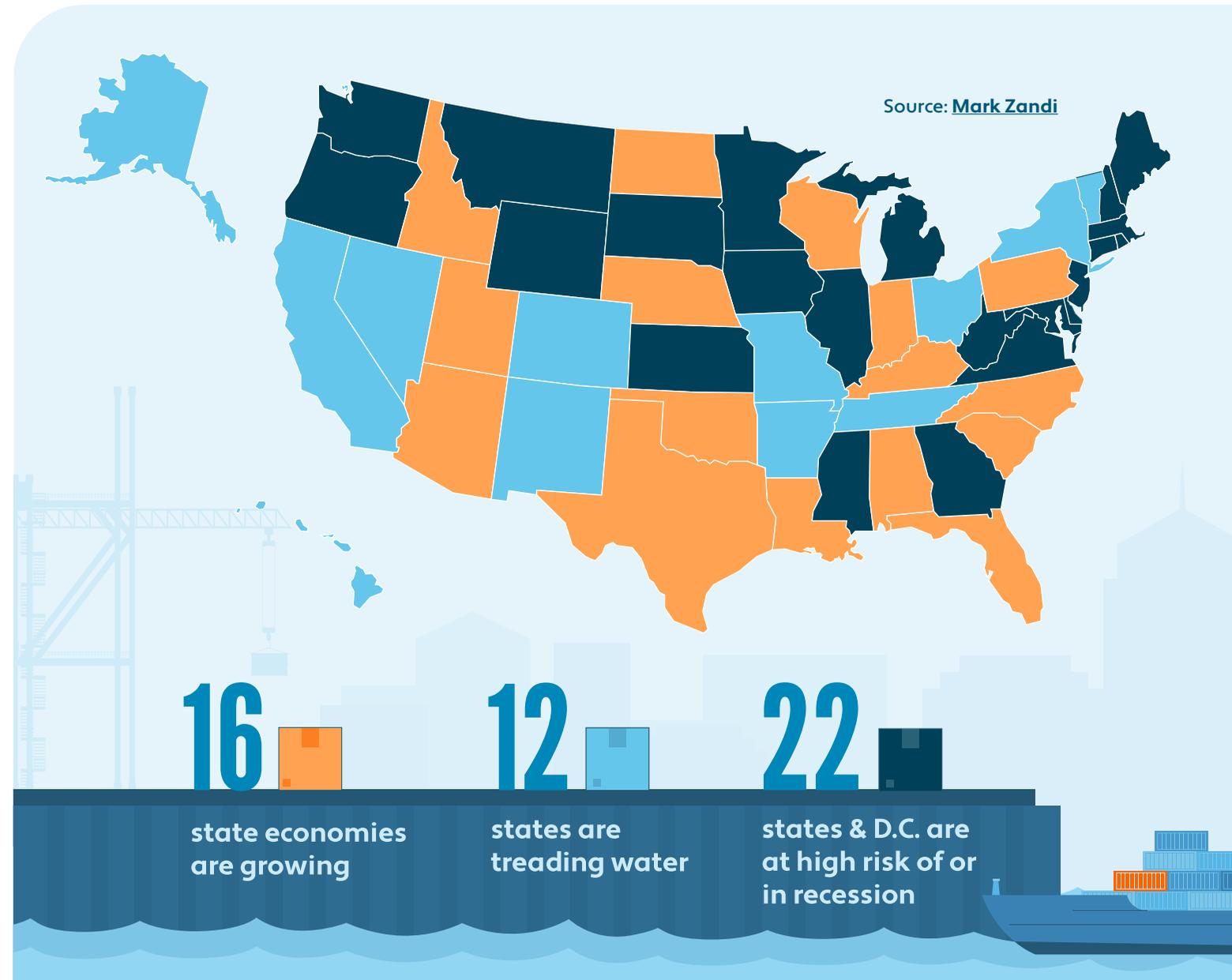
The state of the states

The state of the states is mixed. According to analysis conducted in October 2025 by [Mark Zandi](#), Chief Economist at Moody's Analytics:

- 16 state economies are growing.
- 12 state economies are trading water.
- Washington, D.C., and 22 state economies are in a recession or have a high risk of recession.

Zandi isn't the only expert sounding alarms. In its [2025 Financial State of the States report](#), think tank Truth in Accounting reported 25 states lack enough money to pay their bills. While most states were meeting or exceeding 2025 revenue projections in the spring, by the end of June, expenditure projections started to [outpace revenue growth](#). Many states then downgraded their revenue expectations for fiscal year 2026.

Source: [Mark Zandi](#)



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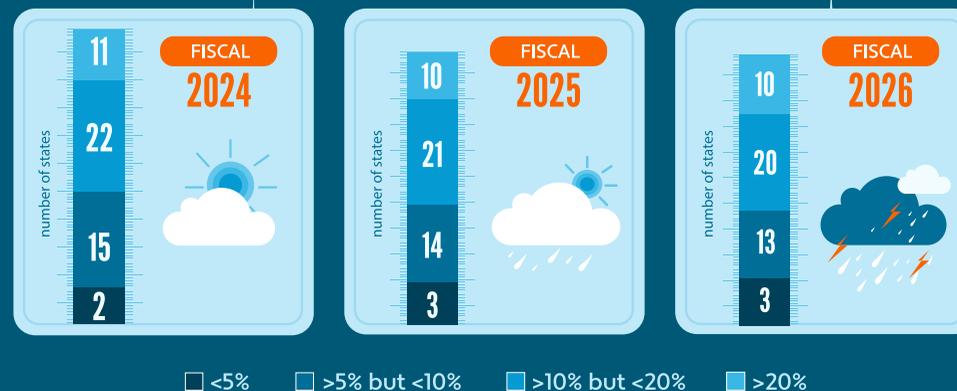
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RAINY DAY FUND BALANCE

as a percentage of general fund spending



“States are asking agencies to submit either flat budgets or to prepare for some program cuts,” says Erica MacKellar of the [National Conference of State Legislatures](#). “The good news heading into a slower-growth period is that states have really built up their rainy-day funds.” At the start of fiscal year 2026, approximately [30 states](#) had rainy-day fund balances on track to exceed 10% of their general fund expenditures.

However, the [One Big Beautiful Bill Act](#) (OBBBA) could impel states to dip into their savings. “Federal policy choices on tariffs, taxes and spending cuts will be deeply felt by the states,” observes the [Institution on Taxation and Economic Policy](#). “States will have to either raise revenue or make severe spending cuts of their own.”

Or both.

Source: [National Association of State Budget Officers](#)

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OBBBA: Impact on state budgets

For one thing, OBBBA will **cut about \$1 trillion from Medicaid** funding over the next decade and set more stringent Medicaid eligibility standards. This will increase costs for many states.

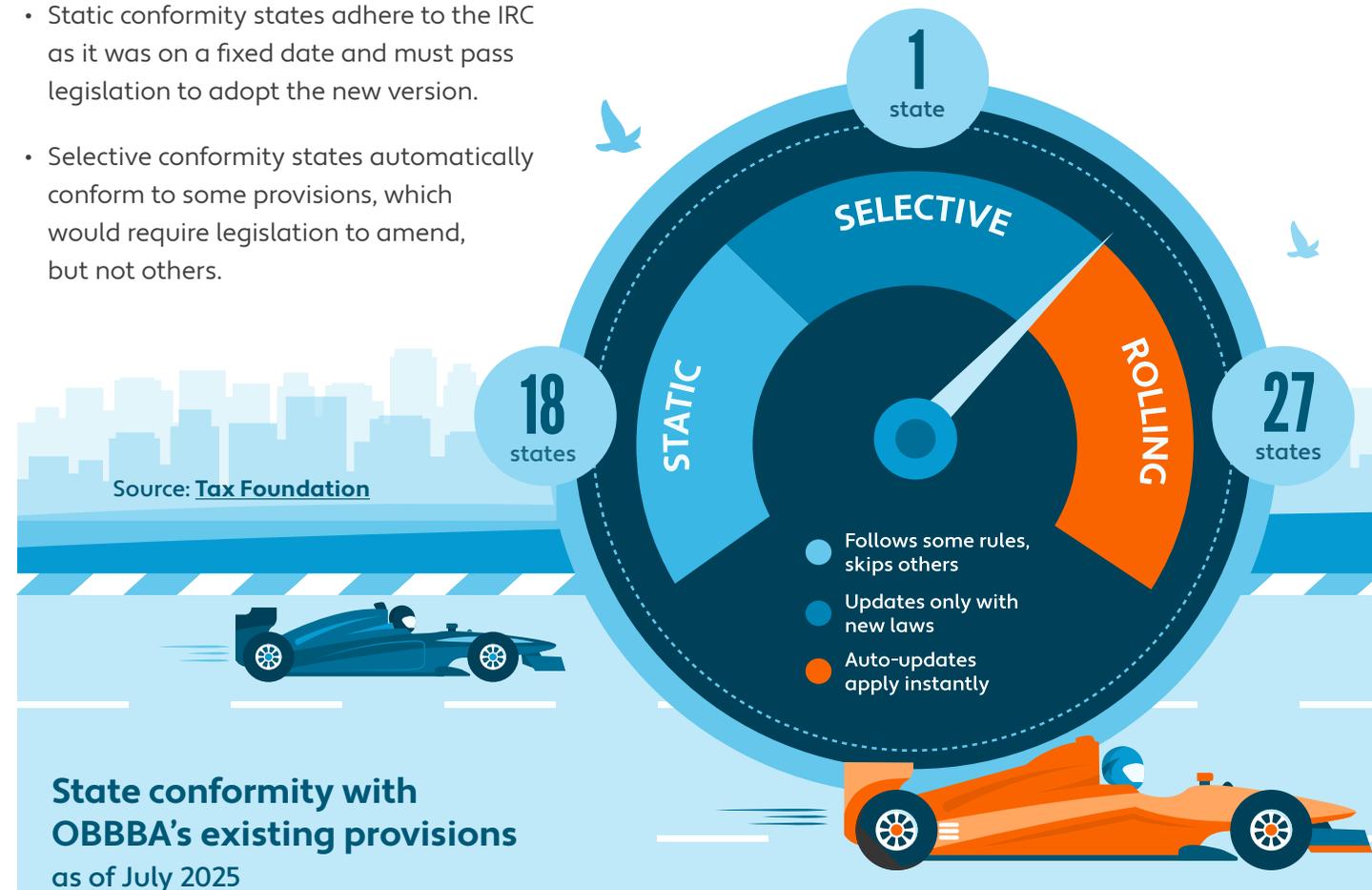
OBBBA also revamps the Supplemental Nutritional Assistance Program (SNAP), which the federal government has fully funded since the program's inception in 1964. The legislation **cuts \$186 billion from SNAP** and phases in policies that will increase costs for states.

Of course, Medicaid and SNAP changes are just two of many new federal policies that affect state economies. Others include new deductions for qualified tips, overtime premium pay, and automobile loan interest; a higher estate tax threshold; and a temporary increase to the state and local tax (SALT) deduction cap from \$10,000 to \$40,000 for qualifying taxpayers.

How closely a **state is aligned to the federal tax code** will dictate, in part, what comes next.

- Rolling conformity states that conform automatically to the latest version of the Internal Revenue Code (IRC) would need to enact legislation to decouple from the IRC and could feel the impact of OBBBA faster than other states.
- Static conformity states adhere to the IRC as it was on a fixed date and must pass legislation to adopt the new version.
- Selective conformity states automatically conform to some provisions, which would require legislation to amend, but not others.

Some states may try to decouple from certain OBBBA provisions to help preserve revenue, but others may not; accounting and advisory firm **Grant Thornton** expects “stark differences between those states that decouple versus those that conform.” The discussions should keep 2026 legislative sessions interesting.



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“Sweeping federal legislation like the One Big Beautiful Bill Act will have ripple effects on how states plan their fiscal future,” observes Amanda Denniston, Government Relations Manager at Avalara. “Layered on top of that is a growing trust issue between constituents and every level of government that can make it harder to build support for the tax changes and revenue tools that states may need most.”

AMANDA DENNISTON
Government Relations
Manager at Avalara

“Sweeping federal legislation like the One Big Beautiful Bill Act will have ripple effects on how states plan their fiscal future.

Layered on top of that is a growing trust issue between constituents and every level of government.”

“In this constrained environment,” writes Lucy Dadayan of the [Urban Institute](#), “policymakers will need to tighten their belts. That means budgeting with recurring revenues in mind ... and adopting strategies resilient to economic stress.”

For some states, additional resilient and recurring revenues could come in the form of sales tax.

Sales tax is “one of the least volatile major tax streams,” according to the [Pew Research Center](#) and other tax experts. Perhaps that’s why it’s the second largest source of state revenue after income tax, and second only to property tax at the local level.

Yet sales tax laws tend to be outdated. For the most part, the sales tax base has been shrinking since the late 1970s. Most states exempt most services even though services account for more than [two-thirds](#) of U.S. economic activity.

This was bound to lead to a reckoning eventually, and that moment may be now – especially for states cutting income and/or property taxes and/or feeling the pinch of federal tax and spending changes. Figuring out how to squeeze more revenue out of sales tax may be a top priority for several states in 2026.

HOW SERVICES FIT INTO THE SALES TAX BASE

BUSINESS SERVICES

e.g., advertising, employment services, consulting, public relations

PERSONAL SERVICES

e.g., dry cleaning, fitness classes, haircuts, lawn care, personal storage

PROFESSIONAL SERVICES

e.g., legal, accounting, medical, engineering, and other services

REAL PROPERTY SERVICES

e.g., repairs, maintenance, construction, installation of fixtures

TPP SERVICES

e.g., delivery, installation, and repairs of furnishings and appliances

Source: [Tax Foundation](#)



What the numbers tell us about sales tax in 2026

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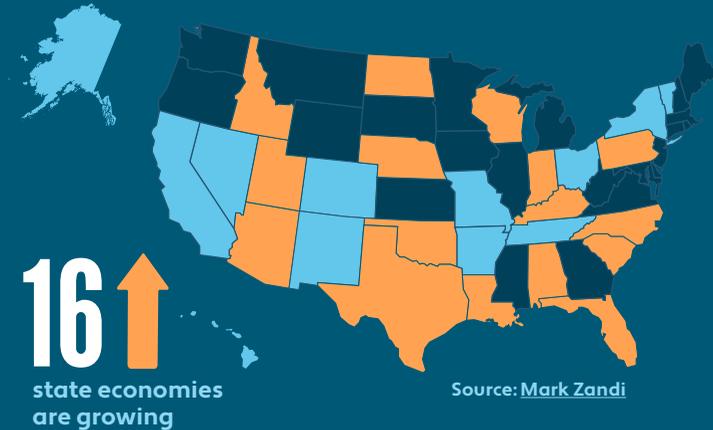
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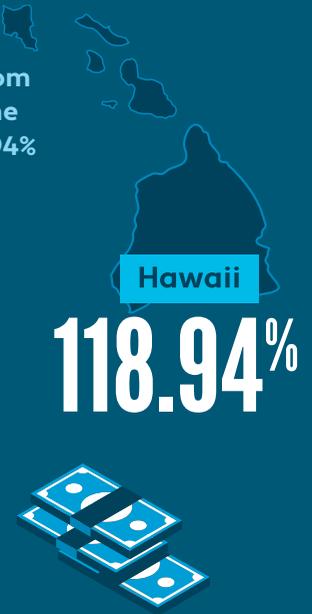
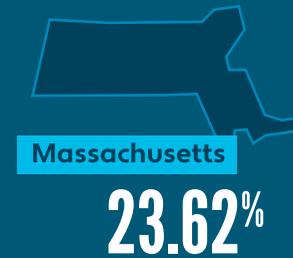
Sales taxes accounted for 31.18% of state tax revenue in FY 2022

Source: Tax Foundation



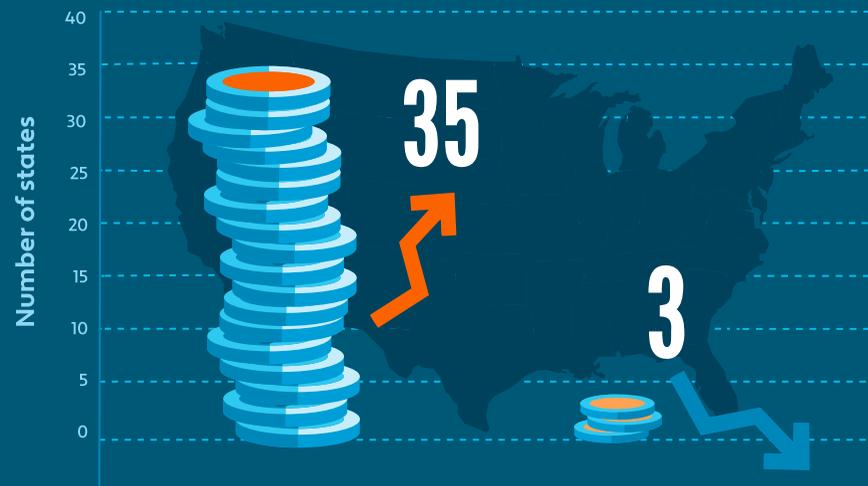
Sales tax bases range from 23.62% of personal income in Massachusetts to 118.94% in Hawaii

Source: Tax Foundation



In Q2 2025, sales tax revenue grew YoY in 35 states and declined in 3 states

Source: Urban Institute



their sales tax base in 2025
Source: States that broadened sales tax in 2025

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Broadening the sales tax base

“For tax policy purists, the ideal sales tax would fall on all final consumption,” writes the [National Conference of State Legislatures](#). Yet only certain states, like South Dakota, come close to that ideal. The [mean sales tax breadth](#) dropped from nearly 50% in 2000 to less than 35% in 2022.

States do periodically try to broaden their sales tax base, and though they frequently face opposition, a few states have pulled it off. For instance, [Connecticut](#) started taxing car washes, parking, and website development in 2015; [North Carolina](#) began taxing repair, maintenance, and installation services in 2017; and Kentucky extended sales tax to numerous services in [2018](#) and [2022](#).

Sales tax expansion typically arises when there’s a need for more revenue. Kentucky wanted to phase out individual income taxes. South Dakota needed to fund the state’s share of Medicaid. With similar forces in play today, momentum for broadening the sales tax base may be building.

“Many states have debated replacing their income or property tax with a very broad sales tax, but those efforts have failed for many reasons.” observes Scott Peterson, VP of Government Relations at Avalara. “What happened in 2025, and what seems to be happening more consistently, is the slow expansion to taxing digital services and marketplace services. The long list of states that broadened their sales tax in 2025 is indicative of what’s likely to be repeated in 2026.”

SCOTT PETERSON
VP of Government
Relations at Avalara

“Many states have debated replacing their income or property tax with a very broad sales tax, but those efforts have failed for many reasons.

What happened in 2025, and what seems to be happening more consistently, is the slow expansion to taxing digital services and marketplace services.”



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States that broadened sales tax in 2025

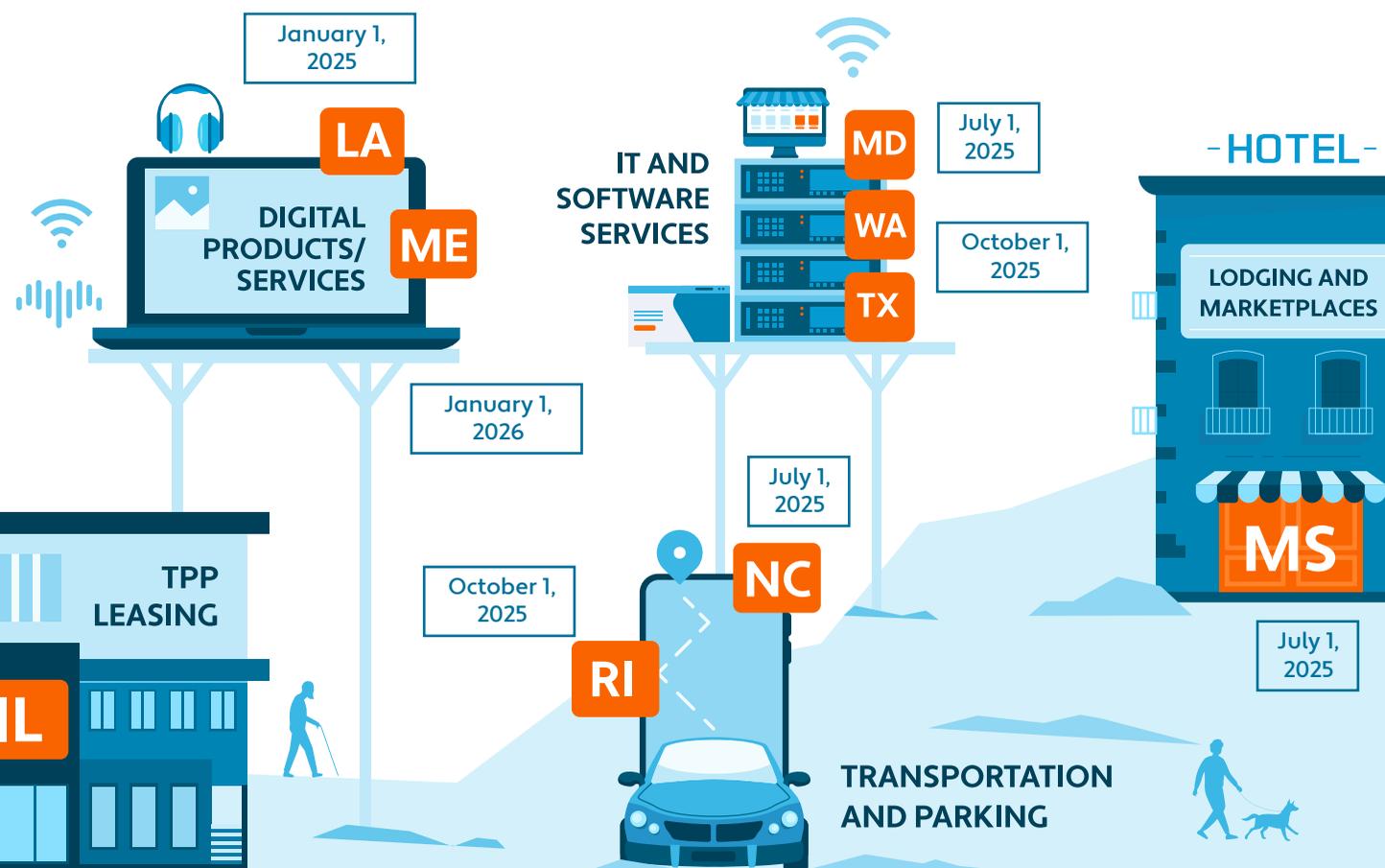
The following states expanded their sales tax base in 2025 – to varying degrees.

- **Illinois** extended sales and use tax to the leases and rentals of tangible personal property (TPP) effective January 1, 2025.
- **Louisiana** began taxing digital products on January 1, 2025.
- **Maine** enacted a law in 2025 that extends the 5.5% state sales and use tax to digital audiovisual and digital audio services starting January 1, 2026.
- **Maryland** started taxing data or IT services and system software or application software publishing services on July 1, 2025.
- **Mississippi** requires third-party booking companies to collect state and local sales tax on hotel bookings as of July 1, 2025.

- **North Carolina** taxes ride-sharing services as of July 1, 2025.
- **Rhode Island** taxes short-term parking services effective October 1, 2025.
- **Texas** expanded the list of taxable data processing services to include internet hosting as well as website creation, repair, and maintenance involving the

compilation, entry, manipulation, and storage of data, effective April 2, 2025. It also clarified that sales tax applies to the fees marketplaces charge sellers for these services as of October 1, 2025.

- **Washington** applied retail sales tax and the retailing business and occupation (B&O) tax to a host of digital and business services on and after October 1, 2025.



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States that may broaden the tax base in 2026

Two forces suggest other states may also try to expand their sales tax base in 2026.

1. New federal tax and spending policies will increase costs for many states.
2. States cutting income or property taxes will need to make up that revenue.

In fact, several states are already looking at ways to increase sales and use tax collections in 2026.

Georgia

In September 2025, a special Senate committee on eliminating Georgia's income tax gleaned lessons from four states (Florida, Iowa, Tennessee, and Texas) that either have no personal income tax or are in the process of getting rid of it.

Three of the states highlighted the importance of sales tax:

- Florida said it “lives” on its tourist taxes and broad-based sales tax, which make up about 75% of the state's general revenue.
- Tennessee and Texas noted that sales tax makes up about 56% and 53% of their respective general funds.

Kansas

Kansas already taxes a long list of [services](#). Now, some lawmakers would like the state to provide fewer sales tax exemptions. The [Freedom From Taxes Amendment \(HCR 5014\)](#) seeks to eliminate all but the most essential Kansas sales tax exemptions – as identified by a yet-to-be-created “citizens’ review board.” If enacted in 2026, the amendment will require voter approval to become law.

Montana

Todd O’Hair, President and CEO of the Montana Chamber of Commerce, thinks it’s time to have “[an adult conversation](#)” about the state’s tax structure, which doesn’t include a [general sales tax](#).

“Montana’s property tax system served us well when we were a more industrialized state,” explains the [Chamber of Commerce](#). “Today we are more of a professional services economy Instituting a sales tax is not the only way out of this situation – but all options must be on the table.”

Something to watch as 2026 unfolds.



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Pennsylvania

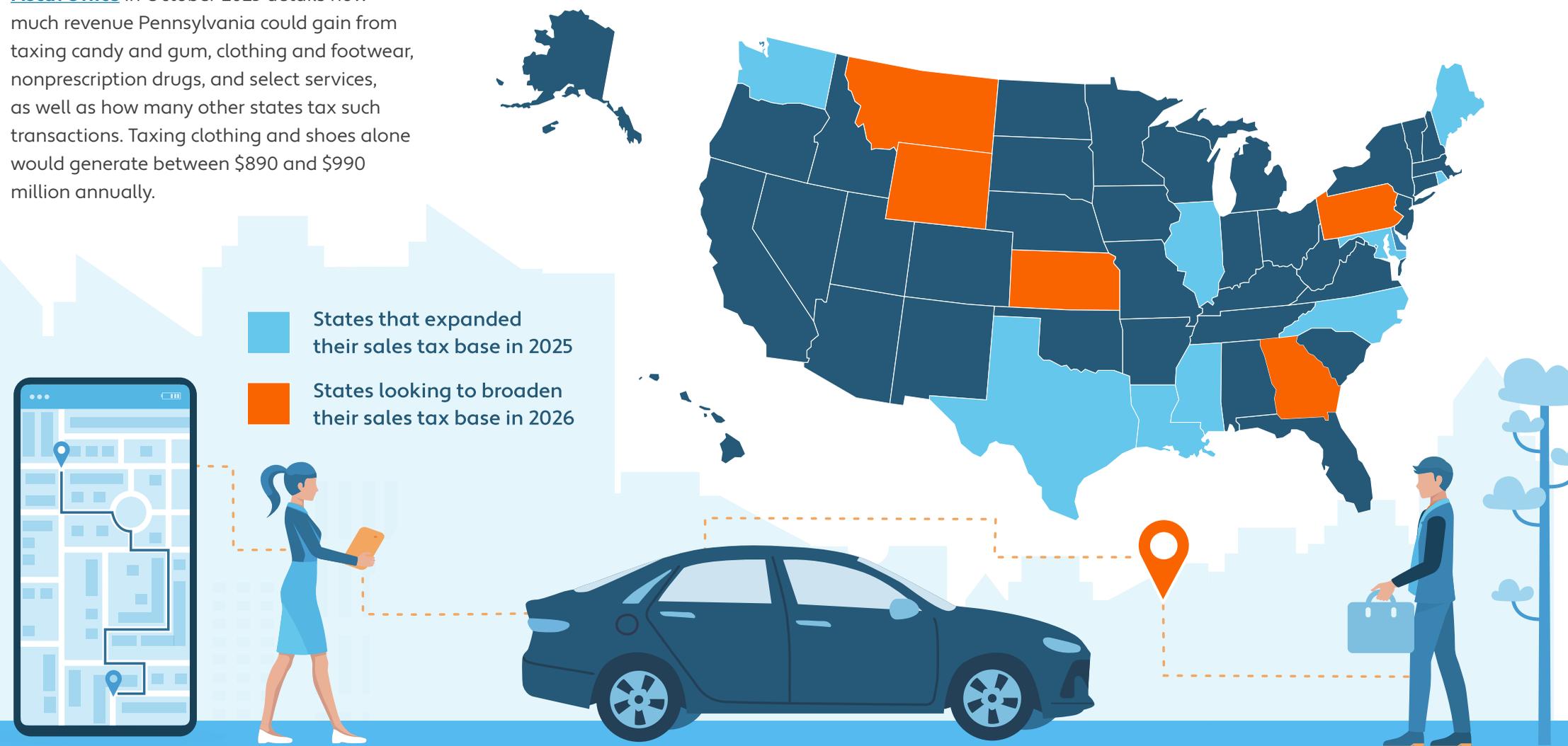
To offset a [projected deficit](#) of roughly \$6 billion in fiscal year 2026, Pennsylvania is considering expanding its sales tax base.

A report published by the [Independent Fiscal Office](#) in October 2025 details how much revenue Pennsylvania could gain from taxing candy and gum, clothing and footwear, nonprescription drugs, and select services, as well as how many other states tax such transactions. Taxing clothing and shoes alone would generate between \$890 and \$990 million annually.

Wyoming

The Cowboy State only taxes a [handful of services](#) today. Some Wyoming lawmakers want to get rid of property tax altogether and garner more revenue from sales tax.

It's a hard sell. A [bill](#) seeking to establish an additional sales tax to offset property tax revenue losses wasn't even considered for introduction in 2025. But with a deficit on the horizon, the need for additional revenue could reshape discussions around sales tax.



Taxing digital business services: A new trend?

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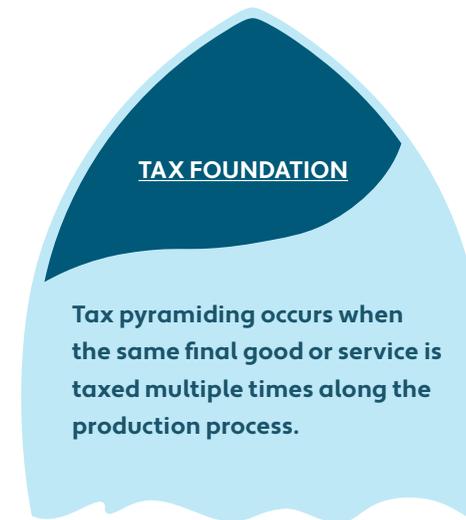
There's no one way to broaden the sales tax base, but economists generally favor taxing business-to-consumer (B2C) services over business-to-business (B2B) services.

The [Institute on Taxation and Economic Policy](#) (ITEP) says "services consumed by individuals should be taxed, while services consumed by businesses in the process of producing goods and services of their own should typically be exempt."

The [Tax Foundation](#) advocates for taxing consumer services and exempting business inputs, "to avoid tax pyramiding."

The [Council on State Taxation](#) argues taxing B2B services "violates several principles of sound tax policy" by creating "pyramiding and a lack of transparency to both consumers and policy makers."

Nevertheless, Maryland, Texas, and Washington opted to tax numerous B2B services in 2025. So, despite opposition, it could become a trend.



Maryland taxes data, IT, and software services

As of July 1, 2025, [Maryland](#) levies a reduced sales and use tax (3% rather than the general 6% rate) on many services routinely purchased by businesses. The affected industries are described under the following [North American Industry Classification System](#) (NAICS) codes.

- **NAICS sector 518:** Computing infrastructure providers, data processing, web hosting, and related services
- **NAICS sector 519:** Web search portals, libraries, archives, and other information services
- **NAICS subsector 5132:** Software publishing services
- **NAICS subsector 5415:** Computer systems design and related services



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Unfortunately, the classification a business reports as its primary business activity code for federal and state income tax purposes *does not* determine whether sales and use tax applies to the services the business sells. According to the [Maryland Comptroller](#), “a business must compare the services it provides to the NAICS activity descriptions for data or information technology services and software publishing defined by Maryland law as taxable services to determine taxability.”

“The NAICS was jointly developed by the United States, Canada, and Mexico to facilitate the comparison of business statistics across the North American economic zone,” explains David Lingerfelt, Senior Director of Indirect Tax at Avalara. “Because its primary purpose is macroeconomic reporting, NAICS classifications are intentionally broad. These categories were never intended to define which products or services are subject to tax,” he says.

DAVID LINGERFELT
Senior Director of
Indirect Tax at Avalara

“

In effect, the question becomes whether a transaction falls within the scope of one of these expansive NAICS sectors.

This approach will make it difficult for some taxpayers to determine whether their activities are included. And it creates significant uncertainty.

”

“However, Maryland’s [Technical Bulletin No. 56](#) makes it clear the state is applying an economic substance test based on these broad industry classifications,” Lingerfelt asserts. “In effect, the question becomes whether a transaction falls within the scope of one of these expansive NAICS sectors. This approach will make it difficult for some taxpayers to determine whether their activities are included. And it creates significant uncertainty.”

Lingerfelt believes Maryland’s reliance on NAICS codes is likely to face legal challenges, “as taxability is traditionally a fact-intensive inquiry requiring case-by-case analysis rather than categorical classification.”

Maryland’s new law creates other challenges. For example, SaaS not purchased or licensed solely for use in an enterprise computer system, such as a purchase for use by an individual, is considered a taxable digital product so is subject to the state’s full 6% sales and use tax rate. Sellers therefore need to understand who their customers are and why they’re buying.



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BRIAN SMITH
Senior Government
Relations Director
at Avalara

“ Texas believes the existing data processing rule applies to any transaction that uses a computer.

They’re truly using a shoehorn to squeeze new technology into an old statute.”

Texas expanded tax on data processing

Data processing services have long been subject to sales and use tax in Texas, and the state is considering more and more transactions to be data processing services.

“Texas believes the existing data processing rule applies to any transaction that uses a computer,” says Brian Smith, Senior Government Relations Director at Avalara. “They’re truly using a shoehorn to squeeze new technology into an old statute.”

The Texas Comptroller of Public Accounts finalized updates to the [data processing services rule](#) in March 2025. Effective April 2, 2025, the amended rule defines “data processing service” as “the computerized entry, retrieval, search, compilation, manipulation, or storage of data or information.”

The rule provides several examples of taxable data processing services, including payroll services, the production of business accounting data, and word processing. Many marketplace provider services – such as compiling analytics, maintaining transaction records, or storing a seller’s product listings – are considered taxable data processing services starting October 1, 2025.

Services that rely on a person’s professional judgment are *not* taxable data processing services in Texas, even if they contain data processing elements.

And while streaming video subscriptions and streaming video game subscriptions are both taxable, they’re not considered data processing services. The distinction is important because only 80% of charges for data processing services are subject to Texas sales and use tax; the other 20% is exempt.



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Washington taxes numerous B2B services

Effective October 1, 2025, due to the enactment of Washington [ESSB 5814](#), state retail sales tax and retailing B&O tax applies to the following [business activities](#):

- Advertising services
- Custom software and customization of prewritten software
- Custom website development services
- Information technology services
- Investigation, security, security monitoring, and armored car services
- Live presentations
- Temporary staffing services

Washington also repealed exclusions for certain digital automated services (DAS): advertising services, data processing services, live presentations, and services involving primarily human effort. But it created a new exclusion for telehealth and telemedicine services.

“The state Legislature enacted sweeping changes to its sales, use, and B&O tax structure without adequate foresight, creating significant uncertainty for taxpayers,” explains Ben Beaudoin, VP of Tax at Avalara. “Resolving these issues will likely require years of regulatory clarification, litigation, and additional legislation.”

Beaudoin says businesses should reassess their revenue streams and purchases – particularly those involving advertising, technology, and services – to ensure proper tax treatment under the new law. “A major challenge will be understanding and correctly applying the complex sourcing rules in an automated, scalable way, while also keeping pace with the Department of Revenue’s ongoing emergency guidance.”

Businesses that buy or sell affected services should pay close attention to the Washington Department of Revenue [guidance](#), particularly as it relates to [existing contracts](#). Qualifying contracts established prior to October 1, 2025, are generally exempt through March 31, 2026, provided they’re not altered.

WASHINGTON ESSB 5814

(EFFECTIVE OCTOBER 1, 2025)

ADVERTISING

INVESTIGATION

TAX APPLIES

WEBSITE DEVELOPMENT

TEMPORARY STAFFING

SECURITY

INFORMATION TECHNOLOGY

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LIVE PRESENTATIONS

Source: [Avalara](#)

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What comes next?

“The next frontier in sales tax is digital,” says Amanda Denniston. “Debates over what counts as tangible property versus what’s considered a digital service will define how states expand their tax base. All eyes are on jurisdictions like Washington and Maryland.”

Bruce Todd, Senior Principal of Indirect Tax Technology at KPMG Canada, doesn’t see what Maryland, Texas, and Washington are doing as a matter of equity, like taxing digital goods that replaced physical media. While he understands states may need money to balance their budgets, he’s concerned they’re taxing automation and innovation. After all, for the most part, states didn’t tax these business services when they were performed by people.

If states must tax business services, Todd thinks they should be explicit. “Texas’ creative reinterpretation of ‘data processing’ statutes could be used as a catchall to tax anything at any time, since what doesn’t involve data?

AMANDA DENNISTON

Government Relations
Manager at Avalara

“

The next frontier in sales tax is digital.

Debates over what counts as tangible property versus what’s considered a digital service will define how states expand their tax base. All eyes are on jurisdictions like Washington and Maryland.

”

Washington’s new rules seem to essentially boil down to ‘you used a computer, it’s taxable.’” The more specific the requirements, he says, the better for businesses.

“It’s a fair argument that no sales or use tax is owed if I do something myself or hire an employee, even if the outcome is exactly the same if I use outside software or hire a service provider required to charge sales tax,” says Scott Peterson. “Unfortunately, that’s the way of sales tax. If I paint my house, I pay sales tax on the paint and owe the state nothing for the value of my labor. If I hire a painter, either I or the painter will pay sales tax on the paint, and I’ll pay sales tax on the painting service.”



HOW AVALARA CAN HELP

Navigate evolving tax rules with increased confidence. Avalara Tax Research helps you determine how products and services are taxed, featuring a database of regularly updated tax laws, historical rule changes, and sourcing guidance. Avi, our AI-powered assistant, lets you search using plain language – no legalese required.

[Explore Avalara Tax Research](#)



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Why taxing digital services is hard

Taxing digital services poses unique sourcing and legal challenges.

Sourcing issues: Who uses what, where

Determining how to source sales of digital services is an ongoing challenge for both businesses and tax authorities. And pinpointing the location of digital transactions is critical to getting sales tax right, particularly when services are consumed in more than one state. Ambiguous sourcing rules, and the fact that sellers don't need to obtain a full address for digital transactions, could result in a transaction being taxed by multiple jurisdictions – or no jurisdictions.

“It can be difficult to determine whether a particular digital product or service may be subject to tax,” says Argi O’Leary, Principal, Advocacy Practice at Ryan, LLC. “It’s equally challenging to determine where a product or

service will be used or where its benefit will be received by the customer.”

O’Leary says states are increasingly interested in designing processes to allow businesses to allocate tax among jurisdictions, so they can collect the right amount of tax at the time of sale. “But any method used to allocate tax must be reasonable and supportable.”

The [Tax Foundation](#) recommends sourcing sales of digital goods and services to the location of first use. States that are members of the [Streamlined Sales and Use Tax Agreement](#) (SSUTA, or simply SST) must adhere to SST’s sourcing rule hierarchy, depicted here.

But how should a state fairly allocate tax when businesses purchase digital goods and software for concurrent use by multiple people in multiple states? How does each taxing jurisdiction ensure it gets a fair share of the tax pie without overtaxing, or undertaxing, businesses?

Some states solve this issue by offering a multiple points of use (MPU) exemption, which shifts the compliance burden from the seller to the buyer.

SSUTA standard sourcing rule hierarchy



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The MPU exemption

Where an MPU exemption is allowed, the buyer must provide the seller with an exemption certificate claiming multiple points of use. This affirms the buyer will use the software or service concurrently in multiple states.

An MPU exemption certificate also relieves the vendor of the obligation to collect and remit sales tax. It makes the buyer responsible for remitting use tax on the service based on a reasonable, consistent, and uniform method of apportionment that's supported by business records.

Unfortunately, only certain transactions are eligible for an MPU exemption, and only in certain states. States that provide an MPU exemption include [Maryland](#), [Massachusetts](#), [Minnesota](#), [Ohio](#), [Texas](#), and [Washington](#).

Scott Peterson explains that 25 years ago, most states didn't tax things that could be concurrently available for use in multiple states, except for prewritten computer software. "The debate then focused on whether states would need to ask their legislature for a use tax statute to tax the use of prewritten computer software in the state. There was a lot of 'What do I do now?' from both businesses and states, then the concept of multiple points of use just petered out. With Maryland recently allowing the MPU exemption, even under very difficult rules, perhaps it will start spreading."

For the electronically transferred advertising services that became subject to Washington sales tax on October 1, 2025, the Washington Department of Revenue says the locations and agreed-upon allocation of advertising services must be provided by the purchaser at the time of the invoice. The department may review the reasonableness of the allocation at any time.



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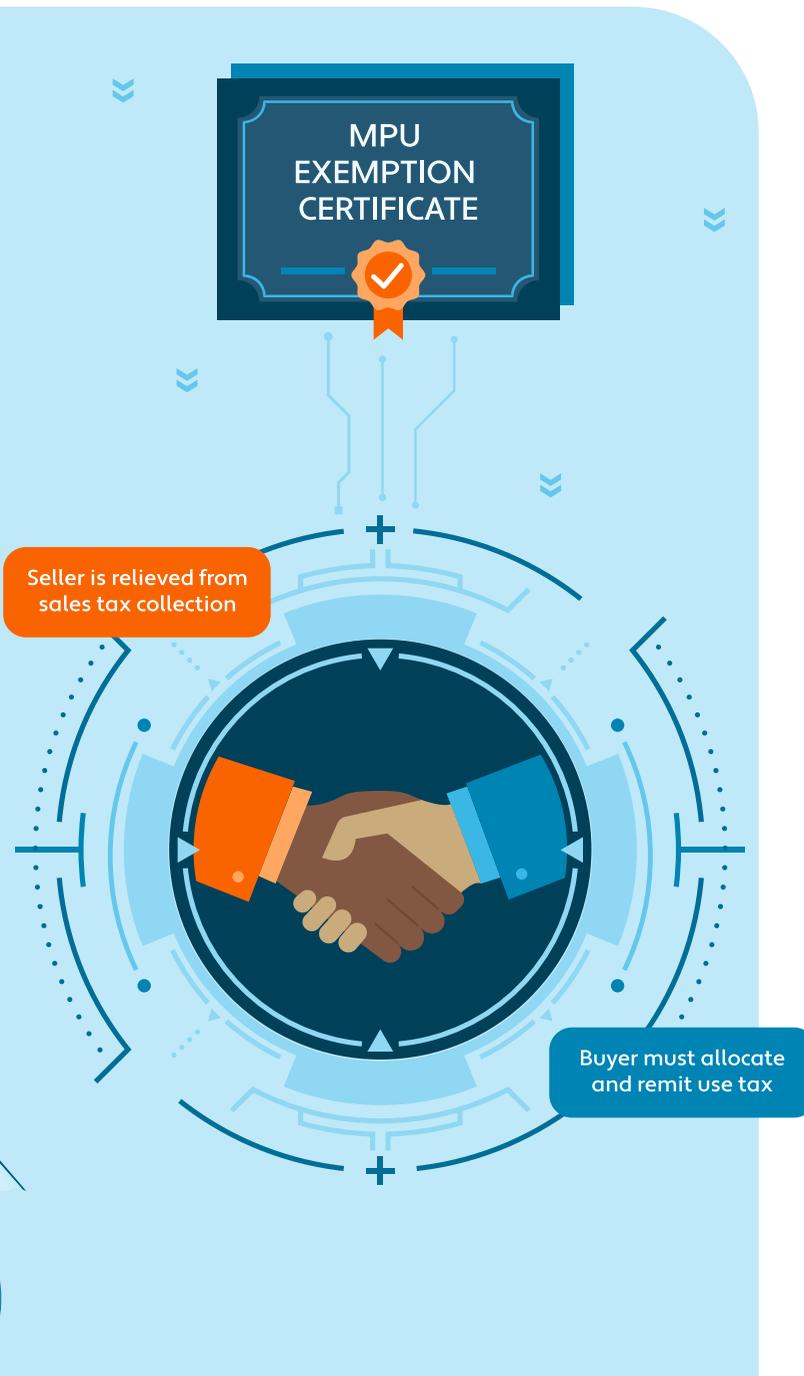
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“In our world of remote employees, it can be challenging to properly allocate use tax for software across many jurisdictions,” says Maria Tringali, Director of Accounts Payable Existing Business Sales at Avalara. “MPU exemptions can be handy for buyers in the states that support them. However, the burden of accurate tax collection remains on the seller.”

Sellers need to ensure they collect valid, up-to-date, and appropriate certificates. “Not maintaining good exemption certificate controls is a common sales tax error identified in audits,” says Lauren Stinson, Partner at Cherry Bekaert Advisory. “If a technology seller requests an MPU certificate and the purchaser sends in a basic resale certificate, it’s typically not applicable, leading to audit exposure.”

In the event of an audit, businesses need to be able to quickly access certificates. To facilitate and enhance compliance, Tringali recommends sellers establish strong exemption certificate management processes – ideally automated, with AI.



HOW AVALARA CAN HELP

Missing or invalid exemption certificates can trigger penalties. Avalara Exemption Certificate Management uses AI to automate collection, validation, and real-time tracking of exemption certificates – helping you keep records accurate, complete, and accessible when it matters most.

[Explore Avalara Exemption Certificate Management](#)



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Legal issues: How to fairly tax digital ads

While sourcing challenges can arise with just about any tax on a digital good, legal disputes have focused primarily on digital advertising taxes.

“Maryland was the first state to enact a digital advertising tax, and it has been mired in litigation since,” says Argi O’Leary. “Washington enacted a digital advertising tax in May, and Comcast promptly filed suit alleging the tax is illegal. These legal challenges have asserted, among other arguments, that these digital advertising taxes violate the Internet Tax Freedom Act (ITFA) and discriminate against digital commerce.”

ITFA bans taxes that discriminate against electronic commerce, such as by taxing electronic commerce but not similar nonelectronic commerce. With respect to taxes on digital goods and services, cases often center on whether an analogous tax involving a comparable nondigital good or service exists, and if so, whether the good or service is taxed in the same manner.

Comcast may have a compelling case in Washington. “Almost all forms of advertising conducted over the internet are subject to the tax,” reads the complaint for declaratory relief, “while most forms of advertising conducted off the internet are not subject to the tax.”

Another business **challenged** other aspects of Washington’s new law. Security Services Northwest, Inc. (SSNW) argued in part that the law violates the Due Process Clause of the U.S. Constitution and the state constitution because businesses weren’t given adequate time to prepare. SSNW filed its complaint on September 30, 2025, and asked the court to delay enforcement until January 1, 2026. However, SSNW dropped its lawsuit without explanation on November 4.

Should the law be found to violate ITFA, Dylan Waits, Tax Counsel at the Council on State Taxation (COST), says **ESSB 5814** would be negated in part. “But there’s a lot of the bill that would survive such a ruling, so a lot of businesses would still be without guidance on sourcing and taxation of other services. For example, there’s still need for clarity on where the customer receives the advertising service,”

says Waits. “It’s not necessarily where the ad is viewed, which often is not known.”

An ITFA violation ruling could lead the Legislature to address many of the issues and questions raised by the bill, explains Waits. “The Legislature could add back in the ‘tangible equivalent’ exclusions from the definition of digital advertising.” But he doesn’t think that’s likely to happen.

The next move is the courts’, and speedy resolution of the Washington case is unlikely. As O’Leary observed, Maryland has been **defending its digital advertising tax** since before it took effect in 2022.

In one of the latest legal rounds, the U.S. Court of Appeals for the 4th Circuit decided the pass-through provision of Maryland’s digital ad tax **violates the First Amendment**. The August 2025 ruling doesn’t put an end to Maryland’s digital ad tax, but it may mean Maryland will need to allow companies to pass the cost of the tax on to consumers.

The court’s decision came out a few weeks after the Comptroller of Maryland published long overdue guidance for the digital ad tax.



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[Technical Bulletin No. 59](#) emphasizes that entities cannot pass the cost of the tax on to their customers by any means, so as Peterson points out, the guidance is out of date unless the Comptroller appeals the decision.

Despite legal disputes in Maryland and Washington, other states are thinking about digital advertising taxes or similar taxes on data mining (aka, data collection).

Other states ponder digital ad taxes

[California](#), [Michigan](#), [Minnesota](#), [Montana](#), [New York](#), [South Dakota](#), and [Tennessee](#)

are among the states that introduced digital advertising and/or data mining taxes in 2025.

[Hawaii](#) is looking to apply the state's corporate income tax to income received from digital advertising in the state.

Another state to watch in 2026 is Massachusetts, where several digital advertising tax bills have been introduced over the years. [HB 3208](#), the most recent iteration, seeks to impose the state [6.25% sales tax](#) on

digital advertising services. Businesses with less than \$2.5 million in Massachusetts ad revenue would be exempt from the tax.

"How serious these states are ebbs and flows," notes Dylan Waits, though COST expects there to be more activity after the litigation in Maryland and Washington is settled.

If additional states do eventually opt to tax digital advertising or other digital services, notes a [2022 COST policy](#) position, "business compliance will require sophisticated accounting and recordkeeping to comport with special sourcing and apportionment methods."

Why would states consider such taxes? O'Leary says state legislators pursuing the enactment of these taxes have expressed, directly or indirectly, an interest in taxing "big tech." She states, "their efforts to pick winners and losers give challengers ammunition in their attempts to strike down laws they believe are illegal."

If other states do impose an excise tax or sales tax on digital advertising services, their laws will almost certainly be challenged. As O'Leary explains, "digital ad taxes sit at the intersection

of federal preemption (ITFA), constitutional speech, interstate commerce limits, and hard-to-administer sourcing rules – with a patchwork of state experiments guaranteeing more challenges."

ARGI O'LEARY

Principal, Advocacy Practice at Ryan, LLC.

“Digital ad taxes sit at the intersection of federal preemption (ITFA), constitutional speech, interstate commerce limits, and hard-to-administer sourcing rules – with a patchwork of state experiments guaranteeing more challenges.”

”



Taxability trends: New things, old laws

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Tax laws rarely keep pace with newer technologies like digital advertising. When there are gaps in the law, courts and departments of revenue can help set taxability precedent by clarifying how existing tax laws apply to new types of transactions.

Here's a sampling of what transpired in 2025. Some rulings and regulations shore up the tax base; some carve out exemptions.

New York and Georgia rule in favor of taxation

A New York Administrative Law Judge **ruled** that cloud-based document management services are taxable prewritten software. The New York State Court of Appeals also **determined** ad measurement services are taxable information services.

In Georgia, the State Court of Appeals **ruled** that rideshare operator Uber is liable for nearly

\$9 million in sales tax because it was subject to the state's taxicab regulation between 2012 and 2015. The court stated the app functioned like a taxicab dispatch center. Uber has asked the **state Supreme Court** to settle the dispute.

Brian Smith believes if Uber doesn't prevail at the Georgia Supreme Court, it will likely submit a writ of certiorari to the United States Supreme Court. The potential nationwide exposure for Uber may be too great for the company to let a decision in favor of the state go unchallenged.

Indiana rules AI chatbot services are exempt

The Indiana Department of Revenue **ruled** in July that Indiana sales tax does not apply to the generative artificial intelligence (AI) services offered by an out-of-state company. The company sells four AI chatbot subscription plans and two chatbot application programming interface (API) plans. The chatbot is accessed via the company's free app or website.



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SCOTT PETERSON
VP of Government
Relations at Avalara

“**There’s a big difference between how ChatGPT earns revenue and how Google earns revenue.**

It seems to me that the fee ChatGPT charges is a fee for the use of software. I would not be surprised if many states categorize what they do as taxable software.

”

Indiana does tax prewritten computer software as well as specified digital goods that are purchased for permanent use (i.e., ownership is not conditioned upon continued payment by the purchaser, as with a subscription). The department decided the AI chat services are exempt because customers don’t download the chatbot onto their computers, and the company doesn’t deliver any software or programming code to customers.

Indiana is the first state to weigh in on the taxability of AI chat services. It won’t be the last, and different states could reach different conclusions.

“There’s a big difference between how ChatGPT earns revenue and how Google earns revenue,” observes Scott Peterson. “I must pay a monthly fee if I want to ask a question of ChatGPT. Google earns its revenue from advertising and charges me nothing if I want to ask a question. Of course, there are lots of other differences between the two. It seems to me that the fee ChatGPT charges is a fee for the use of software. I would not be surprised if many states categorize what they do as taxable software.”

Kansas and Wisconsin offer new exemptions

Kansas started offering a [sales and use tax exemption for qualified data centers](#) on July 1, 2025, to attract data centers to the state. Given the rise of artificial intelligence, competition for data centers and similar businesses could become fierce. Proposed tax incentives for this sector are something to watch in 2026.

Wisconsin created a sales and use tax [exemption for digital information products](#) purchased and used exclusively by insurance companies and intermediaries as of October 1, 2025. This provides much needed clarity; previously, it was unclear whether these types of products were taxable as “additional digital goods” or exempt.



Taxability trends: Old things, new policies

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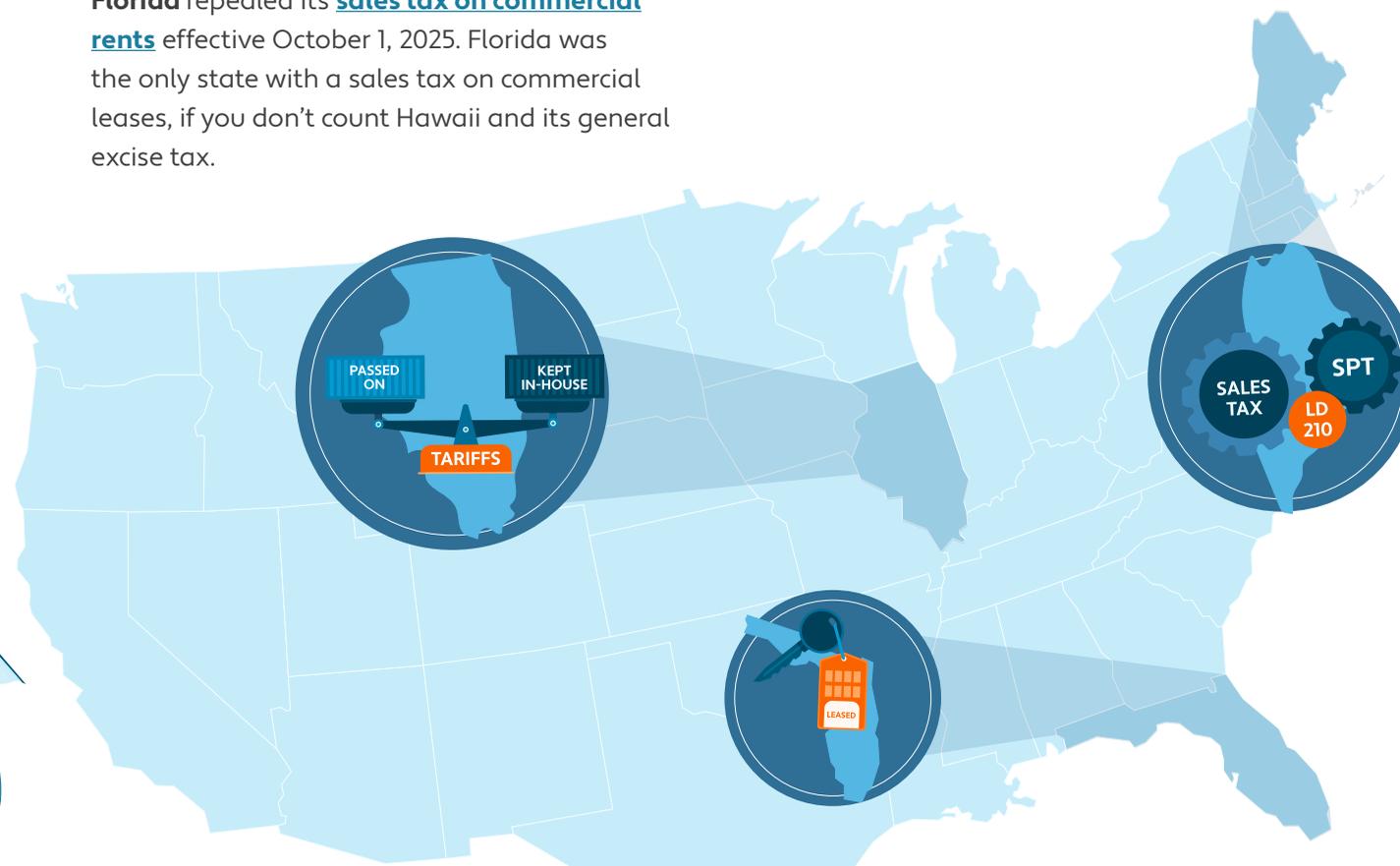
As a matter of course, states periodically tweak taxability rules related to existing products and services. It's also common for at least one or two states to amend, eliminate, or establish sales tax holidays. Here are some of the most notable recent and upcoming taxability changes.

Florida repealed its [sales tax on commercial rents](#) effective October 1, 2025. Florida was the only state with a sales tax on commercial leases, if you don't count Hawaii and its general excise tax.

Illinois explained that the person legally responsible for paying a tariff under federal law is the critical factor in determining [whether sales or use tax applies to the tariff](#) itself. Tariffs passed on to the consumer are typically subject to sales tax if the transaction is taxable. Yet if the purchaser imports products for their own use, the tariff isn't part of the use tax base.

Maine [repealed](#) the state's service provider tax (SPT). Effective January 1, 2026, the state's sales and use tax applies to services previously subject to the SPT, including:

- Ancillary services
- Cable and satellite television or radio services
- Fabrication services
- Telecommunications services
- The installation, maintenance, or repair of telecommunications equipment
- The rental of video media and video equipment
- The rental of furniture, audio media and audio equipment pursuant to a rental-purchase agreement



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The SPT originally “played an important role in federal reimbursements to institutions regarding medical service transactions,” explains the Commissioner of the Department of Administrative and Financial Services, in her [February 2025 testimony](#) on behalf of LD 210. “[It] no longer does. What remains now is unneeded bifurcation of similar taxable transactions under both the service provider tax and the sales tax. This bifurcation trips up businesses and adds administrative burden and cost to their operations.”

The law as amended by LD 210 is “more equitable” and “reduces compliance confusion” for affected service providers.

Massachusetts is embroiled in a use tax issue. The Bay State imposes its full use tax on equipment brought into Massachusetts for more than six days during a 12-month period. The American Trucking Association and other groups argue applying the full [use tax to rolling stock](#) – equipment used to move cargo in and outside of the commonwealth – violates the Commerce Clause.

This has echoes of the [Ellingson Drainage dispute with South Dakota](#), where the state prevailed.

Mississippi use tax doesn’t apply to a taxpayer’s freight fees, according to a state [Supreme Court ruling](#), because the freight transaction was separate from the purchase of tangible goods.

The taxpayer purchased tangible personal property for use in Mississippi from one supplier and later paid freight charges to a third-party company. “Had the seller participated in both the sale of the goods and the shipping of the goods into Mississippi,” observed the court, “the freight charges would likely be part of the use tax calculation.”



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Rhode Island updated its sales tax [exemption for artists, composers, and writers](#). Exemption certificates issued after July 1, 2025, will expire four years from the date of issuance.

South Carolina expanded its durable medical equipment sales and use tax exemption to all sellers, regardless of location. The exemption was previously available only to sellers with a principal place of business in South Carolina, but the South Carolina Supreme Court found that requirement to be unconstitutional and invalidated it. [House Bill 3800](#), signed into law in May 2025, reestablished the exemption for all businesses holding a South Carolina retail sales license.

Washington is [eliminating an exclusion](#) for precious metal bullion and monetized bullion. Effective January 1, 2026, retailing business and occupation (B&O) tax and retail sales tax apply to gross income from sales of these items to end consumers.

Wisconsin eliminated its sales and use tax on [household utilities](#). Prior to October 1, 2025, electricity and natural gas were exempt from November through April, when sold for residential use. Now, electricity and natural gas are sales tax exempt year-round.



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Taxing personal care necessities

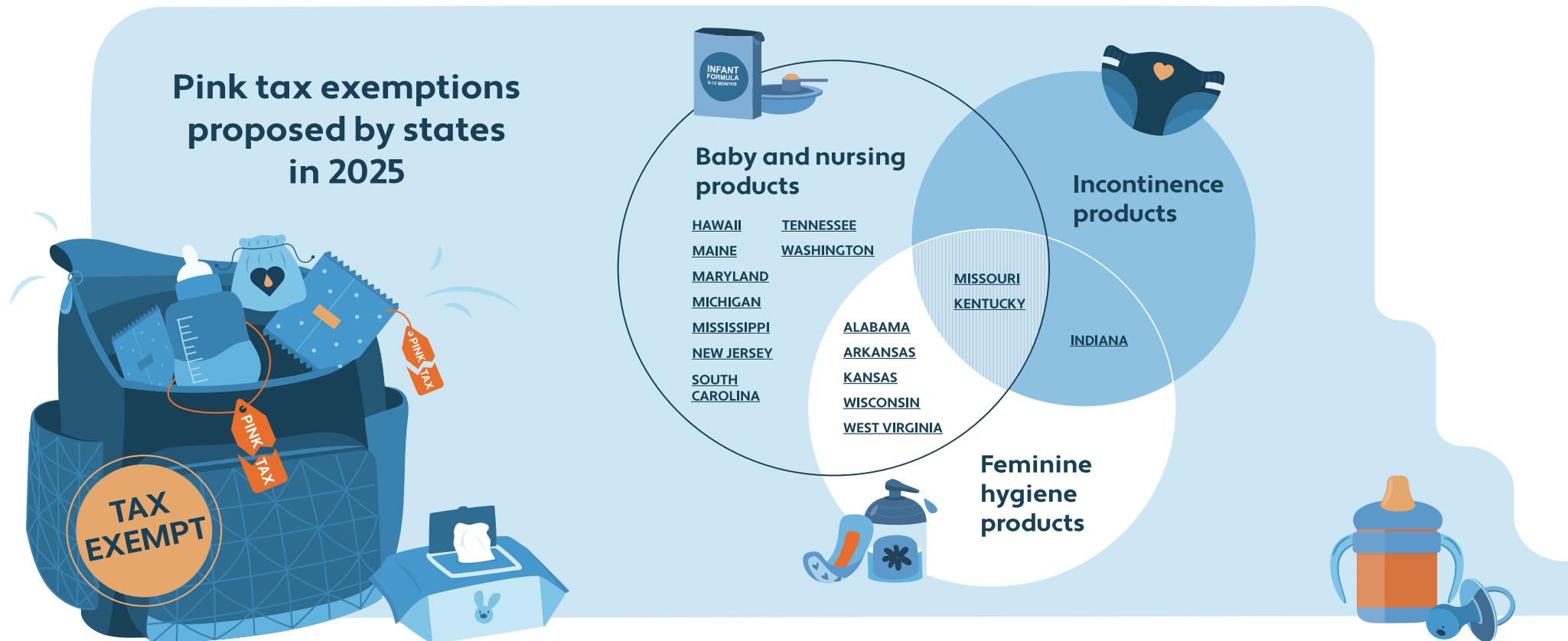
At least 16 states introduced legislation in 2025 to exempt products such as baby bottles, diapers, and sanitary napkins. Taxes on items required only by certain segments of the population are sometimes called [pink taxes](#).

Two states eliminated pink taxes in 2025.

- [Missouri](#) exempted diapers, feminine hygiene products, and incontinence products from state and local sales and use tax on August 28, 2025.
- [Alabama](#) began exempting diapers, maternity clothing, and menstrual hygiene products on September 1, 2025; the exemption will expire on August 31, 2028.

Other pink tax exemptions will be proposed in 2026. States to watch include [Massachusetts](#), [Michigan](#), and [Wisconsin](#). And, keep an eye on the federal government: In April 2025, the U.S. House introduced a [bill](#) to treat diapers as qualified medical expenses, and to prohibit state and local governments from taxing retail sales of diapers.

Pink tax exemptions proposed by states in 2025



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Sales tax holidays

There were about 30 [sales tax holidays in 2025](#), across 20 states and Puerto Rico. Canada even joined in the sales tax holiday fun, offering a temporary tax break for most food and beverages (and related services) plus an assortment of products.

Sales tax holidays create a festive atmosphere for consumers but can be a significant burden for retailers. In 2024 alone, Avalara made 123,595 sales tax holiday rule updates. (How on earth do businesses manage sales tax holidays without automation?)

MARK MARVELLI
Manager of Indirect Tax at Avalara

“ Sales tax holidays complicate compliance for businesses

because they require temporary changes to tax rates, product categorizations, and system configurations that vary by state and even locality. ”

SALES TAX HOLIDAYS

2025

Source: [Avalara](#)



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“Sales tax holidays complicate compliance for businesses,” says Mark Marvelli, Manager of Indirect Tax at Avalara, “because they require temporary changes to tax rates, product categorizations, and system configurations that vary by state and even locality. Avalara helps businesses navigate these complexities by automating tax calculations and updates in real time for compliance during fluctuating tax periods without manual intervention.”



HOW AVALARA CAN HELP

Tax rates, rules, and exemptions change fast. Avalara AvaTax – powered by Agentic Tax and Compliance™ – automates tax calculations, sourcing logic, and compliance workflows to help you stay accurate and agile across jurisdictions.

[Explore Avalara AvaTax](#)

It’s common for numerous sales tax holiday bills to be introduced each year, and 2026 promises to be no different. While it’s too early to tell which, if any, will be enacted, proposed tax-free events include:

- A green energy sales tax holiday in [New York](#)
- New back-to-school sales tax holidays in [Illinois](#) and [Wisconsin](#)
- A Second Amendment sales tax holiday in [Wisconsin](#)

Lawmakers may hold off on introducing new sales tax holiday legislation until they know their states can afford to do without the sales tax revenue. Tax-free events in 2025 cost state and local governments approximately \$1.3 billion, according to the [Institute on Taxation and Economic Policy](#).

Sales tax rate changes

There are thousands of sales and use tax rate changes every year – more than 4,881 in 2024 alone. We couldn’t possibly name all the local rate changes across the more than 12,000 U.S. sales and use tax jurisdictions, but it’s worth highlighting recent, upcoming, and proposed state sales and use tax rate changes.

- [Washington D.C.](#), delayed a sales and use tax rate increase that was set to take effect on October 1, 2025. The rate is still on track to jump to 7% on [October 1, 2026](#).
- [Massachusetts](#) is considering a bill that would lower the sales tax rate from 6.5% to 5%, which is quite a big drop. Similar proposals have been introduced before, so while we’ll keep tabs on this, we won’t hold our breath.
- [Florida](#) and [Minnesota](#) considered slashing state sales tax rates in 2025, and [Missouri](#) and [Nebraska](#) considered state sales tax rate hikes.

It’s too early to know what 2026 will bring, but someone somewhere will likely propose a state sales tax rate change. Meanwhile, food tax reductions are on the table.



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Bagging the savings



Food taxes: Eat them up (yum)

Groceries, aka food for home consumption or nonprepared food, are exempt from sales tax in most states. In the states that tax such food, rates are dropping.

Mississippi cut the state sales tax on groceries from 7% to 5% on July 1, 2025. There's currently no plan to reduce the food tax further.

Alabama cut the state food tax from 3% to 2% on September 1, 2025. Local sales and use tax rates were unaffected by this change.

Arkansas is eliminating the state sales tax on groceries as of January 1, 2026. As in Alabama, local sales taxes continue to apply.

Illinois is also eliminating the state sales tax on groceries January 1, 2026, and allowing local grocery taxes. This could complicate sales tax reporting for businesses, as over **600 cities** will start taxing food on January 1.

States to watch

Alabama may allow local governments to cut local food taxes. However, many jurisdictions **rely on local sales tax** revenue to fund necessary services.

Some **Missouri** lawmakers are trying to exempt food from the 1% state sales tax and phase out local taxes. They've had no luck yet, but 2026 is a new year.

Lawmakers in **Tennessee** introduced legislation in 2025 to fully exempt food and food ingredients from the state sales and use tax. There was also a bill to **exempt canned, fresh, and frozen vegetables**, though as Scott Peterson points out, exempting only vegetables would likely violate SST's rule that member states must use uniform definitions for products and services. These ideas could resurface in 2026. **Groceries** are subject to a reduced state tax of 4% in Tennessee, plus applicable local taxes.

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Online sales tax

It's been more than seven years since the Supreme Court of the United States authorized states to tax remote sales. Though states continue to tweak their economic nexus and marketplace facilitator laws, the pace of change has slowed considerably.

Nevertheless, Lauren Stinson says a lot of companies are still grappling with economic nexus compliance.

"Technology companies that are growing fast seem to be far behind in their compliance," she observes. "They often operate lean and don't have internal resources or knowledge to prioritize tax compliance. Companies that use multiple sales channels and technology platforms are also struggling. It's challenging to integrate different systems, manage inventory, and keep up with sales tax."

Additionally, Stinson sees a lot of misconceptions around physical presence nexus. "There are businesses that still don't realize physical presence creates nexus," she explains. "They think they have no sales tax obligation so long as they don't meet a state's

economic nexus standards. There are also a lot of companies with a 'we looked at it a couple of years ago' mentality. They don't realize that nexus obligations grow, especially with remote workforces or inventory stored all over the country, managed by third-party logistics or marketplace providers."

Staying on top of changing requirements is a continual challenge. In 2025:

- Alaska and Utah eliminated their 200-transactions threshold for economic nexus.
- [Juneau, Alaska](#), required marketplace facilitators to collect and remit applicable sales and hotel bed taxes on behalf of sellers.
- Texas clarified that marketplace fees are taxable data processing fees.

Few concrete remote sales tax changes have been announced for 2026, though more could emerge as the year unfolds. Here's what we know as of this writing.

Illinois drops transaction threshold

Illinois will become the 16th state to [get rid of its 200-transactions economic nexus threshold](#). Beginning January 1, 2026, remote retailers and marketplaces must [determine on a quarterly basis](#) whether they met or exceeded the state's \$100,000 threshold during the preceding 12-month period.

It's surprising more states haven't ditched their transaction threshold, if for no other reason than that it's expensive for states to process sales tax returns for remote businesses with less than \$100,000 in annual sales in the state. Which state could be next to do so is anyone's guess.



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Illinois levels the playing field for service providers ...

You may recall that Illinois has been [updating its sourcing rules](#) to level the playing field for in-state and out-of-state businesses. As of January 2025, all registered businesses shipping goods from locations outside of Illinois collect the combined state and local retailers' occupation tax (aka, sales tax) on tangible personal property, at the rate in effect at the delivery address.

Starting January 1, 2026, a [similar policy](#) takes effect for service providers, which Illinois law calls *servicemen*.

A serviceman that maintains a place of business *in* Illinois *and* sells services to Illinois customers from a location *outside* the state is required to collect the state and local service occupation tax on tangible personal property sold along with the service. Destination sourcing rules apply – the rate in effect at the location where the service is provided. Charges for the services themselves are subject to state and local service use tax.

★
Court rulings, new bills, and local revenue protections keep Texas tax sourcing in motion through 2030.

... and marketplaces facilitating sales for service providers

Marketplace facilitators are also required to remit applicable state and local service occupation taxes on tangible personal property sold as an incident to marketplace sales of services in Illinois.

As of January 1, 2026, for services sold through a marketplace, the service occupation tax is 6.25% of 50% of the entire charge to the customer. However, the final amount cannot be less than the seller's [cost price](#) of the property. Avalara partner [Grant Thornton](#) covers the Illinois sales tax changes in depth.

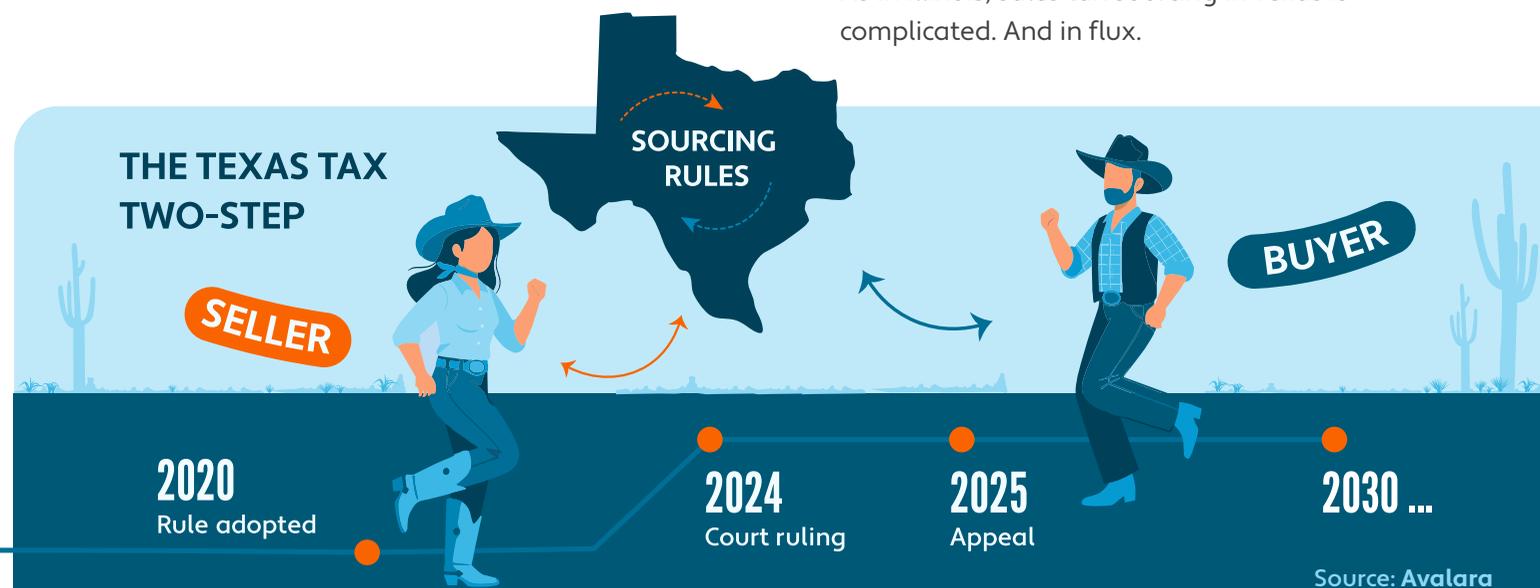
Louisiana expands marketplace facilitator law

Starting January 1, 2026, an accommodations intermediary that remits sales and use taxes to the Louisiana Sales and Use Tax Commission for Remote Sellers as a marketplace facilitator must also remit applicable local [occupancy taxes](#). This affects businesses like Airbnb and Vrbo.

Texas sourcing saga continues

Texas has mixed [sales tax sourcing rules](#): Some transactions are sourced to the seller's place of business (origin sourcing), while others to the location of the buyer (destination sourcing). As in Illinois, sales tax sourcing in Texas is complicated. And in flux.

THE TEXAS TAX TWO-STEP



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In 2020, the Texas Comptroller amended [Administrative Code §3.334](#) to source online sales to the location in Texas where the order is fulfilled, rather than the location where a business processes internet orders. Six cities sued, and in December 2024, a [district court](#) struck down some aspects of the rule and ordered the Comptroller to reconsider other provisions.

The saga will continue into 2026, at least. In September 2025, the state submitted a brief asking a state appeals court to reinstate its sourcing rule changes. On the other side of the matter, five of the six cities submitted a brief supporting their arguments.

“No one can fault the cities for exploiting rules that brought business, revenue, and jobs to their community,” observes Bruce Todd. “However, these sourcing rules force Texas to compete with itself by concentrating the benefit of Texas’ robust economic growth. The origin sourcing rules seem like a relic of the past.”

In April 2025, the Texas Legislature also considered a bill, [HB 134](#), that would clarify and modify sales tax sourcing laws. The [Committee Substitute](#) for HB 134 includes a provision to protect local jurisdictions’ revenue until 2030.

If enacted, it could placate cities while allowing the sourcing changes sought by the Comptroller to take hold.

BRUCE TODD

Senior Principal of
Indirect Tax Technology
at KPMG

“If you need to change the rules, then by all means propose legislative changes and let those be debated.

Creative reinterpretations do not provide certainty to business.”

A new law would be preferable to Todd. “I’m not a fan of creative reinterpretations of old and cold statutes for modern times. If you need to change the rules, then by all means propose legislative changes and let those be debated. Creative reinterpretations do not provide certainty to business.”

He thinks holding off enforcement until 2030 seems fair; it’s long enough to allow jurisdictions to adapt their budgets to the loss of revenue but doesn’t undermine the policy changes.

Trouble with home rule in Alabama

As a home-rule state, Alabama allows local jurisdictions to independently administer their own sales and use taxes. In 2025, the Alabama Legislature passed a law giving local jurisdictions even more control over their local tax base.

Under [House Bill 191](#), any law that enacts or amends a sales and use tax exemption applies only to state sales and use taxes. It doesn’t apply to county or municipal sales and use taxes unless all the following conditions are satisfied:

- The law provides for the exemption of county or municipal sales tax.
- The exemption is approved by a local resolution or ordinance that meets certain criteria.
- The county or commission or municipality notifies the Alabama Department of Revenue of the resolution or ordinance by July 1 prior to the effective date of the exemption.



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Additionally, any sales or use tax exemption adopted by a county or municipality prior to the enactment of HB 191 ceases to be effective as of September 1, 2025, unless certain conditions are met. The [Department of Revenue](#) provides more details as well as a list of county and municipal sales and use tax exemption notices.

While this is in line with Alabama home rule, it stands to complicate compliance for businesses that collect and remit sales and use taxes throughout the state.

DAVID LINGERFELT

Senior Director of Indirect Tax at Avalara

“Granting home-rule authority over sales tax exemptions would create significant administrative burdens for merchants.

Businesses would be required to track and comply with exemption rules in every municipality where they operate, each of which could adopt its own unique standards.”

“Granting home-rule authority over sales tax exemptions would create significant administrative burdens for merchants,” argues David Lingerfelt. “Businesses would be required to track and comply with exemption rules in every municipality where they operate, each of which could adopt its own unique standards. In addition, municipalities are likely to develop a variety of exemption certificate formats and documentation requirements. Because exemptions are a frequent focus of audit activity, this fragmented system would expose businesses to greater compliance risk while simultaneously increasing the complexity and cost of managing exemptions across jurisdictions.”

And Alabama may have bigger fish to fry.

Alabama’s single rate for remote sellers is under fire

If some local governments are pleased with their newfound power to control sales tax exemptions, the state’s [simplified sellers use tax](#) (SSUT) for remote sellers caused a bit of a stir.

Alabama law allows sellers with no physical presence in the state to apply to collect, report, and remit a flat (simplified) 8% sellers use tax on all sales in the state, rather than the combined state and local rate in effect in each location. Marketplace facilitators can also collect and remit the SSUT.

Purchasers can apply for a refund if the 8% SSUT exceeds their combined state and local tax rate. But jurisdictions whose tax rate is greater than 8% have no authority to collect the additional revenue. The Department of Revenue distributes the local portions of the SSUT based on population.

It’s for the greater good, but it doesn’t sit well with some jurisdictions. The City of Tuscaloosa and the Tuscaloosa school district are [suing](#) the Alabama Department of Revenue over their decreased tax collections. “Alabama’s Simplified Sellers Use Tax takes use tax revenue generated in our community and sends it elsewhere,” Tuscaloosa Mayor Walt Maddox observed in August 2025. The jurisdictions also allege the Department allows companies with a physical presence in the state to participate in the SSUT program.



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“The SSUT program hasn’t uniformly evaluated each applicant’s nexus standing,” explains Brian Smith. “Companies with physical presence nexus were permitted to participate as remote sellers.” This makes it a Commerce Clause case.

Smith says Commerce Clause cases have become much more common since the 2018 U.S. Supreme Court decision in *South Dakota v. Wayfair, Inc.* “The rise in the number of Commerce Clause cases correlates to the growth of internet commerce and the drastic increase of out-of-state sellers – a perfect storm to get a fact pattern that would fit the definition of ‘in-state’ versus ‘out-of-state’ sellers.”

If the localities win, the state could be forced to dismantle the SSUT system. And if remote sellers are forced to comply with Alabama’s burdensome home-rule sales tax system, they could sue the state over its complexity.

This is a case to monitor in 2026. There’s less happening on the retail delivery fee front.

Retail delivery fees may be running out of gas

[Colorado](#) implemented the nation’s first retail delivery fee in 2022, followed by [Minnesota](#) in 2024. With more than 10 states considering delivery fees of their own, it seemed for a time that states would adopt them at a fast and furious pace.

But no states enacted a retail delivery fee in 2024 or 2025.

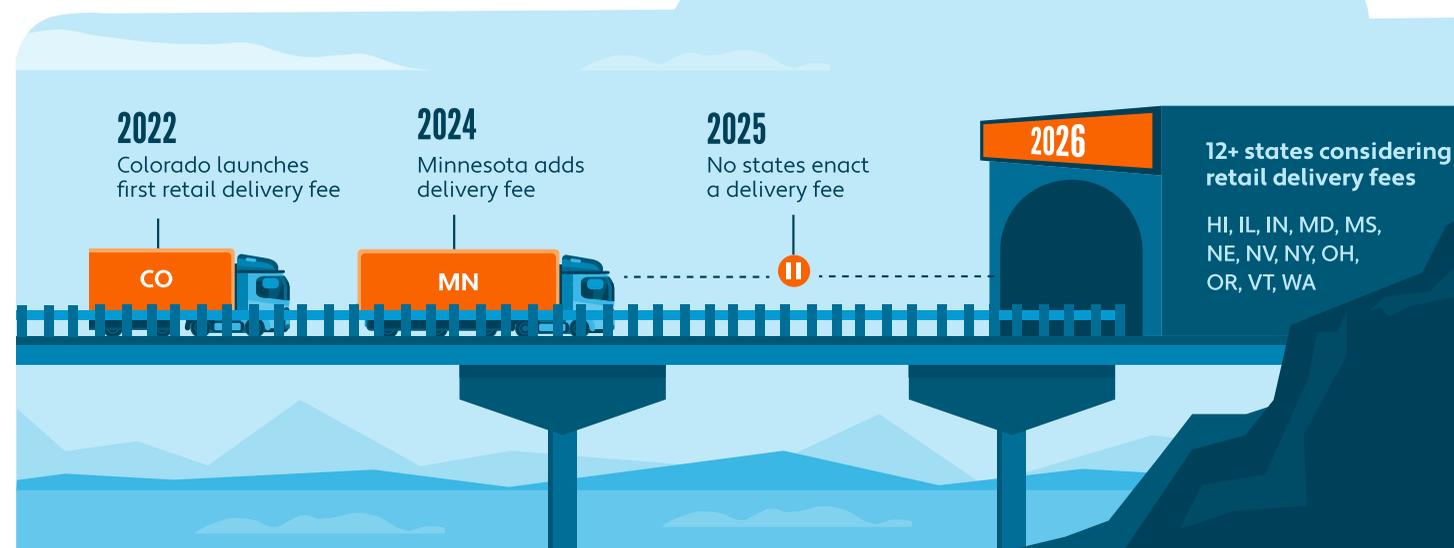
Delivery fees aren’t dead yet. They raise revenue, and many states may need additional revenue in 2026 and beyond. But any state that pursues a retail delivery fee will likely hit a roadblock; dozens of businesses that rely

on deliveries have banded together to [oppose](#) delivery fees, and some have very deep pockets.

We’ll have to wait and see which states, if any, propose a retail delivery fee in 2026. States that have shown interest include Hawaii, Illinois, Indiana, Maryland, Mississippi, Nebraska, Nevada, New York, Ohio, Oregon, Vermont, and Washington. And a local [ground delivery tax](#) is under consideration in Chicago.

Of course, new taxes and fees aren’t the only way to increase tax revenue. Audits are a tried-and-true method to bolster sales tax collections.

State adoption of retail delivery fees



States crack down on noncompliance ...

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According to the [South Dakota Department of Revenue](#) (DOR), many of the most common mistakes found during audits are related to sales and use tax.

Lauren Stinson of Cherry Bekaert is familiar with the sales and use tax mistakes identified by the South Dakota DOR. She says businesses often struggle to maintain good exemption certificate controls. She's also seen countless dollars assessed under audit simply because businesses

didn't retain detailed receipts and therefore couldn't prove tax was paid, when it likely was.

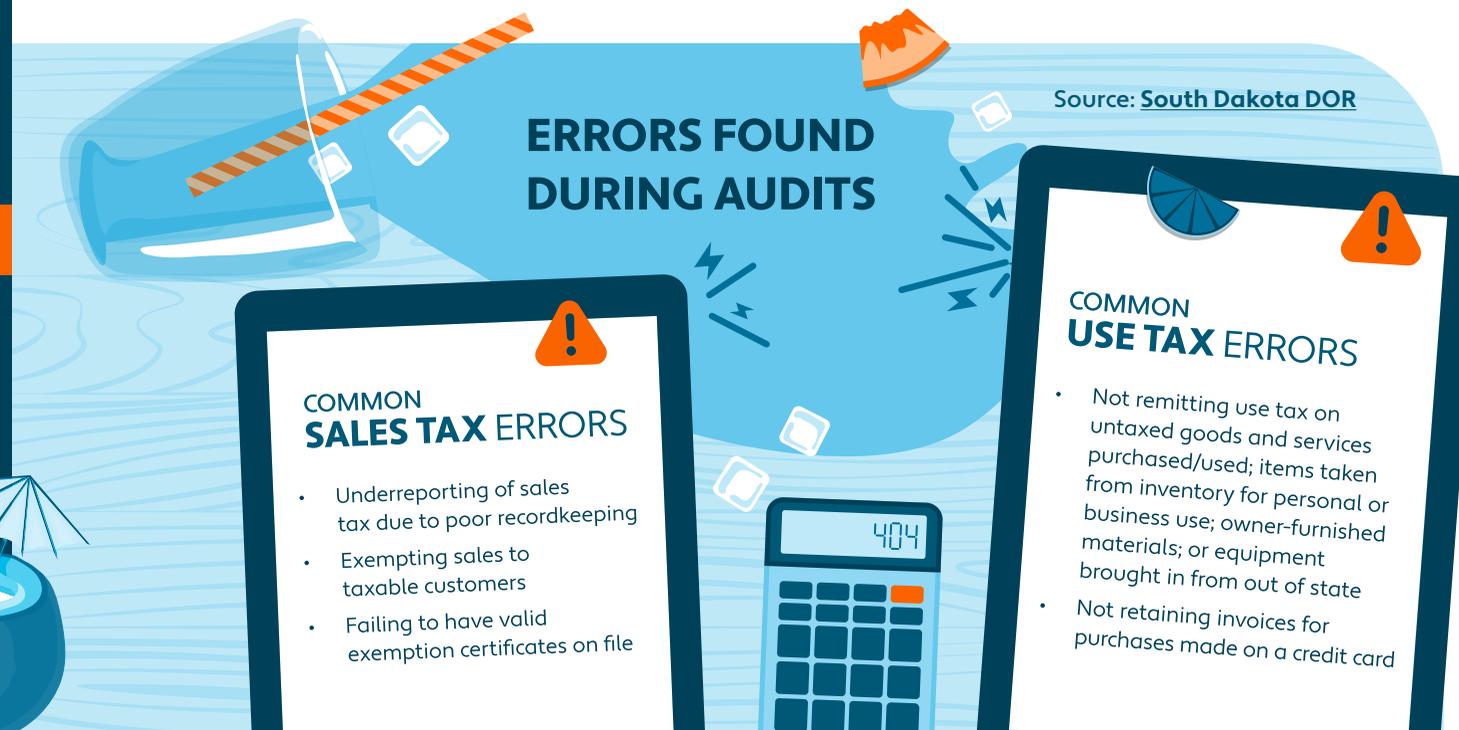
Stinson's firm has seen an uptick in audits, and she expects to see more audits as departments of revenue embrace technology to find noncompliant companies.

South Dakota certainly isn't the only government entity focused on audits. All tax returns filed with the [Tennessee Department of Revenue](#) undergo some form of review or audit

to verify the correct amount of tax has been paid. This could involve a computer calculation, a manual examination by an auditor, or both, and it doesn't preclude the taxpayer from being selected for a field audit in the future. And the [Texas Comptroller](#) reminds taxpayers that an auditor's main task is "to determine if businesses have properly collected, reported, and paid state taxes."

Businesses that fail to fulfill their tax obligations can owe back taxes, penalties, and interest. In Illinois, some businesses may end up paying a higher tax rate too. Starting January 1, 2026, the Illinois DOR can assess a **15% tax rate** on transactions subject to destination-sourcing rules if it discovers a taxpayer fails to provide the information, schedules, or supporting documents necessary to determine such locations.

Audits can be profitable for states: A [2014 survey](#) found the average audit to cost a company more than \$114,000 – and that was then. But wielding a stick isn't the only way for states to eke more revenue out of businesses. Offering carrots in the form of tax amnesty and voluntary disclosure programs can work too.



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TAX AMNESTY and voluntary disclosure programs

Washington

VDA for unreported investment income subject to B&O tax

Tax amnesty for foreign remote sellers
February 1–May 31, 2026
This will be the first program of its kind.

Source: [Washington DOR](#)

July 1, 2025–April 30, 2026
July 1, 2026–April 30, 2027

New Hampshire

Tax amnesty for specific tax types

Source: [New Hampshire DOR](#)

December 1, 2025–February 15, 2026

Indiana

Tax amnesty for all tax types

Source: [Indiana DOR](#)

Dates TBD; must start at least eight weeks prior to January 1, 2027

Illinois

Remote retailer tax amnesty
August 1–October 31, 2026

Source: [Illinois DOR](#)

October 1–November 15, 2025

... and states incentivize compliance

At least four states will provide one or more tax amnesty or special voluntary disclosure programs (VDPs, aka VDAs for voluntary disclosure agreements) in 2026: [Washington](#), [Illinois](#), [New Hampshire](#), and [Indiana](#). And [Vermont](#) is encouraging individuals and businesses to take advantage of its long-standing [VDP](#).

Tax amnesty programs and VDPs are limited periods when a taxing authority reduces or eliminates penalties for unregistered taxpayers that register with the department and pay their outstanding back taxes.

Washington has also made permanent changes to its ongoing [voluntary disclosure program](#), which is available to qualifying businesses that step forward to come clean. Effective September 1, 2025, the Department of Revenue will 1) limit the lookback period to four years plus the current year, and 2) waive penalties for delinquent returns, tax assessment, and failure to register. Qualifying businesses that fulfill the terms of the VDP may avoid up to 39% of applicable penalties.

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For states and participating businesses, these programs are a win-win. The states boost tax revenue and increase the number of registered taxpayers (who in theory will comply with tax laws moving forward). Participating businesses accept responsibility and pay less than they owed in penalties.

Yet these programs may not sit well with compliant businesses. Businesses that have been dutifully paying the taxes they owe on time and in full may resent noncompliant businesses essentially getting rewarded for being scofflaws.

“When I worked as a state tax administrator,” says Argi O’Leary, “tax amnesty was a dirty word. Tax amnesty and similar relief programs are largely viewed as unnecessary and could send both compliant and noncompliant taxpayers the wrong message.”

Scott Peterson agrees. “I’m not sure anyone likes tax amnesty programs. But they provide a one-time revenue boost that can help fill a

budget hole. A tax amnesty program might also encourage a noncompliant taxpayer to become a compliant taxpayer.”

SCOTT PETERSON

VP of Government Relations at Avalara

“

[Tax amnesty programs] provide a one-time revenue boost that can help fill a budget hole.

A tax amnesty program might also encourage a noncompliant taxpayer to become a compliant taxpayer.

”

Love ’em or hate ’em, tax amnesty programs happen. But Washington’s foreign remote seller amnesty program is a first.

While states have the authority to tax foreign remote sellers that have nexus, they lack the ability to require foreign remote sellers to register and comply with all applicable tax obligations.

“Washington’s foreign remote seller amnesty is a great development for foreign companies,” says Bruce Todd, “There is still much confusion concerning how states treat cross-border activity.”

Todd sees a lot of noncompliance that comes back to bite companies when they seek to sell, or solicit new investors. “Such company life events force reconciliation with the truth. Without an off-ramp via amnesty or voluntary disclosure programs, some of these companies are all but toxic to a U.S. buyer.”



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Tax amnesty programs are usually offered and run by individual states, but the [Streamlined Sales Tax Governing Board](#) is spearheading an effort to limit lookback periods for remote sellers with past-due taxes in any or all SST member states. If SST adopts this proposal, the details of which are still being worked out, it would administer an amnesty program for all 24 member states.

“I really like the SST approach,” says Amanda Denniston. “Rather than focusing on looking back and creating pain that can drive businesses under or discourage compliance, this kind of program could bring sellers into compliance – then Avalara can help them

stay compliant going forward. It’s a much more constructive and sustainable solution than penalizing businesses for noncompliance. I would love it if the states weren’t the ‘bad guy’ but instead could help taxpayers run their businesses correctly.”

That wraps up our 2026 sales tax changes chapter, but it’s certainly not the end of sales tax changes in 2026. For the freshest, most up-to-date developments in the evolving world of sales tax, visit the [Avalara Tax Desk](#) blog.

On to global tax changes.



HOW AVALARA CAN HELP

Need help navigating tax amnesty or voluntary disclosure agreements? The professional tax services offered by Avalara can help guide you through registration, backfiling, and outreach to tax authorities – helping reduce risk and bring your business into compliance with confidence.

[Explore professional tax services at Avalara](#)



GLOBAL TAX

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The global economy looks considerably different today than it did a year ago, largely because of the tariffs imposed by the United States and the retaliatory tariffs they triggered. Tariffs have impacted all industries, and they'll continue to do so. But tariffs aren't the only factors that will shape international tax policy in 2026.

Governments worldwide are demanding greater transparency and real-time data. As a result, digital platforms and artificial intelligence technologies are assuming a greater role in tax collection and reporting.

In Europe, the European Commission is moving ahead with a plan to modernize the EU's value-added tax (VAT) system. **VAT in the Digital Age** (ViDA), which will be progressively implemented through January 2035, introduces real-time reporting for cross-border trade.

ViDA relies on electronic invoicing, which will soon become the default method for

invoicing in the EU. Since companies unable to comply with the new requirements may find themselves blocked from much of the European market, compliance is existential.

Other parts of the world are also recognizing the value of e-invoicing. In Australia and New Zealand, e-invoicing is becoming the default method for exchanging invoice information with government agencies. The United Arab Emirates is introducing an e-invoicing pilot program that will be followed by mandatory implementation for certain taxpayers.

The world will also see other tax changes. For example:

- China is updating its VAT system.
- India is transforming its goods and services (GST) tax system.
- Brazil is simplifying and streamlining its complex federal, state, and local indirect tax system.

Because no single report can cover all international tax trends, we focus on the key global indirect tax changes affecting cross-border businesses today. Let's dig in.

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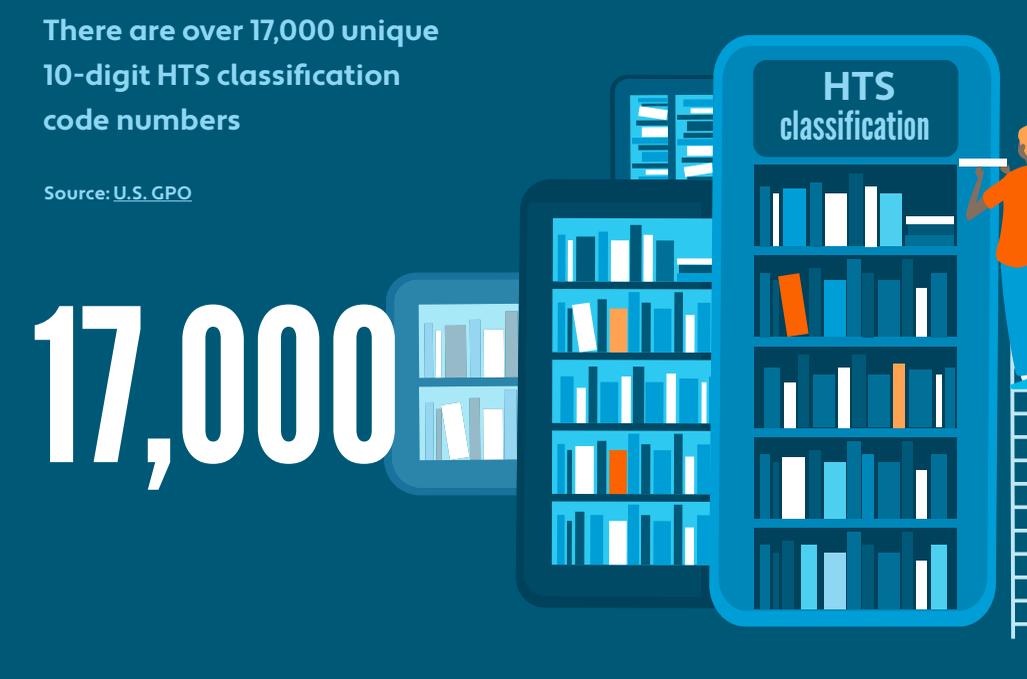
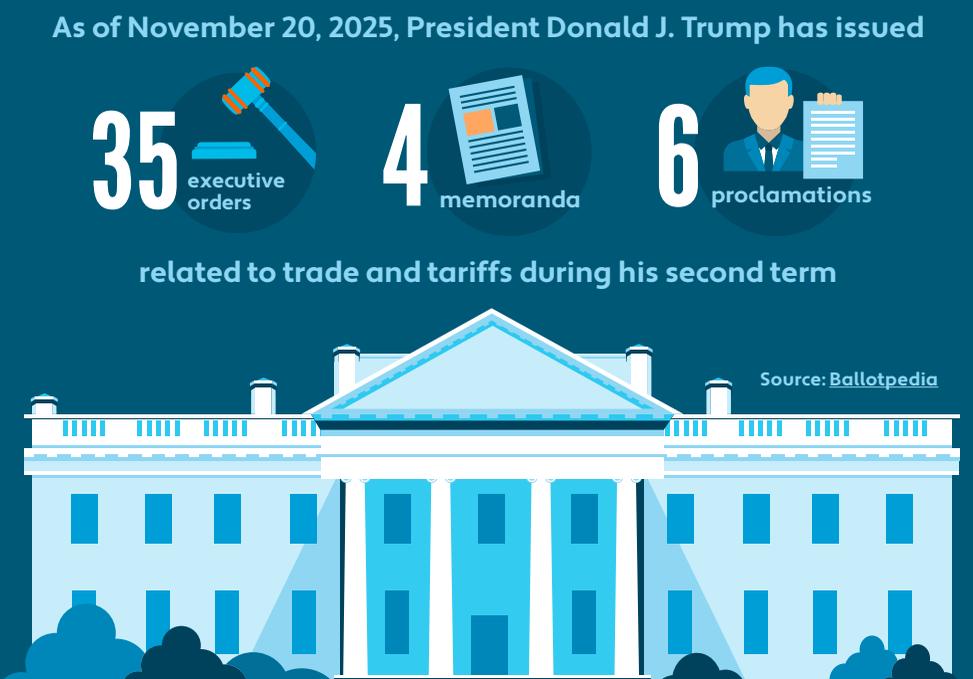
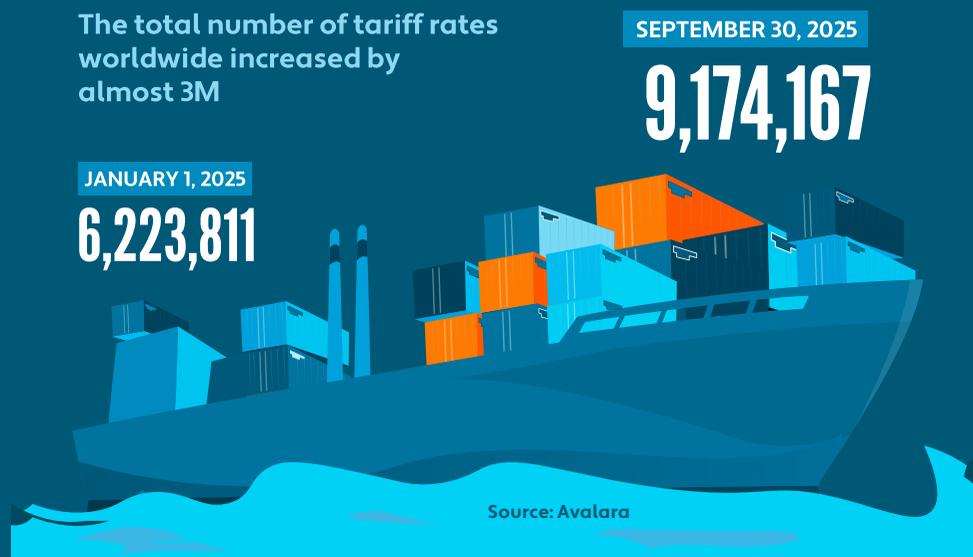
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Hello, tariffs

Less than two weeks after returning to the Oval Office for his second term, President Trump announced tariffs on Canada, China, and Mexico, his nation's largest trading partners. By December 2025, he set new tariffs on nearly every country on Earth, plus on an array of products including heavy-duty trucks, upholstered wood furniture, and steel.

None of this happened in an orderly fashion.

President Trump often announces new trade policies via social media, weeks, days, or hours before they're to take effect. He usually follows such pronouncements with an executive order that makes the policy official once published in the Federal Register of the U.S. government. But sometimes the executive order never materializes, leaving the world in limbo.

There was a staggering amount of tariff changes in 2025, many but not all imposed by the U.S. "Between January 1 and September 30, 2025, the total number of

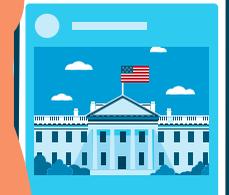
tariff rates worldwide increased from 6,223,811 to 9,174,167. That's almost 3 million new rates – nearly 49% – in just nine months," says David Lingerfelt, Senior Director of Indirect Tax at Avalara.

"This sharp expansion highlights the growing complexity of global trade policy as governments respond to persistent and intensifying trade tensions," Lingerfelt adds. "Countries are increasingly using a wider range of measures – such as punitive, retaliatory, antidumping, and countervailing duties – turning tariffs into both protective tools and instruments of economic and geopolitical strategy."

Given the pace and scale of the tariff changes, businesses need the ability to implement new rates quickly – and turn them off when they're delayed or canceled. Harmonized System (HS) code classification is key to setting the correct rate of duty.

In nine months, the **total number of tariff rates worldwide increased nearly**

49%



January 1, 2025



September 30, 2025

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HS codes: The key to compliance

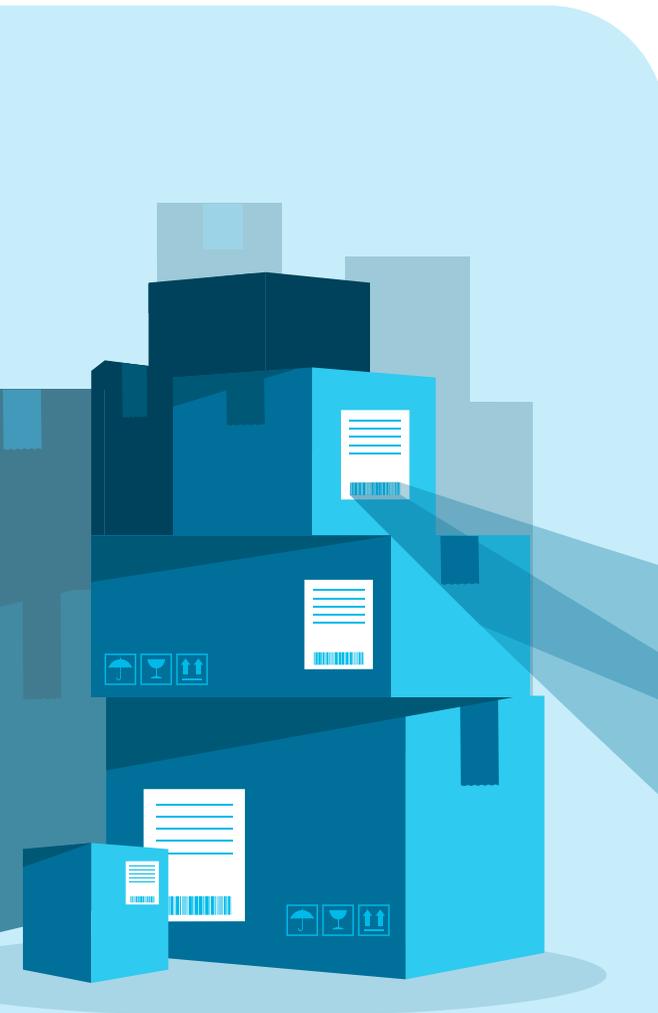
Every product traded internationally needs an HS code: a standardized six-digit chapter and heading number (the basis of all countries' tariff schedules), plus additional country-specific digits that describe the product more thoroughly and identify the country of origin.

Products entering the U.S. need a 10-digit Harmonized Tariff Schedule (HTS) code, also called a Harmonized Tariff Schedule of the United States (HTSUS) code. HTS codes set the rate of duty for U.S. imports.

SHANE BOGDAN

Director of Cross-Border
Sales at Avalara

“ We call HTS codes the ‘Rosetta Stone’ of global trade. Every import and export decision – including calculating duties, determining trade agreement eligibility, and ensuring proper documentation – depends on getting the classification right. ”



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As there are over [17,000](#) unique 10-digit HTS classification code numbers, classifying products and ensuring they're assigned the correct rate of duty is a big job in the best of times, and the complexity is growing. According to David Lingerfelt, the number of harmonized tariff codes grew from 2,174,331 to 2,267,884 between January 1 and September 30, 2025, adding approximately 93,553 new classifications, or about 4%.

The magnitude of the tariff changes has made it practically impossible for some businesses to manage cross-border tax compliance without [automating tariff code classification](#).

“Accurate HTS classification is the foundation of global trade compliance,” explains Shane Bogdan, Director of Cross-Border Sales at Avalara. “We call HTS codes the ‘Rosetta Stone’ of global trade. Every import and

export decision – including calculating duties, determining trade agreement eligibility, and ensuring proper documentation – depends on getting the classification right. As trade regulations continue to evolve, automation and AI-driven classification tools are becoming essential.”

Many businesses were likely caught off guard by the velocity of tariff changes and unprepared to comply with rapidly implemented changes. According to a [survey of finance and tax professionals](#) conducted in March 2025 by Hanover Research in partnership with Avalara, 56% of respondents manually handled customs duties and tariffs. Only 8% of the companies surveyed used AI to make these compliance activities easier.



HOW AVALARA CAN HELP

Tariff policies can change overnight – sometimes with little warning. Avalara Tariff Code Classification automates HS/HTS code assignments with agentic AI backed by human expertise, so your business can react quickly to new rules, update duty rates across your catalog, and avoid costly misclassification errors.

[Explore Avalara Tariff Code Classification](#)

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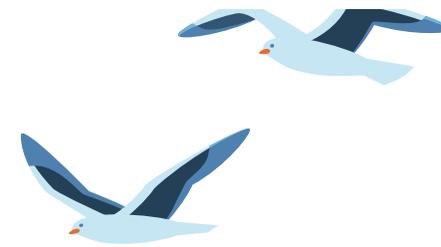
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Different types of tariffs, and why they matter

U.S. tariffs come in a variety of flavors, including:

- Section 122 tariffs
- Section 201 tariffs
- Section 232 tariffs
- Section 301 tariffs
- IEEPA tariffs

Each **type of tariff** has distinct legal applications, authorities, and purposes, which can affect reporting requirements, how the tariffs stack, even how the tariffs can be challenged.

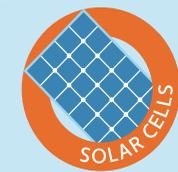


Section 122 tariffs

May address large and serious U.S. balance-of-payment deficits and may not exceed 15% for up to 150 days

Section 201 tariffs

Provide **temporary relief** for a particular U.S. industry and can be extended up to eight years

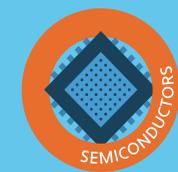


Section 232 tariffs

Target imports that **threaten to impair U.S. national security**

Section 301 tariffs

Address **unfair trade practices** and must be extended or modified every four years



IEEPA tariffs

This act gives the president the authority to **regulate economic transactions** during a national emergency



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Section 122 tariffs

[Section 122 of the Trade Act of 1974](#) may allow the president to temporarily impose tariffs or quotas to address “large and serious United States balance-of-payment deficits” or certain other fundamental international payment problems. However, according to a [Congressional Research Service \(CRS\) report](#) dated February 27, 2025, “Section 122 has never been used, and therefore courts have had no occasion to interpret its language.”

The CRS report also states, “Some have suggested that Section 122 might authorize the President to impose tariffs in response to U.S. trade deficits.” And indeed, with the future of the IEEPA tariffs in doubt, [Treasury Secretary Scott Bessent](#) said on December 3, 2025, “We can recreate the exact tariff structure with [sections] 301, with 232, with 122.”

If the administration does invoke Section 122 to impose tariffs, the duties would be capped at 15% and limited to 150 days.

Section 201 tariffs

Tariffs established under [Section 201 of the Trade Act of 1974](#) are designed to provide temporary relief for a particular U.S. industry by setting tariffs or quotas on imported goods that negatively affect domestic businesses. Section 201 tariffs are usually initiated by a written petition filed by a trade association (or similar entity). Once established, they can be extended to a maximum of eight years.

President Trump approved Section 201 tariffs on large residential [washing machines and solar cells and modules](#) during his first term in office; he extended the washing machine tariff in 2021, but it expired in 2023. The Biden administration extended the solar cell tariffs in 2022.

At least one new Section 201 investigation was launched in 2025, on [quartz surface products](#).

Section 232 tariffs

Tariffs established under [Section 232 of the Trade Expansion Act of 1962](#) target imports that “threaten to impair” U.S. national security (e.g., by undermining domestic production of materials needed for U.S. defense). Section 232 tariffs remain in place indefinitely.

During his first term, President Trump imposed Section 232 tariffs on steel and aluminum then carved out country-specific exemptions and other exceptions. The Biden administration let these tariffs stand.

As of November 5, 2025, the Trump administration had launched at least [12 new Section 232 investigations](#) and set new Section 232 tariffs on numerous products, including aluminum, automobiles and auto parts, copper, lumber, semiconductors, steel, and trucks. With the legality of IEEPA tariffs in question, as we will explain, the administration is leaning more on Section 232 tariffs.

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Section 301 tariffs

Tariffs implemented under [Section 301 of the Trade Act of 1974](#) respond to what the U.S. deems to be unfair trade practices. Section 301 tariffs are very flexible and currently apply to thousands of goods, from clothing to industrial machinery. They can be imposed on any product from any country at any rate but must be extended or modified every four years.

The first Trump administration set Section 301 tariffs ranging from 7.5% to 100% on thousands of Chinese products, and the Biden administration extended them. The current administration launched a [Section 301 investigation](#) on Brazil in July 2025.

IEEPA tariffs

[The International Emergency Economic Powers Act](#) (IEEPA) gives the president of the United States the authority to regulate economic transactions following a declaration of “an unusual and extraordinary threat with respect to which a national emergency has been declared.” It may not be exercised for any other purpose.

IEEPA doesn’t mention tariffs, and no U.S. president used IEEPA to broadly impose tariffs until Trump in his second term.

In February 2025, Trump invoked IEEPA to set tariffs on [Canada](#) (to “address the flow of illicit drugs across our northern border”), [Mexico](#) (to “stem the tide of unlawful migration and illicit drugs”), and [China](#) (“to address the synthetic opioid supply chain”). He also used IEEPA to impose tariffs on more than 60 other countries (the [“reciprocal” tariffs](#) announced April 2, 2025).

Interestingly, the administration started shifting away from IEEPA tariffs in early September – perhaps because they’re being challenged.

SCOTUS to decide fate of IEEPA tariffs

A group of businesses and 12 states separately argued the U.S. is facing neither an unusual and extraordinary threat nor a national emergency, the two conditions required by IEEPA. They also contend the president overstepped the authority granted by IEEPA to regulate economic activity. The case ended up before [the Supreme Court of the United States](#), which heard oral arguments for nearly three hours on November 5.

Both sides faced tough questions, but overall, the court was seen to be skeptical of the IEEPA tariffs. A decision is expected by the end of the year or in early January.

If the Supreme Court rules against the administration, the government could be required to refund the duties collected under IEEPA. Justice Amy Coney Barrett asked the plaintiff’s attorney how that would work. “It seems to me like it could be a mess,” she said.

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Neal Katyal, the attorney for the businesses, suggested the justices could provide prospective relief. This would ensure no future tariffs are collected under IEEPA without mandating refunds.

Overturing the IEEPA tariffs would be a blow to the administration, but it wouldn't put an end to all tariffs.

“Even if the IEEPA tariffs are struck down,” says Craig Reed, General Manager of Cross-Border at Avalara, “the Trump administration has made clear that it will seek other avenues to reinstate tariff policy. Treasury Secretary Scott Bessent has stated that the president has plenty of options beyond IEEPA. Bessent specifically cited Sections 122, 232, and 301.”

UNSTACKING PROVISIONS

The president also provided certain unstacking provisions “because the rate of duty resulting from such stacking exceeds what is necessary to achieve the intended policy goals.”

Sources: [CBP](#),
[White House](#)

Stacking tariffs

Different types of tariffs are usually stackable, meaning more than one tariff can apply to the same import. However, President Trump made an exception for some products. Effective June 4, 2025, an article subject to the Section 232 auto/auto parts tariff isn't subject to the Section 232 aluminum or steel tariffs or the Canada or Mexico IEEPA tariffs. Yet it is subject to other applicable duties, taxes, or fees, such as the IEEPA tariffs on Chinese products.

“When tariffs stack, it's often unclear whether each tariff applies to the base product price or the cumulative price that includes prior tariffs,” explains George Trantas, VP of Sales, Accelerators at Avalara. “Misinterpreting whether tariffs are additive or compounded can cause underpayment or overpayment. Furthermore, since each tariff may have different filing schedules, formats, and exemption rules, businesses may need to maintain multiple compliance workflows, often in separate systems. This increases administrative overhead and the risk of error.”

And according to Reed, “there's also the issue of knowing what the material contents are for a given product. It's particularly difficult for manufacturers to attribute value when products have many different metal fasteners and parts.”

You can see how determining the proper tariff rate for all imported goods can quickly become a quagmire. Trade agreements can help, but they're hard to come by.

PRIORITY ORDER OF STACKING TARIFFS

- 232 Auto/Auto Parts
- 232 Aluminum
- 232 Steel
- IEEPA Canada
- IEEPA Mexico

Trade deals

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In April 2025, the White House talked of reaching [90 trade deals in 90 days](#). It was an ambitious goal. Per [Wendy Cutler](#), Vice President at the Asia Society Policy Institute and former U.S. Trade Representative chief negotiator, U.S. officials typically spend at least six months developing their positions. “Actual negotiations usually span several years,” she explains.

That could be why the U.S. had only secured trade deals with a handful of countries as of December 1, 2025.

To encourage countries to come to the table, President Trump issued an [executive order](#) and [White House Fact Sheet](#) on September 5 stating that he “may be willing to provide a zero percent reciprocal tariff rate” for “aligned partners.”

For current trade deal partners, the key industrial goods listed in [Annex II](#) are exempt from reciprocal tariffs as of September 8, 2025.

Products listed in Annex III “are potentially eligible to be exempted from duties imposed by [Executive Order 14257](#), as amended ... for each trading partner that has concluded an agreement on reciprocal trade.”

The tactic may have helped move the needle. Toward the end of October, the White House secured trade agreements with [Cambodia](#) and [Malaysia](#), and frameworks for trade agreements with [Thailand](#) and [Vietnam](#). On November 1, 2025, the White House announced a trade deal with [China](#).

Yet many businesses continue to tread water while waiting for a trade-deal life raft that might benefit them. Without knowing which tariffs will stick and which may be waived, it’s difficult for businesses to make long-term investment decisions.

“In times of trade uncertainty, being proactive is essential” says Shane Bogdan. “Companies that react to new trade deals at the last minute risk

costly disruptions. Maintaining clear, accurate data on de minimis rules, HS/HTS classifications, country of origin, and declared value enables businesses to anticipate changes, model outcomes, and adjust strategies before new regulations take effect.”

The U.S. still has a trade deal with two of its closest trading partners: Canada and Mexico.

SHANE BOGDAN

Director of Cross-Border
Sales at Avalara

“**In times of trade uncertainty, being proactive is essential.**

Maintaining clear, accurate data on de minimis rules, HS/HTS classifications, country of origin, and declared value enables businesses to anticipate changes, model outcomes, and adjust strategies before new regulations take effect.

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The United States-Mexico-Canada Agreement

The United States-Mexico-Canada Agreement ([USMCA](#)) provides preferential treatment for most goods traded between Canada, Mexico, and the U.S. It undergirds nearly **\$2 trillion** in U.S. goods and services trade in the region.

With **\$935.1 billion** in trade, Mexico was the top U.S. trading partner in 2024. Canada was number two with **\$909.1 billion**. China came in third with **\$658.9 billion**.

But the fate of the USMCA has been somewhat in doubt since February 1, 2025, when Trump announced 25% tariffs on all Canadian and Mexican goods to slow the illegal flow of fentanyl into the U.S. [For a few days in March 2025](#), the so-called fentanyl tariffs applied to all Canadian and Mexican imports.

TOP U.S. TRADING PARTNERS IN 2024

Source: USTR ([China](#), [Canada](#), [Mexico](#))



When the USMCA exemption was reinstated, businesses scrambled to certify their goods. Less than 25% of imports from Mexico and less than 20% of Canadian imports were USMCA certified at the start of 2025. It's not that more imports didn't qualify for the exemption; many companies just didn't bother to certify their products for USMCA because the effective tariff rates were so low.

"Certifying products for USMCA is a multistep verification and documentation process to prove eligibility for preferential duty treatment," explains Bogdan. "The payoff here is significant – certified goods can move duty-free across North America, improving margins and competitiveness. Without certification, and due to the recent tariff rates on Canadian and Mexican imports to the U.S. since March, businesses risk overpaying tariffs and losing a valuable advantage to competitors that have taken the time to comply."

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Businesses can certify goods as USMCA themselves in six steps, depicted here. And they are.



In July 2025, about 79% of Canadian imports and 76% of Mexican imports [entered the U.S. duty-free under the USMCA](#). All told, about 90% of Canadian goods and 81% of Mexican goods qualify for duty-free status in the U.S.

It's worth taking advantage of the USMCA while it lasts. The agreement is up for renewal in July 2026, and while the certainty it provides [benefits](#) all three countries, there's no guarantee the U.S. will readopt it. Mexico has been able to stay on relatively good terms with President Trump, but the relationship between Canada and the U.S. has been a bit strained.

[On July 31](#), Trump delayed a scheduled 5% tariff increase on Mexico for 90 days to give Mexico time to address nontariff barriers to trade, such as disputes over intellectual property rights. The U.S. extended the tariff truce again in late October, giving the two countries more time to reach an agreement.

U.S.-Canada relations are a bit cooler. Trump halted trade negotiations with Canada in October after the government of Ontario ran an anti-tariff ad during the televised broadcast of the Major League Baseball World Series. The president also threatened to impose an [additional 10% tariff on Canada](#), "over and above what they are paying now"—but he didn't follow through with it.

"Given the current direction of U.S. trade policy, and statements made by President Trump, it's unlikely the USMCA will continue in its current form," observes Craig Reed. "It's more likely that individual agreements will be made with Canada and Mexico, and those agreements may be different."

Reed explains there are different points of contention within the USMCA. The U.S. and Canada are at odds over dairy, softwood lumber, and energy, for example, but Mexico is not.

Since the "minimum" tariff for most other countries is now between 10% and 15%, Reed says it would be reasonable to expect the USMCA to be "split," and similar minimum tariff rates established for both Canada and Mexico. "There are also likely to be certain carve-outs due to the nature of the trade flows and domestic production capabilities. With Canada, the carve-outs are likely to be metals (particularly aluminum) and energy; with Mexico, they'll likely be produce or other products."

If the USMCA is drastically changed, Canada-based and Mexico-based businesses may feel the loss of the de minimis exemption more keenly than they do today.

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Goodbye, de minimis

Both businesses and U.S. consumers are feeling the effects of new tariffs more acutely since August 29, 2025, the day U.S. [de minimis died](#).

Most countries have a [de minimis threshold](#) – a set value below which imports enter free from customs duties and/or other taxes – “[to avoid expense](#) and inconvenience to the government disproportionate to the amount of revenue that would otherwise be collected.” The idea has merit, but de minimis shipments into the U.S. exploded after the threshold jumped from \$200 to \$800 in March 2016.

- De minimis shipments into the U.S. jumped from approximately 139 million in fiscal year 2015 to over 1 billion by FY 2023 (more than [600%](#)).
- De minimis shipments accounted for [92%](#) of all cargo entering the U.S. in 2023.
- More than [1.36 billion](#) de minimis shipments entered the U.S. in FY 2024.
- About [60%](#) of de minimis shipments sent to the U.S. in 2024 originated in China.

- U.S. Customs and Border Protection (CBP) processed about [2.8 million](#) de minimis shipments per day in 2023 and 4 million de minimis shipments per day in 2024.
- Roughly 800 million ([88%](#)) of de minimis shipments in 2024 arrived through international mail.

Politicians on both sides of the aisle agreed something needed to be done to curb the flow of low-value packages. Nevertheless, eliminating de minimis altogether, and with little advance notice, was a very big deal.

President Trump issued an executive order on February 4, 2025, that [ended de minimis for China](#) and Hong Kong as of May 2, 2025. [Congress](#) then repealed the de minimis exemption for all commercial shipments effective July 1, 2027. But on July 30, 2025, a new presidential [executive order](#) suspended de minimis for all countries starting August 29, 2025.

In a matter of weeks, parcels that previously bypassed duties and paperwork became subject to full customs procedures, duties, and regulatory compliance. Many businesses had to assign HTS codes to their entire catalog. “Businesses can no longer get away with improperly documenting low-value shipments,” says George Trantas. “And with all the tariff policy changes, it’s difficult to ensure the proper rate of duty is applied without implementing a cross-border compliance solution.”

GEORGE TRANTAS
VP of Sales, Accelerators
at Avalara

“**Businesses can no longer get away with improperly documenting low-value shipments.**

And with all the tariff policy changes, it’s difficult to ensure the proper rate of duty is applied without implementing a cross-border compliance solution.”

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All companies making nonpostal shipments now need a qualified third party to file the appropriate entry type in the CBP Automated Commercial Environment (ACE): Entry Type 11 for shipments valued under \$2,500; Entry Type 01 for shipments of \$2,500 or more. Both require detailed documentation, including 10-digit HTS codes. The expedited [Entry Type 86](#) created for low-value shipments is no longer available.

Companies shipping low-value parcels via the post currently have one of two options, both of which also require HTS codes.

1. Apply the ad valorem duty to each shipment (the IEEPA tariff imposed on the country of origin).
2. Apply a specific duty based on the IEEPA tariff on the country of origin:
 - \$80 per item for countries with an effective IEEPA tariff of less than 16%
 - \$160 per item for countries with an effective IEEPA tariff between 16% and 25%
 - \$200 per item for countries with an effective IEEPA tariff above 25%

The specific duty option will cease to be available effective [February 28, 2026](#). From that date forward, international postal shipments must use the ad valorem methodology.

Eliminating the de minimis exemption for all countries with such little notice sent postal operators into a tailspin.



HOW AVALARA CAN HELP

With de minimis gone, every shipment needs full customs documentation – including accurate 10-digit HS/HTS codes. Avalara helps businesses classify products at scale, maintain audit-ready records, and stay compliant even as duty thresholds vanish.

[Explore Avalara Tariff Code Classification](#)

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Postal agencies respond to demise of de minimis

Given little time to prepare to process low-value shipments, at least [88 postal operators](#) suspended some or all commercial shipments to the U.S. in advance of the August 29 deadline. Global postal shipments dropped 81% on August 29, compared to one week earlier, and only a handful of the operators had resumed service as of October 3. Five weeks after de minimis died, postal traffic to the U.S. was still down about [70%](#).

Craig Reed says Avalara is working with many members of the [Universal Postal Union](#), the postal sector's primary forum for international cooperation, to help calculate and collect duties in-country, prior to shipment to the United States. "We've developed a variety of solutions to address a range of use cases, including online checkouts, app purchases, and countertop operations. These solutions ensure that the correct amount of duty is collected at the source and efficiently routed to the CBP for seamless customs clearance."

The more streamlined compliance can get the better, especially since other countries are introducing postal fees or eliminating de minimis.

New fees and tariffs on international ecommerce

The United States isn't the only country to struggle under an avalanche of low-value international ecommerce parcels. And it's not the only country doing something about it.

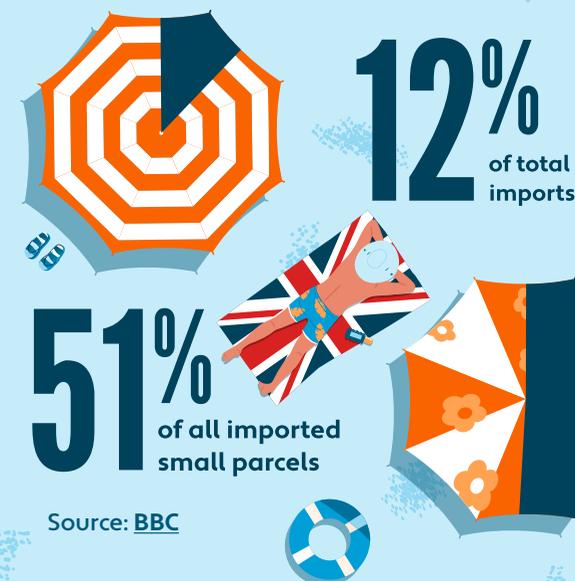
A total of [4.6 billion](#) items valued under €150 were imported into the European Union (EU) in 2024, amounting to roughly 12 million parcels each day. Approximately 91% of those shipments originated in China.

To help reduce such shipments, the European Commission considered placing a €2 handling fee on every low-value ecommerce parcel coming from a non-EU country starting in 2028. Some member states, including Belgium, France, and Romania, discussed introducing a national e-handling fee even sooner, by the end of 2025 or in 2026.

But instead of imposing a handling fee, the EU now plans to remove the duty exemption for low-value consignments altogether. In November, the EU Finance Ministers on Customs Reform agreed to [remove the €150 customs de minimis threshold](#) as soon as possible in 2026.

The [U.K. government](#) is likewise reviewing its current de minimis policy, which has a threshold of £135. Getting rid of it could result in an additional [£1 billion](#) in customs duties. HM Revenue and Customs recorded around [281,000 customs declarations for low-value imports](#) originating in China in 2024–2025, amounting to about 12% of the total shipments.

In 2024–25, low-value imports from China to the U.K. amounted to



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How tariffs affect the bottom line

“The new U.S. tariffs are doing their job: CBP collected \$195 billion in [fiscal year 2025](#) (which ended September 30), compared to \$77 billion in [fiscal year 2024](#). According to the [Tax Foundation](#), Trump’s 2025 tariffs are the largest tax hike since 1993.

[Sales tax typically applies to tariffs](#) passed on to final consumers via higher prices or separate fees, so states may see a boost in sales tax collections as well. (Sales tax generally doesn’t apply when a consumer is the importer responsible for paying the tariff to customs, though the importer usually will owe use tax on the product sales price.)

The fixed costs incurred by classification, documentation, and the tariffs themselves affect the bottom line of all businesses. To mitigate the additional costs, many companies are looking to alter their supply chains, reduce company expenses, and/or increase prices.

Sourcing products from countries subject to lower rates of duties is an option, though there’s no guarantee a country with a low tariff today will have a low tariff tomorrow.

Misdeclaring products or their country of origin is not a good option. According to Alston Group, a licensed customs broker, CPB is closely scrutinizing import documents to ensure companies are accurately reporting the country of origin and merchandise value. It expects Department of Justice activity on trade to increase by [200%](#).

CRAIG REED

General Manager of
Cross-Border at Avalara

“2025 was an unprecedented year in international trade. Never before have we seen not only the number of tariff changes, but the speed at which they were implemented.

The complexity of calculating tariffs, understanding product restrictions, and providing proper documentation to customs authorities has all increased dramatically, as has the level of enforcement by governments.”

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“2025 was an unprecedented year in international trade” says Craig Reed. “Never before have we seen not only the number of tariff changes, but the speed at which they were implemented. The complexity of calculating tariffs, understanding product restrictions, and providing proper documentation to customs authorities has all increased dramatically, as has the level of enforcement by governments.”

Reed expects the turmoil to continue in 2026. “While it’s likely the U.S. will eventually slow its pace of tariff changes, there’s a chance the president will pursue punitive measures as world events attract his attention. Additionally, as more U.S. trade agreements are completed, we expect the rest of the world to actively pursue trade pacts with other countries or blocks of countries to mitigate the effects of the U.S. protectionist stance.”

Reed also expects other countries to reduce their de minimis levels or eliminate de minimis entirely. “Businesses will need to be prepared to continue to adapt their supply chains, and

that will require access to the right tools and information,” he explains. “Avalara can help businesses keep pace with the changes by ensuring they have the correct compliance information and decision-making solutions to both mitigate the impact of global tariff changes, and to take advantage of new trade flows as they become available.”

Businesses are encouraged to pay attention to regulatory and tax changes in the U.S., as it’s the country with the [largest economy in the world](#) when measured by nominal GDP. Yet global businesses are also advised to monitor what’s happening elsewhere in the world, particularly since many governments are demanding greater transparency and requiring real-time data for tax compliance.

So, let’s turn our attention to Europe.



HOW AVALARA CAN HELP

Avalara keeps pace with global trade regulations, so you don’t have to. When tariff rates, HS code requirements, or import rules change, our powerful engine updates automatically – applying the latest tax content directly to your workflows. That means fewer manual updates, less risk, and more confidence in every cross-border transaction.

[Explore Avalara Tariff Code Classification](#)

What the numbers tell us about global tax compliance in 2026

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The European VAT compliance gap was estimated to be

€89B
in 2022

Source: European Commission

VAT in the Digital Age (ViDA) is expected to help reduce VAT fraud by up to

€11B
per year over the next 10 years

Source: European Commission

The global e-invoicing market size is forecast to reach

\$36.72B

by 2032 at a CAGR of 25.4%

Source: Data Bridge Market Research



29

of the 38 OECD members reported using AI in tax administration in 2024

Source: OECD

Over 60 countries worldwide have announced – or already require – e-invoicing

Source: Avalara

60+
countries

E-INVOICING

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Europe since ViDA: What's changed after its March 2025 adoption?

VAT in the Digital Age (ViDA) is a European Union (EU) package of reforms designed to improve and digitalize tax authorities' administration of value-added tax (VAT), reduce fraud, and boost cross-border trade. Having passed its **remaining barriers** to coming into law, ViDA was adopted on March 11, 2025, and will be rolled out in stages until 2035.

Pillar 1 of ViDA is Digital Reporting Requirements (DRR) and e-invoicing.

DRR refers to the obligations imposed on businesses to electronically submit detailed transactional data (such as invoices, receipts, or accounting records) to tax authorities, often

in real time or near real time. This enables authorities to gain greater visibility into transactional data and helps them detect fraud.

E-invoicing, meanwhile, is the process of issuing, sending, and receiving invoices in a structured digital format, typically XML or UBL, that allows for automated processing by both the supplier's and buyer's systems. Unlike PDFs or paper invoices, e-invoices can be validated, transmitted, and archived electronically, often in real time and in compliance with government regulations.

Let's check in on how businesses have reacted and adapted to DRR and e-invoicing since the passing of ViDA.

THE THREE CHANGES NEEDED TO MAKE VAT FIT FOR THE DIGITAL AGE

Source: [European Commission](#)

1 A new real-time digital reporting system based on e-invoicing

2 Updated VAT rules for the platform economy

3 A single VAT registration for businesses selling to consumers across the EU

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DRR and e-invoicing

With the adoption of ViDA, businesses operating in all EU member states will have to make the transition to e-invoicing and near real-time reporting. PDF and other types of paper invoices will finally become a thing of the past.

Under prior EU rules, member states needed a derogation (a formal EU approval) before they could mandate domestic business-to-business (B2B) e-invoicing. With ViDA in place, that requirement has been removed – countries can now introduce mandatory e-invoicing for domestic transactions (for established taxpayers) without seeking EU approval.

Also, in many member states, the buyer had to expressly agree to receive an e-invoice (i.e., the buyer could reject structured electronic

formats). ViDA has removed this requirement – once domestic e-invoicing is mandated, buyers no longer have veto power over whether an e-invoice is accepted.

With administrative hurdles of derogation and consent removed, countries can mandate domestic B2B e-invoicing more freely – hence the surge in national go-lives. Here are some key examples.



JAN | **BELGIUM**
B2B e-invoicing is required

JAN | **CROATIA**
B2B businesses are required to issue and receive e-invoices

JAN | **NEW ZEALAND**
Certain public agencies must be capable of sending and receiving e-invoices

FEB | **POLAND**
E-invoicing for large taxpayers is mandatory

JAN | **BELGIUM**
Near real-time reporting is required

APR | **POLAND**
E-invoicing for other taxpayers is mandatory

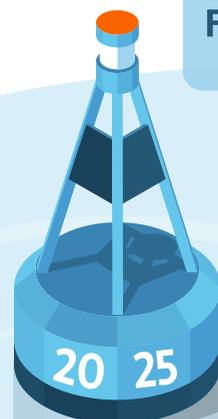
JUL | **AUSTRALIA**
All noncorporate entities must be capable of receiving e-invoices

JUL | **UAE**
E-invoicing will begin with a phased rollout

SEP | **FRANCE**
B2B e-invoicing will be required with phased adoption

DEC | **AUSTRALIA**
All noncorporate entities must be capable of sending e-invoices

JAN | **GERMANY**
Businesses were required to receive e-invoices



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- **Australia:** As of July 1, 2026, all noncorporate Commonwealth entities must be capable of receiving e-invoices. By December 2026, they must also be capable of sending e-invoices.
- **Belgium:** B2B e-invoicing is required as of January 1, 2026, followed by near real-time reporting requirements in 2028.
- **Croatia:** A B2B mandate under public consultation and expected to take effect on January 1, 2026, would require VAT-registered businesses to issue and receive e-invoices for domestic B2B transactions.
- **France:** Nationwide B2B e-invoicing will be required starting September 1, 2026, with phased adoption.
- **Germany:** Businesses were required to receive e-invoices beginning January 1, 2025. The obligation to send e-invoices will be phased in through 2027–2028 using XRechnung, ZUGFeRD, and Peppol.
- **Poland:** Mandatory e-invoicing will commence February 1, 2026, for large taxpayers, and April 1, 2026, for other taxpayers.

- **UAE:** E-invoicing will begin with a phased rollout starting July 2026, initially covering B2B and B2G transactions.
- **New Zealand:** As of January 1, 2026, public agencies that issue or receive more than 2,000 domestic invoices annually must be capable of sending and receive e-invoices.

Under this DRR pillar of ViDA, from July 1, 2030, onward, structured e-invoices will become the default (and in many cases mandatory) method for intra-EU cross-border B2B and business-to-government (B2G) transactions.

That shift effectively phases out paper, unstructured PDF, or ad hoc invoice formats in cross-border trade – enforcing a unified, machine-readable standard (aligned with [EN 16931](#)) across all member states. Businesses operating in multiple EU countries will no longer need to manage different national e-invoice formats.

Adoption of e-invoicing is gaining strong momentum both where mandated and not yet mandated. According to a June 2025 survey of global businesses, 73% of respondents using manual invoices expect to make the shift to e-invoicing within the next five years.

While the EU's intent is to drive harmonization, businesses have an opportunity to think more strategically about their tax compliance and the solutions they use to solve their challenges. Businesses might no longer see e-invoicing mandates as merely an imposed demand to convert their invoices into a digital format, but an opportunity to implement solutions that can be built into their ERP and business systems, as well as solutions that can scale.

MATT HAMMOND
General Manager of
E-Invoicing at Avalara

“ **E-invoicing is no longer a passing trend – it's a fundamental shift in how global businesses manage compliance.**

Companies can no longer afford a patchwork of local solutions for each mandate. ”

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“E-invoicing is no longer a passing trend – it’s a fundamental shift in how global businesses manage compliance. Companies can no longer afford a patchwork of local solutions for each mandate,” says Matt Hammond, General Manager of E-Invoicing at Avalara. “The real opportunity lies in adopting a single, scalable approach that brings consistency, visibility, and efficiency across markets – exactly what the Avalara global e-invoicing solution is designed to deliver.”



HOW AVALARA CAN HELP

As mandates under ViDA push structured e-invoices into the mainstream, Avalara E-Invoicing and Live Reporting helps you stay ahead. With one global API, prebuilt ERP connectors, and self-service mandate activation, you can issue, receive, and transmit compliant e-invoices across multiple countries – reducing risk and scaling seamlessly.

[Explore Avalara E-Invoicing
and Live Reporting](#)

Countdown to the Single VAT Registration has begun

Pillar 3 of ViDA is Single VAT Registration (SVR), which is set to go live on July 1, 2028. SVR is designed to streamline EU-wide VAT compliance by allowing businesses to fulfill their obligations through a single registration and a single portal in one member state. This reduces the need for multiple national VAT registrations, especially for businesses engaged in cross-border B2C sales, own-goods movements, and/or other newly in-scope transactions.

Part of this pillar is the expansion of [One-Stop Shop \(OSS\)](#). Starting January 1, 2027, OSS will expand to utilities (electricity, gas, heating, cooling), domestic supplies, installations, and on-board passenger transport. Optional OSS participation for platforms will begin in 2028, with mandatory inclusion by 2030.

Ahead of the 2028 rollout of SVR, businesses should begin building a transition plan – often called an SVR playbook – to evaluate where they currently hold VAT registrations across the EU and determine which can be consolidated into a single registration. Because not all VAT registrations can or should be cancelled at once, businesses also need to carefully plan their timing (sequencing deregistrations) to ensure operational continuity, fulfill final filing obligations, and avoid disrupting supply chains or invoicing processes.

Single VAT Registration



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Marketplaces as “deemed suppliers”

Interestingly, Pillar 2 covers the platform economy and mandates that marketplaces become “deemed suppliers.” This means that for tax purposes, marketplaces are treated as if they themselves sold the goods or services, even though the actual seller could be a third party using the marketplace’s platform. The responsibility to collect, report, and remit VAT on certain transactions shifts from the seller to the marketplace. This approach mirrors marketplace facilitator laws in the U.S., where marketplaces are responsible for sales tax collection and remittance. In the EU, it typically applies to cross-border B2C sales, low-value goods, or services facilitated through platforms.

GEORGE TRANTAS
VP of Sales, Accelerators
at Avalara

“**In the U.S., the marketplaces decide how much of the international tax compliance burden they’ll take on.**”

Since the removal of de minimis, marketplaces may now also take on import liability or serve as “importers of record” in markets such as the U.S. Platforms may enforce stricter compliance controls or restrict high-risk low-value traffic. Then again, they may not.

“In the U.S., the marketplaces decide how much of the international tax compliance burden they’ll take on,” explains George Trantas. “[eBay](#) has the simplest model for cross-border shipments; they do everything for sellers and take on all the risk. Other marketplaces have been slow to adopt this model.”

Businesses or existing users of marketplaces may opt for platforms that support Delivery Duty Paid rules to collect import duties/taxes at checkout and offer pricing models (such as dynamic pricing) that encompass shipping and customs costs.

Both ViDA and the U.S. removal of de minimis suggest a global trend toward using platforms as tax collectors. So, while the EU’s ViDA and U.S. de minimis changes operate independently, they reflect the same policy trajectory: making digital platforms intermediaries in tax collection, especially for cross-border and ecommerce sales.

AI and marketplaces

As tax obligations shift from individual sellers to platforms, marketplaces are under increasing pressure to determine and remit tax on behalf of their sellers. AI-powered tax engines are critical here, dynamically calculating tax based on customer location, product type, and order details.

The recent removal of de minimis thresholds in the U.S. – and potentially other global regions – has made tax and customs compliance even more granular. Every low-value shipment may now require precise duty and tax calculation – something not scalable through manual processes. AI can help marketplaces fill this gap by enabling per-parcel tax compliance at scale; real-time classification of goods; calculation of VAT, sales tax, and duties; and automated communication with customs and tax platforms.

As tax authorities tighten controls over cross-border ecommerce, AI will become even more critical – not just for compliance, but for maintaining profitability and operational efficiency in high-volume global trade.

International tax compliance updates in 2026: VAT and GST

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Brazilian tax reform: Preparing for a dual system in 2026

Brazil is undergoing major tax reform

designed to simplify its complex indirect tax system. The country is transitioning from a fragmented structure comprising of federal, state, and municipal taxes to a unified model. The goal is to reduce compliance burdens, improve transparency, and boost economic competitiveness. This reform marks one of the most significant overhauls of Brazil's tax code in decades and will impact virtually every business operating in or selling into the country.

At the heart of the reform is the replacement of multiple overlapping taxes with two new value-added taxes: a federal Contributions of Goods and Services (CBS) tax, and the state/ municipal Tax on Goods and Services (IBS).

These new taxes will eventually consolidate several existing levies, including the Social Integration Program (PIS), the Contribution for the Financing of Social Security (COFINS), the Tax on Circulation of Goods and Services (ICMS), and the Municipal Service Tax (ISS). The goal is to create a consumption-based system with clearer rules, fewer exemptions, and improved credit recovery.

The changes should theoretically lead to more predictable tax treatment and reduce the cascading tax effects – where taxes are levied on top of other taxes at multiple stages of the supply chain, without full credit or offset for the tax paid at earlier stages – that have long plagued Brazilian commerce.

The transition to the new regime will begin in 2026 and continue through 2032. During this time, businesses will need to be capable of operating in *both* the old and new tax systems. This dual compliance requirement will introduce complexity in the short term, particularly for companies with high volumes of transactions or diverse supply chains. Businesses will need to manage parallel tax calculations, reporting requirements, and invoice formats while the new system is phased in and legacy taxes are gradually retired.

This transition period will require updates to tax engines, invoicing systems, and ERP platforms. Businesses will need tools that can calculate and report taxes accurately under both frameworks, as well as staff or service providers who understand the evolving compliance landscape.



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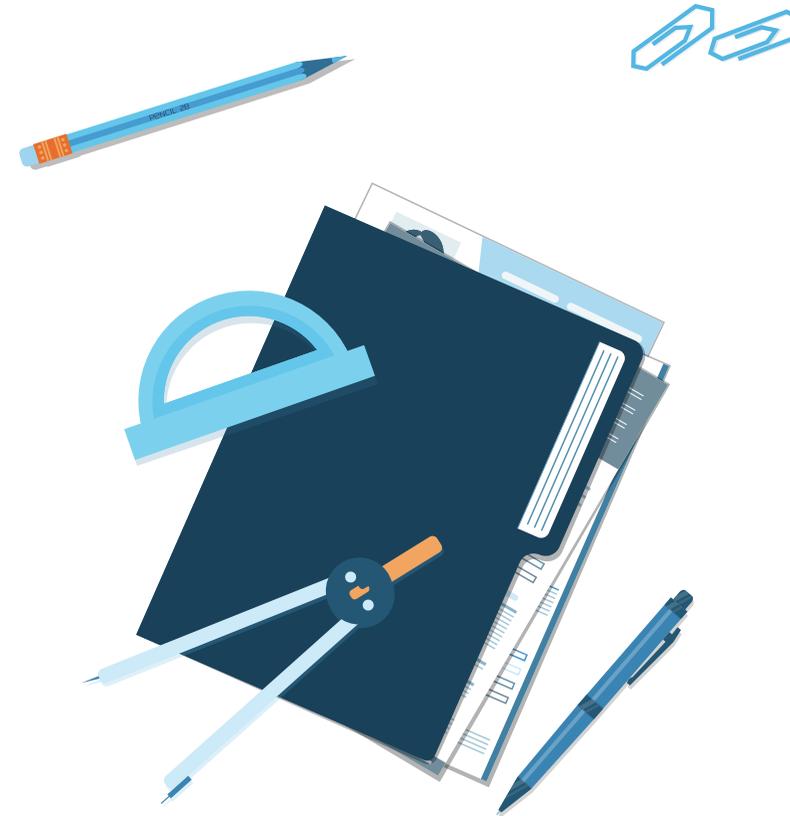
China's 2026 VAT reform: Toward national consistency and global alignment

China is set to overhaul its VAT system

by consolidating it into a single, comprehensive law beginning January 1, 2026. VAT enforcement is currently carried out through local tax bureaus, leading to differences in interpretation of VAT regulations and administrative procedures. The move is part of China's efforts to improve consistency across jurisdictions, attract foreign investment with a more predictable tax environment, and align more closely with global norms.

Under the new law, the existing three-tier rate structure will remain:

- 13% for general goods and imports
- 9% for essential services like transportation, postal, and utilities
- 6% for modern service sectors, such as finance, IT, and consulting



Under China's new law, the existing three-tier VAT rate structure will remain:

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The simplified tax levy rate for small-scale taxpayers will be unified at 3%, eliminating the previous 5% rate. Meanwhile, existing rules will become enforceable law, enhancing taxpayer protection and creating administrative uniformity across the country's regions. Taxable activities will become more clearly defined, including the sale of goods, provision of services, transfer of intangible assets, importation of goods, cross-border sales, and digital transactions.

In light of China's new, codified VAT framework, cross-border service providers, exporters, and digital platforms should assess how their operations comply with the overhaul.

Given the emphasis of *administration* in China's VAT reforms, plus China's heavy investment in digital tax-invoicing and digital transaction logs in recent years, it's a fairly safe assumption the Chinese State Tax Administration (STA) will leverage AI-driven data analytics to identify noncompliance under the new VAT system.

India's shifting GST landscape: Evolution in the digital age

India is in the midst of a significant transformation of its Goods and Services Tax (GST) system, aimed at enhancing transparency, easing compliance, and strengthening revenue collection. Since its launch in July 2017, India's GST regime replaced a patchwork of indirect taxes across central and state governments, establishing a more unified national tax structure. However, challenges remain, particularly around complex reporting, compliance costs, and fraud prevention. The ongoing reforms are intended to address these pain points while modernizing the system for the digital age.



The three pillars of India's GST reforms

Source: [Fortune India](#)

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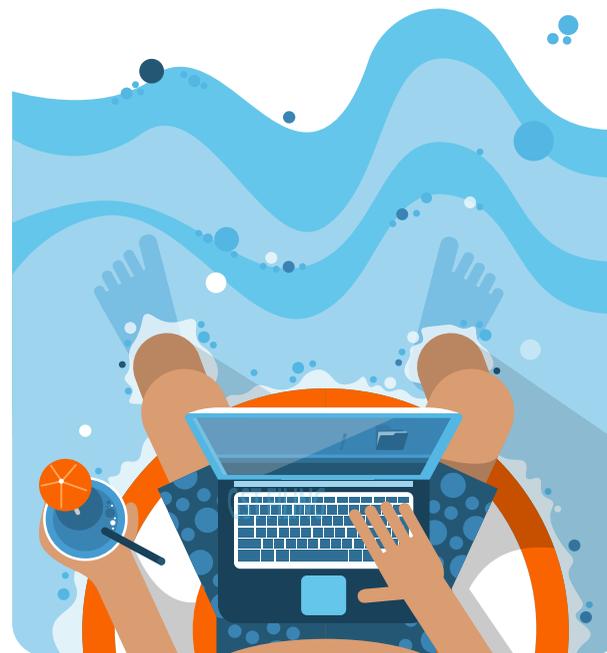
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In addition to lowering tax rates on essential items, a major element of this transformation is the 2025 rollout of [e-invoicing and e-way bill integration](#), which require businesses above certain revenue thresholds to generate invoices in real time through a government portal. These measures not only enable more accurate and automated tax reporting but also help reduce invoice fraud and input tax credit misuse. As thresholds gradually lower, more small and medium-sized businesses are being brought into the fold, pushing digitalization deeper into India's commercial ecosystem.

In parallel, India is advancing efforts to simplify GST return filings. Instead of multiple, layered forms, the government is moving toward a consolidated system that autopopulates data across forms and invoices. Along with enhanced data analytics and real-time matching, these changes aim to reduce filing errors, ease the reconciliation process, and enable faster refunds – improving overall taxpayer experience.

These reforms are also designed to improve tax compliance and enforcement, a key concern for the government as it works to expand the formal economy. Authorities are increasingly using AI-driven tools and data intelligence to identify mismatches, flag suspicious patterns, and trigger audits. This proactive approach places greater onus on businesses to maintain clean, consistent, and real-time reporting across their systems – mirroring a broader global shift toward AI-powered tax administration.



INDIA SIMPLIFIES GST FILING



HOW AVALARA CAN HELP

Global VAT and GST reform is increasing the complexity of cross-border trade. Avalara AvaTax Cross-Border unifies customs duties, import taxes, VAT/GST, and sales tax into one platform – giving you real-time calculations at checkout, simplified compliance across jurisdictions, and a seamless customer experience.

[Explore Avalara AvaTax Cross-Border](#)

Artificial intelligence and international tax compliance

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As global compliance demands rise, businesses may increasingly turn to automated solutions to navigate cross-border compliance efficiently – particularly those solutions with AI-driven tools. These functions can support efforts to scale, despite shifting compliance obligations.

At the same time, regulations like the [EU AI Act](#), the world's first comprehensive law regulating artificial intelligence, are beginning to shape how AI is developed and deployed across jurisdictions. The act aims to ensure AI systems used in the EU are safe, transparent, and respectful of fundamental rights, while promoting innovation. By establishing risk-based standards, the law also creates greater certainty for international businesses looking to deploy AI-powered solutions across borders.

Tax systems worldwide are becoming more digital, more data-driven, and more demanding. As businesses scramble to keep up with tariff shifts, the end of de minimis, e-invoicing mandates, and more, it's clear: Automation is

no longer just about efficiency. It's the baseline for staying competitive and growing globally.

If you're reading this report, you probably have a hand in keeping one or more businesses tax compliant. You know how difficult it can be to stay on top of changing requirements, much less fulfill them. You do your best.

Avalara has been helping businesses manage tax compliance for more than 20 years. Our newest innovation, Agentic Tax and Compliance™, is further simplifying complex and labor-intensive workflows for our customers. [Learn how Avalara is taking tax compliance automation to the next level.](#)

EXAMPLES OF THE EU AI ACT'S FOUR RISK CATEGORIES

Unacceptable risk

e.g., social scoring

High risk

e.g., AI-based safety components of products

Limited risk

e.g., AI systems with specific transparency obligations

Minimal risk

e.g., AI-enabled video games or spam filters

Source: [EU AI Act](#)

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Looking ahead

It's impossible to cover every tax change in one report, so we aimed to spotlight the biggest headlines affecting 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 2026 tax changes webinar.

[WATCH WEBINAR](#)

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