TAX CHANGES

Avalara

A TAX COMPLIANCE GUIDE FOR BUSINESSES

2025 MIDYEAR UPDATE

Contents

Introduction

Say what you will about 2025 tax policy, but it certainly hasn't been dull.

New tariffs have been announced, delayed, implemented, paused, increased, decreased, changed, challenged (and repeat). The federal government froze funding to more than 20 states, then a federal judge said the government couldn't do that. What will happen tomorrow is anyone's guess.

Import and export tax volatility is forcing businesses to rethink their global footprints and rework supply chains while striving to keep up with frequent tariff changes. Failure to pay mandatory duties can lead to delays at customs, increased costs, and unhappy customers. The pace of the tariff changes is making it difficult for businesses to fulfill all new requirements.

And other tax policy changes could be coming. Many if not all states will be given fewer federal dollars in 2025, and affected states may need to cut services, increase efficiencies, or find new sources of revenue. Increased audit activity or higher state and local taxes could therefore emerge.

As many as 10,000 tax bills may move through state legislatures this year, according to **Ernst & Young**. Since covering them all would be impossible, we're focusing on key tariff and sales tax trends to help you ride the 2025 tax policy roller coaster with aplomb.

In this midyear update, changing tariffs and new e-invoicing requirements form the basis of our international tax coverage. For U.S. sales tax, we explore how a need for more tax revenue could lead states to broaden their sales tax base, implement retail delivery fees, hone marketplace facilitator laws, and streamline remote sales tax collections. And to wrap it up, we look at new and proposed sales tax holidays, sales tax rates, and sales and use tax exemptions.

Read from start to finish, or use the table of contents links at the left to jump to the sections that interest you most.

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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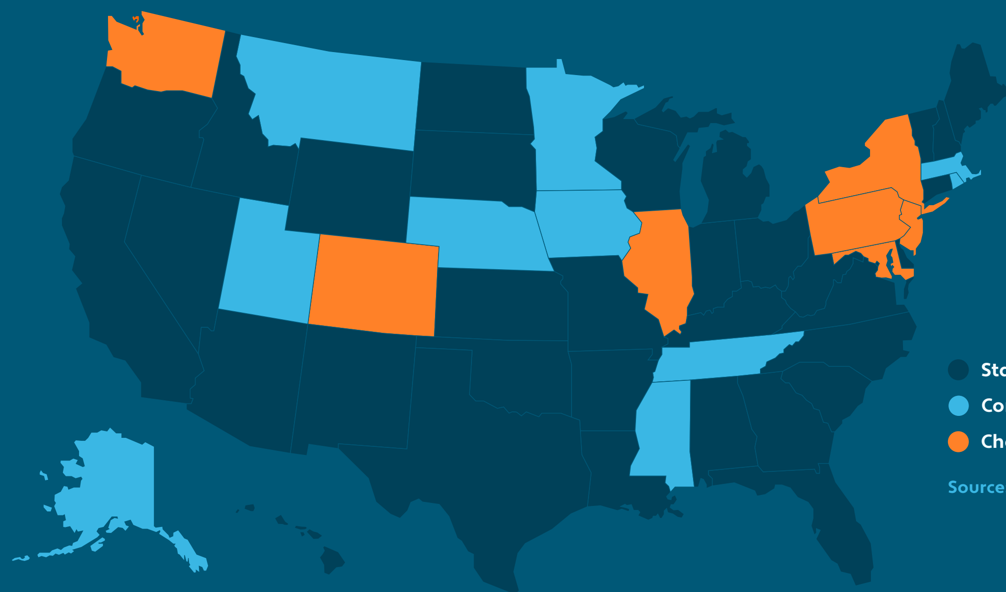
What the numbers tell us about U.S. sales tax

States' short-term fiscal outlook

as of April 15, 2025



- Stable
- Conditional
- Challenging

Source: MultiState

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In his first 100 days as president, Donald Trump issued

20 executive orders
4 memoranda
3 proclamations

related to trade and tariffs

Source: Ballotpedia

UP TO

10,000

tax bills may be introduced

in state legislatures in 2025

Source: EY

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ALABAMA
ARKANSAS
IDAHO
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states aim to reduce or eliminate

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Source: See "Changing food taxes" section

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states eye new

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Source: See "Broadening the sales tax base to include services" section

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states consider new

SALES TAX HOLIDAYS

Source: Avalara

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Tariff turmoil

President Donald J. Trump believes in tariffs. Since returning to the Oval Office, he's set new tariffs on nearly every country on Earth (not to mention some Pacific islands that aren't countries). He's also raised duty rates for specific products, including automobiles, steel, and aluminum. And he's eliminated the de minimis exemption – under which many goods valued at or under $800 (per person, per day) enter the country exempt from duty and import taxes – for China.

You've lived it. You know.

What's hard to know is which of the Trump tariff changes will stick. President Trump tends to announce tariff changes by social media and establish tariffs by executive order. Some tariffs took effect a few days after being declared; some policies lasted only a day or two before being paused; some are facing legal challenges.

Countries are responding in different ways. Some, including Canada and China, hit back with higher tariffs on U.S. goods. Many are trying to negotiate their way out of tariff increases, and Trump is open to negotiating. On May 12, 2025, the White House announced a **trade deal with China** that temporarily lowers punitive tariffs on Chinese imports from 145% to 30% and reduces China's retaliatory tariffs on U.S. goods from 125% to 10%.

These **on-again-off-again-on-again tariffs** pose a serious compliance challenge for businesses.

"Uncertainty is a killer, and paralyzing," says Bruce Todd, Senior Principal of Indirect Tax Technology at KPMG Canada. "If these new rules are to remain for any time – and four years is not that long for supply chain planning – many processes will need to change."

BRUCE TODD
Senior Principal of Indirect Tax Technology at KPMG Canada

"Uncertainty is a killer, and paralyzing. If these new rules are to remain for any time – and four years is not that long for supply chain planning – many processes will need to change."

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Examples of tariffs implemented by the U.S. government

Since February 1, 2025

New U.S. tariffs on China changed from 10% to 20% to 54% to 104% to 145% to 30% (plus tariffs in effect prior to February 1, 2025)

An additional 25% ad valorem rate of duty on many products of **Canada** and **Mexico** starting March 4 (goods covered under the United States-Mexico-Canada Agreement (USMCA) are exempt from this additional tariff)

A 25% tariff on aluminum and steel effective **March 12**, increased to 50% effective **June 4**

An additional 25% tariff on **automobiles** effective April 3 and **auto parts** effective May 3

A new **10% tariff on virtually all articles** imported into the U.S. starting April 5

Additional reciprocal tariff rates on **articles imported from most countries** implemented April 9, then paused for 90 days

Reciprocal tariffs on smartphones, semiconductors, and many other electronic products **retroactively exempted** effective April 5

Tariffs extended to **de minimis imports** (valued under $800) from China and Hong Kong effective May 2

De minimis refers to the value of goods that can be imported into a country tax free. It's short for ***de minimis non curat lex***, which means "the law does not govern trifles."

On May 28, 2025, the U.S. Court of International Trade blocked most of the Trump tariffs. On May 29, a federal appeals court unblocked the tariffs. The legal battle is ongoing and the outcome uncertain, but the White House says tariffs are here to stay.

Visit the Avalara **blog** for up-to-date information on **de minimis**, **steel**, and other **Trump tariffs**.

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Examples of classified products excluded from reciprocal tariffs

As of April 2, 2025

Source: White House

Many products that once qualified for duty-free status now must be assigned a Harmonized Tariff Schedule of the United States (HTSUS) code and a rate of duty. HTSUS codes are key to qualifying for the product exclusions announced April 11. Only products properly classified under the HTSUS headings and subheadings listed in the **customs guidance** will be eligible for the exemption from reciprocal tariffs.

Todd suggests a standard rate for all goods would make international tax compliance much easier, "but we're unlikely to see that. Instead, there will be a negotiated mishmash of different rules and rates. Tariff code classification errors could result in dramatically different duty rates that are not contemplated in purchase agreements." Todd wonders if people realize how complicated the classification system for tariffs is.

Failure to properly classify products and pay the correct duty could also lead to delays at customs – and penalties. A February 2025 **survey by Censuswide**, in conjunction with Avalara, found that 42% of respondents experienced delayed shipments due to incorrect HS classification, and 38% incurred fines or penalties because of it in the past year. Repeat offenders may be flagged for increased scrutiny moving forward. All this can increase costs that already may be higher because of higher tariffs.

"The impacts to supply chains may not be felt immediately," says Jeremy Gottschalk, Founder and CEO of Marketplace Risk, "but supply chains will most certainly be impacted – especially when goods within the supply chain originate from countries where tariffs have been imposed." He believes tariffs will undoubtedly increase costs for marketplaces selling from countries where tariffs have been imposed, "And these costs will be passed on to consumers."

JEREMY GOTTSCHALK
Founder and CEO
of Marketplace Risk

"The impacts to supply chains may not be felt immediately, but supply chains will most certainly be impacted – especially when goods within the supply chain originate from countries where tariffs have been imposed.

And ... costs will be passed on to consumers."

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Fortunately, **automating customs duty and import tax compliance** can help ease the burden, even in today's challenging environment.

"The talented team of researchers and engineers at Avalara work around the clock to ensure the vast array of trade content we deliver to our customers is both timely and accurate," says Craig Reed, GM of Cross-Border at Avalara. "Despite the dizzying pace of change over the past few months, our team has been on top of it. Whether it's restrictions, tariffs, classification codes, or other trade content, we provide our customers with the tools and services they need to be in compliance, all powered by our powerful AI and automation engines."

Avalara also helps businesses calculate, collect, and remit applicable sales taxes on imported goods. And as more tariffs come into play, it's important for businesses to understand the taxability of tariffs.

In 2020, the **South Carolina Department of Revenue** ruled that if a seller increases the price to a purchaser by the amount of a tariff, whether separately stated or not, the tariff becomes part of the sales price and is subject to the sales tax.

However, for use tax purposes, if the purchaser is the importer of products for their own use, the tariff does not become part of the use tax base for the purchaser. The tariff is a separate transaction between the purchaser and the federal government.

In its response to a **taxpayer query** published April 7, 2025, the Illinois Department of Revenue wrote that "the identity of the person legally responsible for paying the tariff under federal law is the critical factor in determining whether sales or use tax applies to the amount of the tariff."

Of course, tariffs are just one issue affecting businesses in 2025. Companies that conduct business internationally must also navigate a growing number of electronic invoicing mandates.

CRAIG REED
General Manager of Cross-Border at Avalara

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Emerging e-invoicing requirements

An **electronic invoice**, or e-invoice, contains the same information as a paper invoice but is issued, transmitted, and received in a structured electronic format designed to be read by machines.

To reduce tax fraud and increase tax collections, more and more countries are requiring e-invoices for business-to-government (B2G), business-to-business (B2B), and/or business-to-consumer (B2C) transactions. Many countries are also moving toward live reporting (aka, real-time reporting), requiring vendors to electronically transmit value-added tax (VAT) data directly to the tax authorities in real or near real time.

While there are no e-invoicing or live reporting mandates in the U.S., they're becoming increasingly common in Europe, South America, and other parts of the world. For instance: **Germany** requires companies to be able to receive electronic invoices as of January 2025; an e-invoicing mandate will come into effect in **Belgium** on January 1, 2026; **United Arab Emirates** will require e-invoicing in 2026; and companies conducting business in **France** must be able to accept e-invoices starting September 2026.

"These initiatives are slowly becoming all too real in more places," says Bruce Todd of KPMG Canada. "Companies might think they can just wait a little while longer because deadlines have been extended, but it's just postponing the inevitable."

Todd notes that companies will need to implement technology and refine their billing processes, and that takes time. "You can't wait until the month before a mandate goes into effect. Can your current technology solution even support e-invoicing?"

Companies that do (or intend to do) business internationally need to comprehend e-invoicing and live reporting mandates and prepare to comply with them. **Avalara E-Invoicing and Live Reporting** can help.

Likewise, businesses that sell into the United States should be aware of how decreasing state revenues may provoke sales tax changes and can complicate sales and use tax compliance.

Examples of e-invoicing formats

Source: **Avalara**

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State revenue recap: Doing more with less

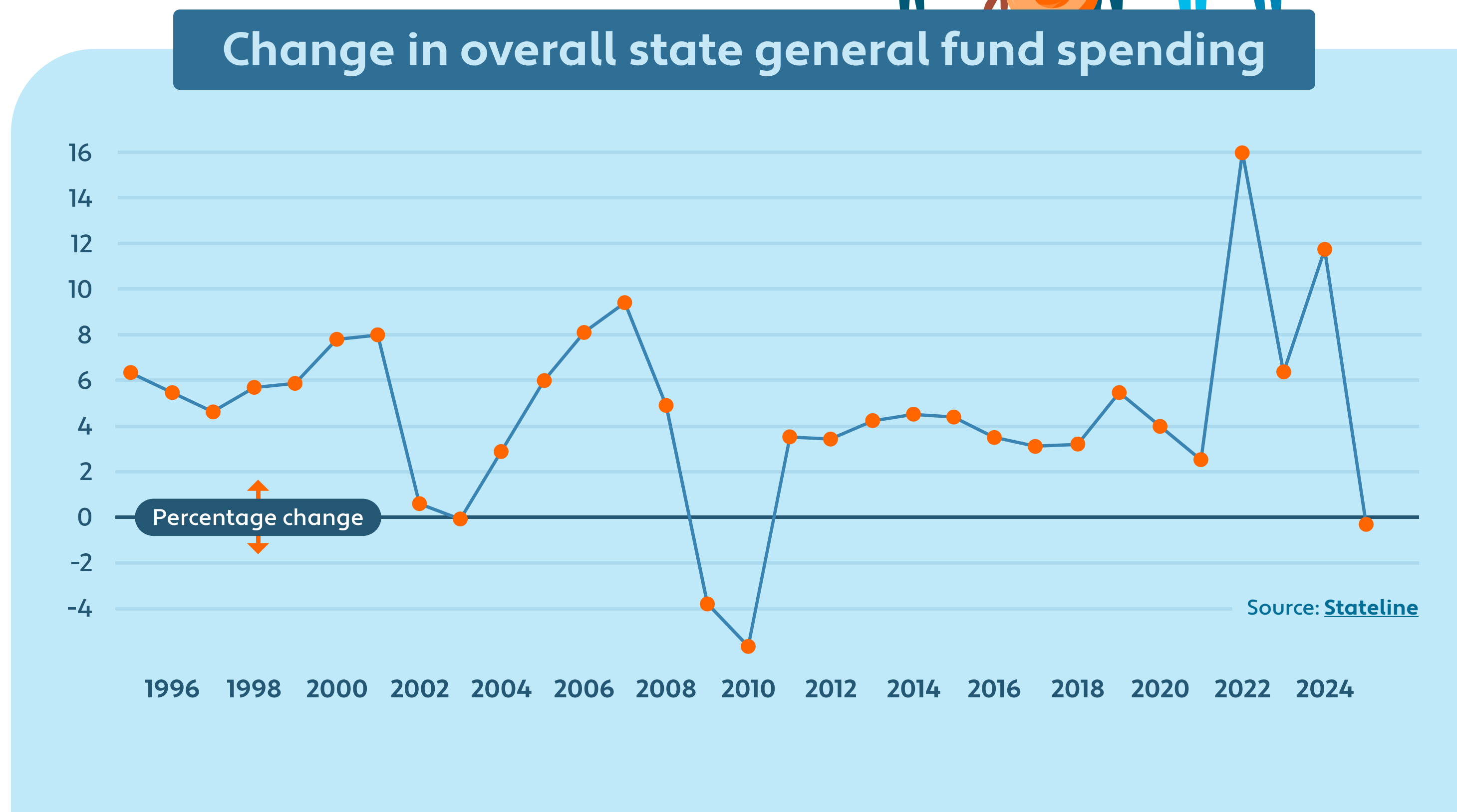
State governments heavily rely on federal dollars: In 2025, for instance, federal funding will account for **$3.1 billion** of South Dakota's $7.3 billion budget. Jurisdictions feel the squeeze when the federal government tightens its belt. And the federal belt is tightening.

Washington, D.C., expects local revenues to decline by more than $1 billion over the next three years, largely due to federal layoffs; **Maryland** lawmakers are including a provision in the budget that will allow lawmakers to make adjustments if $1 billion in federal funding to the state is cut; and other states are responding in different ways.

While most states have strong rainy-day reserves, many face a future fiscal cliff. **The Pew Charitable Trusts** finds state budget stresses to be "more widespread than they have been at any time since at least 2020." The lingering effects of inflation, **expiring pandemic aid**, and President Trump's desire to "**dramatically reduce the size of the federal government**" may make it hard for some states to balance budgets without cutting services, improving efficiencies, and/or increasing tax revenue.

Yet balance budgets they must. "It must be uncomfortable for states to build state budgets during these very unusual times," says Scott Peterson, VP of Government Relations at Avalara. "All this economic uncertainty is happening right as many states are trying to understand the impact of the income tax cuts they made in the last two years."

Increasing sales tax collections is one way to boost revenue, especially for the rising number of states seeking to reduce income taxes and/or property taxes. One way to strengthen collections is through audits.



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"I have said every year since 2022: This is the year of the audit. And each year has proven this to be true," says Mike Dillon, President of Dillon Tax Consulting. "I expect 2025 to be no different. The primary drivers are evolving nexus, evolving taxability, expanding marketplace facilitator laws, and a need for enhanced collections."

"We are definitely seeing an uptick in audits as well as aggressive audits," says Lauren Stinson, Partner at Cherry Bekaert. She's noticed that states are focusing on some or all of the following.

- **Nexus questionnaires.** Many states are scrutinizing taxpayers' date of application for a sales tax license and requiring businesses to prove they hadn't established economic nexus earlier.
- **Cross-referencing other taxes.** States are using AI to check whether businesses that have registered for payroll taxes or state income/franchise taxes are also registered for sales tax.
- **Aggressive audits.** Some states are taking very aggressive positions, which often seem to exceed the statutory authority or a commonsense "reasonable" test.

MIKE DILLON
President of Dillon Tax Consulting

> **This is the year of the audit.**
>
> **The primary drivers are evolving nexus, evolving taxability, expanding marketplace facilitator laws, and a need for enhanced collections.**

In support of her last point, Stinson says Texas seems to be asking SaaS providers to prove their out-of-state customers aren't using their software services in Texas.

Lastly, Stinson finds that auditors are continuing to treat missing exemption certificates as low-hanging fruit.

Another way to increase sales tax collections is by expanding the sales tax base. Several states are pursuing this avenue in 2025.

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Broadening the sales tax base to include services

"We're seeing a growing number of states looking to modernize their tax systems by expanding the sales tax base to services and digital products," says Amanda Denniston, Government Relations Manager at Avalara. "It's a trend driven not just by revenue needs but by the recognition that today's economy is increasingly service-oriented."

Expanding sales tax may be gaining momentum, but it isn't a new concept: Kentucky began taxing services in earnest in 2018 and taxed another 35 services or so starting in 2023. It's paying off.

"Approximately 20% of new sales and use tax registrations are attributed to the sales tax base expansions effective July 1, 2018, or January 1, 2023," says Richard Dobson, Executive Director of the Kentucky Department of Revenue." He adds that the expansion also affected some previously registered retailers – a greater percentage of their receipts are now subject to tax.

AMANDA DENNISTON
Government Relations Manager at Avalara

> **We're seeing a growing number of states … expanding the sales tax base to services and digital products.**
>
> **It's a trend driven not just by revenue needs but by the recognition that today's economy is increasingly service-oriented.**

While taxing more services boosts sales tax collections, it can complicate compliance for tax administrators and businesses alike. "The first task for the Department of Revenue is to determine the scope of services," explains Dobson. "The next step is to source the services to the appropriate taxing jurisdiction. Then, these concepts must be explained to the newly minted retail service providers themselves."

Sourcing tends to be a particularly thorny issue for service providers. Dobson says that in many cases, it's difficult for businesses to understand that a service performed in Kentucky is only taxable if the customer receives the service in this state.

"The concept of resale for service providers is another difficult concept to grasp," observes Dobson. "The Department continues to provide guidance to various business sectors to explain that a retail service provider may only claim a resale exemption on tangible personal property purchased that is permanently transferred to the customer as part of the retailer's sale of its services. For example, a landscaper may purchase shrubbery for resale that it plants and leaves with the customer as part of its landscaping services."

Because of compliance challenges – and the fact that businesses typically don't want to be subject to more taxes – states often experience pushback when they move to tax services. At least five states tried to broaden their sales tax bases in 2025: Maryland, Minnesota, Nebraska, New Jersey, and Washington. Only some of them succeeded, to a degree.

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Examples of services that may be taxed in certain states

As of June 5, 2025

Maryland

- Computer systems design
- Data or information
- Data processing
- System software or application software publishing services
- Technology services
- Web hosting
- Web search portals, libraries, and archives

Source: Maryland HB 352

Minnesota

- Audit preparation
- Credit card fees
- Financial planning
- Loan servicing
- Paralegal and legal assistant services
- Payment services
- Payroll
- Safety deposit boxes
- Tax return preparation

Source: Minnesota HF 2437

Nebraska

- Chartered flights
- Cleaning of clothing
- Dating services
- Golf or tennis
- Hair care (except for the cutting of hair)
- Marketing and telemarketing
- Nail care and skin care
- Personal instruction for dance
- Travel agency services

Source: Nebraska LB 169

New Jersey

- Basketball courts
- Digital services
- Driving ranges
- Health and fitness club guest and class fees
- Interior design
- Skating rinks
- Swimming pools
- Tennis courts
- Vehicle trade-ins

Source: NJ Spotlight News

Washington

- Custom website development
- Data entry and processing
- IT support and training (in-person or live virtual)
- Lead generation optimization
- Online referrals
- Search engine marketing
- Web campaign planning
- Website traffic analysis

Source: Washington SB 5814

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Maryland will tax data and services

Starting July 1, 2025, **Maryland will tax the following services** at a rate of 3% of the taxable price due to the enactment of HB 352:

- Data or information technology services
- System software or application software publishing services

The sales tax will apply to B2B as well as B2C transactions.

Though 3% is half the general sales tax rate, the bill allows for a rate higher than 3%. “If a sale may be subject to sales tax at the higher 6% rate,” Mike Dillon explains, “the higher rate applies.” The Maryland Comptroller is tasked with providing additional guidance.

Dillon points out that HB 352 also provides an exemption for certain purchases by qualifying cybersecurity businesses, and it eliminates the exemption for custom software. “It also enables a purchaser to issue a ‘multiple points of use’ certificate at the time of sale if they know the taxable purchase will be used in multiple tax jurisdictions,” he says.

HB 352 initially sought to tax the licensing of media or software rights and other intellectual property as well. This included the rights to broadcast television programs, to distribute specialty programming content, and to syndicate media content. Had these provisions not been struck, Maryland would have become the first state to tax such sales.

The Maryland Legislature also explored a 6% **data broker tax** and a 2.5% sales and use tax on numerous B2B services, including administrative and consulting services, IT support, business services (e.g., accounting and payroll), and landscaping services. Neither legislation passed.

Dillon isn’t surprised. “The state sought to do this in 2007, enacting a tax on computer services, only to repeal the law six months later before it took effect, in large part because of the efforts of affected taxpayers fighting for its repeal,” he explains. “The Maryland General Assembly’s most recent efforts to tax B2B inputs have been met with similar fury.”

Taxing business inputs is certainly a hard sell, even at a reduced rate. The **Council on State Taxation** argues that two of Maryland’s B2B tax proposals violate “several principles of sound tax policy” and create “pyramiding and a lack of transparency to both consumers and policy makers.”

“I look at taxing B2C services as simply an expansion of the sales tax base,” observes Brian Smith, Senior Government Relations Director at Avalara. “Taxing B2B services is different: It’s a tax on business inputs: the process of providing services to businesses.” He explains taxing the provision of services would be comparable to taxing the manufacture of products sold for resale, and wonders, “Is the provisioning of services akin to manufacturing?”

BRIAN SMITH
Senior Government Relations Director at Avalara

“I look at taxing B2C services as simply an expansion of the sales tax base.

Taxing B2B services is different: It’s a tax on business inputs: the process of providing services to businesses.”

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Bruce Todd raises another concern. “The biggest issue with taxing services and intellectual property is sourcing,” he says. “While some services, like haircuts, are very localized, the precise location of others can be hard to determine.”

He explains, “we’ve been taxing intellectual property for decades, but pinpointing its location is like trying to tax air. And precision is necessary for sales tax, especially if only a few states tax such transactions – an in-state versus out-of-state split becomes more meaningful.”

BRUCE TODD
Senior Principal of Indirect Tax Technology at KPMG Canada

“We’ve been taxing intellectual property for decades, but pinpointing its location is like trying to tax air.

And precision is necessary for sales tax, especially if only a few states tax such transactions ...”

Todd hopes that states will stipulate an objective allocation standard if they do go this way. “For media, that might be an audience or population factor. There is nothing sacred about taxing these items, but it’s important to acknowledge the sourcing challenges and get a reasonable portion of the new base without overwhelming the accountants.”

Minnesota may tax B2C services

Minnesota currently taxes some services, but many others are tax exempt. As Governor Tim Walz observed, “If a tree falls in your yard and you hire someone to remove that tree, you pay sales tax on that. If you call your stockbroker and make a deal you do not pay sales tax on that.” He wants to eliminate such “loopholes” to increase fairness ... and sales tax collections.

Under the Walz plan, **Minnesota sales tax would be extended** to accounting and legal services as well as brokerage and some bank service charges. Unlike the Maryland proposal, Minnesota is only looking to tax business-to-consumer (B2C) services; business-to-business (B2B) services would remain exempt.

A similar plan introduced in 2013 failed.

Nebraska may tax personal services and services for livestock

Nebraska LB 169 would eliminate certain sales and use tax exemptions and extend the sales tax to personal services, specialty services, and certain veterinary services effective October 1, 2025. Personal services would encompass diverse offerings including chartered flights, dance classes, and tattooing.

New Jersey may tax several services

New Jersey Governor Phil Murphy’s administration is seeking to **expand sales and use tax** to an interesting mix of goods and services starting July 1, 2025.

Their budget proposal for fiscal year 2026 would also remove the partial sales tax exemption and $20,000 sales tax cap on boats and other vessels. All told, these sales tax changes could increase sales and use tax revenue by approximately $277.1 million in fiscal year 2026 alone.

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Washington will tax digital advertising and high-tech services

Washington state is expanding the state's retail sales tax to digital advertising services and other high-tech services starting October 1, 2025. Under SB 5814, taxable services will include custom website development, data entry and data processing, IT support and training (in-person or live virtual), lead generation optimization, online referrals, search engine marketing, web campaign planning, and website traffic analysis.

Multiple states explore digital advertising services taxes

As indicated by the new law in Washington state, taxing digital advertising services is another area of interest in state capitals.

"Maryland recently enacted a broad sales tax on many digital products and services," explains Mike Dillon. "Washington has now done the same, and other states will continue to press for taxation of streaming services, digital goods and services, and cloud-based software and services. We expect to see more of this as states work to offset declining revenues with expanding tax bases."

Dillon points out that some states have succeeded where others fell short. "Many seek to merely expand their sales tax to these new products and services by administrative interpretation, rather than legislatively. This is never sound tax policy, as not involving the legislature in new tax laws inspires a lack of clarity and distrust in state revenue authorities by taxpayers."

States that have introduced legislation to tax some type of digital advertising services include:

- California: A social media advertising gross receipts tax
- **Maryland**: A tax on certain social media platforms and/or a data broker tax
- Massachusetts: An online advertising tax
- Michigan: A tax on digital advertising services
- Montana: A 10% tax on digital advertising services
- New York: A 7% tax on digital advertising services
- Rhode Island: A tax on gross revenue from digital advertising services
- Washington: A data broker severance tax

Although digital advertising services taxes may appeal to many lawmakers, the fact that Maryland's digital advertising tax has been under fire since its enactment in 2021 could be causing several states to proceed with caution. The ongoing Maryland digital advertising tax saga will likely carry into 2026, at least.

"The legal struggles Maryland is having defending its tax on digital advertising should serve as a warning for other states," says Scott Peterson. "There are legitimate arguments that taxing digital advertising without also taxing non-digital advertising poses a constitutional risk to the state."

Retail delivery fees may be easier to get across the legislative line than a digital ad tax – though they're also controversial.

SCOTT PETERSON
VP of Government Relations at Avalara

> **"There are legitimate arguments that taxing digital advertising without also taxing non-digital advertising poses a constitutional risk to the state."**

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Implementing retail delivery fees

A retail delivery fee is, broadly, a fee for delivering tangible personal property by motor vehicle.

Colorado and Minnesota are the only two states with a retail delivery fee (RDF) today, but other states are intrigued by them. Since the first RDFs took the nation by storm in 2022, retail delivery fee legislation has been introduced in more than 10 states, including Hawaii, Indiana, Maryland, Mississippi, Nebraska, Nevada, New York, Ohio, Oregon, Vermont, and Washington.

"States see retail delivery fees as a means of increasing revenues for transportation projects and infrastructure through measures seemingly imposed directly on those benefiting from the use of the roads and infrastructure," says Mike Dillon.

Each RDF proposal is a variation on the theme, but no two delivery fees are exactly alike. For example, Hawaii considered a 50-cent delivery safety fee, while Mississippi mulled over a 30-cent delivery fee. Indiana and New York both looked at local retail delivery fees in addition to or instead of state-level fees.

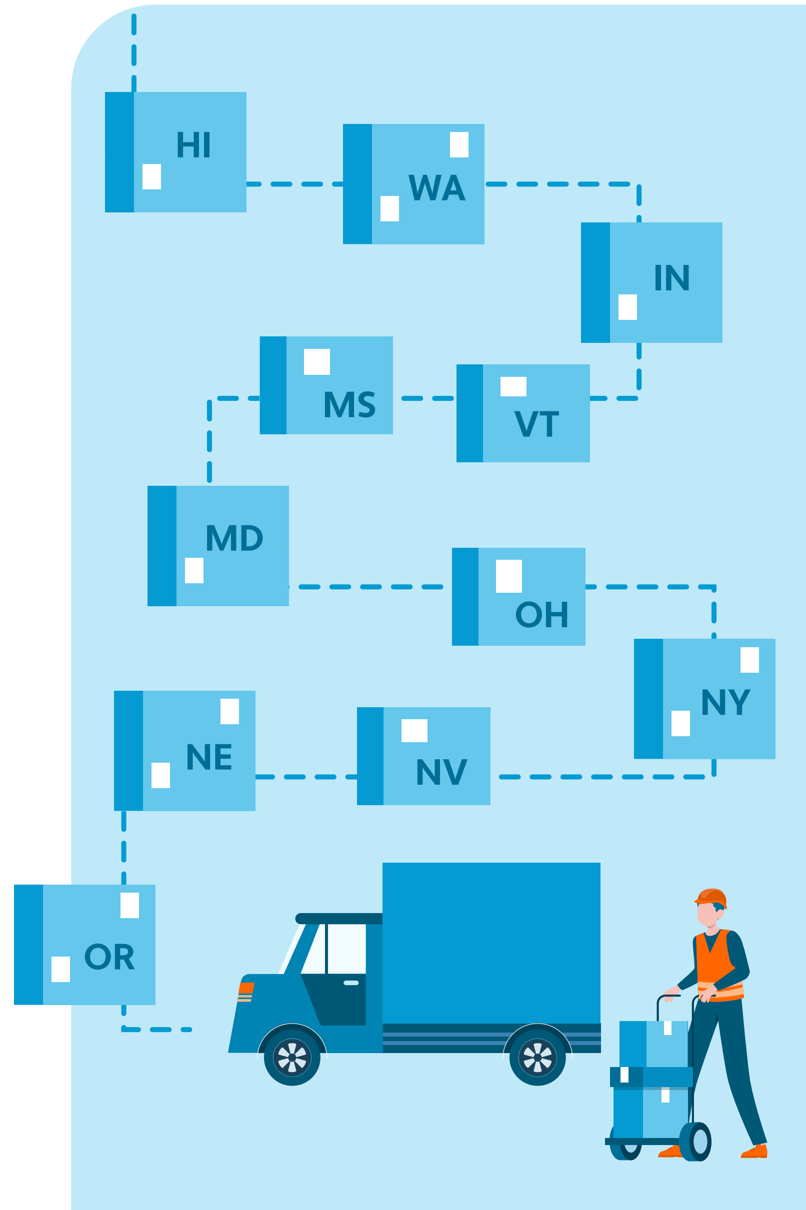
Whether any states will be able to deliver on an RDF in 2025 is unclear, as opposition to retail delivery fees is mounting. More than 30 businesses are actively opposing new online delivery taxes, as is the National Federation of Independent Businesses, and Maryland ended up tabling its proposal. There's even legislation seeking to eliminate the Colorado and Minnesota retail delivery fees, though the Colorado bill died.

"I fully expect to see the majority of states adopt these fees over the next 10 years," says Dillon. "To lawmakers, while constituents bear the cost, the compliance obligation is borne largely by remote sellers that don't vote for the lawmakers."

State efforts to amend requirements for marketplace facilitators or simplify remote sales tax obligations may be met with less resistance.

States considering retail delivery fees

As of June 5, 2025 | Source: Avalara



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Taxing marketplaces

Dillon expects states to continue to interpret what it means to be a marketplace facilitator, often "casting a wide net" to ensure the intended targets comply. He says states often use audits to enhance compliance and refine rules.

Here are some of the marketplace sales tax changes put forward in 2025.

Alaska considered a marketplace sales tax

The Alaska Legislature considered a **2% marketplace facilitator sales tax** to raise revenue to battle organized retail theft. It's a curious proposal because there's no statewide sales tax in Alaska, only local sales taxes.

HB 97 initially sought to impose a state sales tax on transactions occurring through a marketplace facilitator with at least $250,000 in annual gross sales revenue from the sale of property or services delivered in the state *or* 200 separate sales of property or services delivered in the state. This is different from **Alaska's economic nexus threshold**, which is $100,000 in annual gross sales.

Alaska's marketplace sales tax ended up being **cut from the bill**. It will be interesting to see if the idea resurfaces.

"I believe there are better ways to address retail theft other than taxing goods sold through marketplaces, including confirming the identity of sellers and reporting on high-volume sellers or otherwise suspicious activity," says Jeremy Gottschalk.

He adds that taxing marketplace sales would add compliance obligations and administrative complexity that's otherwise nonexistent in a state with no sales tax. "In addition, it would certainly discourage businesses that sell directly to consumers from selling through marketplaces due to the increased cost."

Texas clarifies taxability of marketplace fees

The Texas Legislature is looking to exclude "services provided by a marketplace provider in relation to the processing of a sale or payment for a marketplace seller" from the definition of taxable data processing services for sales tax purposes. If **HB 1681** is enacted, such fees would be exempt from sales tax effective October 1, 2025.

This legislation reverses a policy put forward by the Texas Comptroller in 2024. In a **proposed rule**, the Comptroller clarified that the fees charged to third-party sellers by online marketplaces are **taxable data processing fees**.

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Streamlining remote sales tax collections

Some states are making it simpler for remote businesses (i.e., companies with no physical tie to a taxing jurisdiction) to determine and comply with sales tax nexus laws. Sales tax nexus is the connection between a jurisdiction and a business that triggers a sales tax obligation for the business.

Eliminating economic nexus transaction thresholds

Remote businesses can establish sales tax nexus simply by selling to consumers in other states. This is known as economic nexus. States won the right to enforce economic nexus in 2018, with the U.S. Supreme Court ruling in South Dakota v. Wayfair, Inc.

There's an economic nexus law in every state with a general sales tax, and no two economic nexus laws are the same. This makes sales tax compliance challenging for companies that sell across the United States – and makes those companies more vulnerable to audit.

"It's been seven full years since the U.S. Supreme Court's landmark decision in Wayfair," says Dillon. "States typically ramp up sales tax audit activities against an impacted group of taxpayers three to four years after adopting a change affecting that impacted group. This is because the typical statute of limitations for auditing registered taxpayers is three to four years."

In close to 20 states, a remote business can create sales tax nexus simply by making 100 separate transactions in the state in a calendar year. Since the dollar amount of each transaction doesn't come into play, a transaction threshold can end up creating a sales tax obligation for companies doing a negligible amount of business in the state.

This typically isn't very good for businesses or the state.

MIKE DILLON
President of Dillon Tax Consulting

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> **This is because the typical statute of limitations for auditing registered taxpayers is three to four years.**

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"Removing the transaction threshold is a smart move," says Amanda Denniston. "It helps ensure that economic nexus laws target meaningful business activity rather than burdening remote sellers with compliance requirements for minimal sales. States are recognizing that a one-size-fits-all approach doesn't work, and simplifying these thresholds is a step toward a more balanced and fair sales tax system."

So, 14 states and counting are chucking their transaction thresholds. The Alaska Remote Seller Sales Tax Commission eliminated its transaction threshold effective January 1, 2025.

AMANDA DENNISTON
Government Relations Manager at Avalara

> **States are recognizing that a one-size-fits-all approach doesn't work,**
>
> **and simplifying these thresholds is a step toward a more balanced and fair sales tax system.**

Utah is getting rid of its transaction threshold on July 1, 2025, and Illinois will drop it starting January 1, 2026. New Jersey may do the same at some point.

Providing more time to register

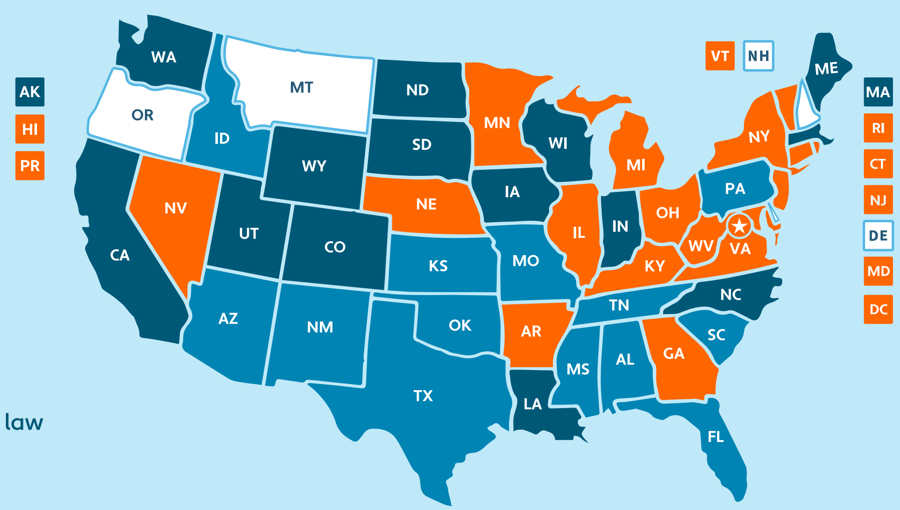
Giving businesses more time to register for sales tax after they establish economic nexus is another way for states to ease the burden of compliance. South Dakota is on it.

Remote sellers used to have to register immediately after developing economic nexus with South Dakota, as in, before the next transaction. Starting July 1, 2025, remote sellers and marketplace providers must obtain a South Dakota sales tax permit and start complying with all applicable sales and use tax laws by the first day of the month that begins at least 30 days after establishing economic nexus with the state. This will give businesses quite a bit more breathing room.

Transaction thresholds

As of July 1, 2025

- States that eliminated transaction threshold
- States with no transaction threshold from the outset
- States with a transaction threshold
- States with no economic nexus law



Source: Avalara

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Updating sales tax sourcing rules

Making sales tax sourcing rules less complicated and more consistent is another key simplification measure for several states – especially Illinois and Colorado.

Illinois has some of the most complicated and contentious sales tax sourcing rules in the nation. It [updated its sourcing rules] as of January 1, 2025, but more work is needed.

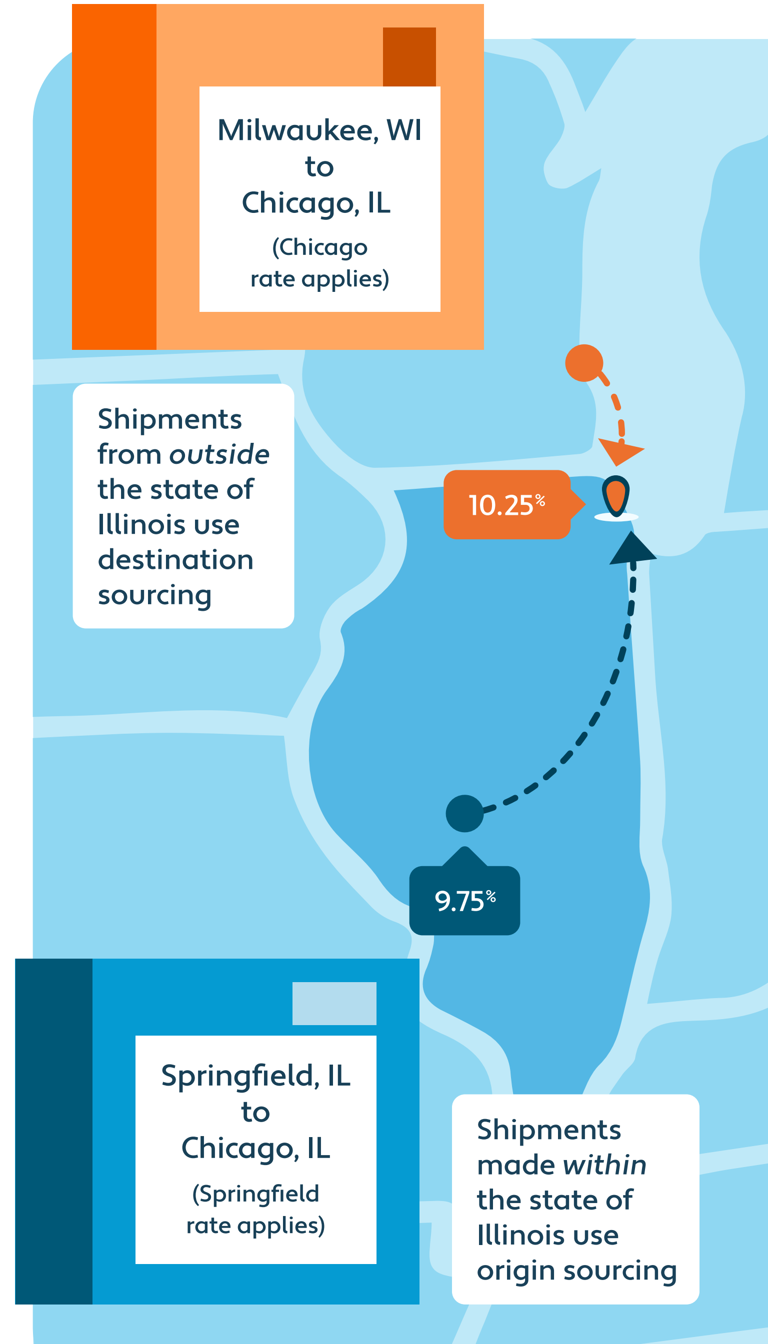
Currently, registered businesses shipping goods from locations outside of Illinois must follow destination sourcing rules and collect the combined state and local sales tax rate in effect at the delivery address. However, in-state retailers shipping goods from inside the state must follow origin sourcing rules and base sales tax on the location where the order originated (e.g., the ship-from address or an office where the order was taken).

Reporting requirements for out-of-state and remote retailers are also significantly more complicated than reporting requirements for in-state retailers.

Several businesses are suing Illinois because sales and use tax compliance for in-state businesses is less complicated than it is for out-of-state or remote businesses. There likely won't be a quick resolution to this issue unless Illinois adopts destination sourcing for in-state businesses.

Meanwhile, Colorado is leaning into destination sourcing. In a [letter ruling] published December 30, 2024, the Colorado Department of Revenue concluded that when a purchaser arranges for and hires a third-party shipping company to pick up property from a seller's business location and deliver it to the purchaser, the sale should be sourced to the known location of the purchaser rather than the business location.

Sales tax sourcing is a behind-the-scenes compliance issue; consumers may not even realize it's a thing. That's not the case with sales tax holidays, which are generally crowd-pleasers.



Source: Avalara

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Changing sales tax holidays

A **sales tax holiday** is a slice of time – perhaps a weekend or a week – when sales tax doesn't apply to select goods that are normally taxable.

Roughly 20 states offer one or more sales tax holidays in any given year. Some states offer the same sales tax holiday annually; some states must establish a new sales tax holiday every time they want one; and sometimes a state will change a sales tax holiday in response to specific circumstances, such as an excess or lack of sales tax collections.

We're seeing a little bit of everything in 2025. "Sales tax holidays are a popular tool for lawmakers," notes Denniston. "They're visible, timely, and offer targeted relief without changing the tax code. We're seeing more of them in 2025 as states respond to economic pressures, revenue shifts, and voter sentiment."

New tax holidays

More than 30 sales tax holiday bills were introduced across 16 states at the start of 2025. Popular themes include back-to-school tax holidays, disaster preparedness tax holidays, and Second Amendment tax holidays for guns and ammunition.

Source: Avalara

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"While sales tax holidays sound good in theory (and are good for politicians), they generally don't achieve economic growth or significantly increase consumer spending as intended," observes Lauren Stinson. "What often winds up happening is that retailers raise prices, sellers don't have their regular sales, or the timing of purchases shifts."

Stinson adds that sales tax holidays are really problematic for retailers. "They're forced to make a lot of very significant changes to their tax automation/point-of-sale systems in a very small window of time," she says. "Additionally, the nuances between what qualifies for exemption (how are "school supplies" defined?) also adds another layer of complexity.

"Returns made during the holiday window on prior purchases or returns made on purchases made during the holiday are another area of challenge when it comes to ensuring the customer is made whole, while keeping the retailer compliant," notes Stinson. "Larger retailers generally have the resources to adapt, but sales tax holidays can hit smaller retailers hard."

LAUREN STINSON
Partner at Cherry Bekaert

> **While sales tax holidays sound good in theory ... they generally don't achieve economic growth or significantly increase consumer spending as intended. What often winds up happening is that retailers raise prices, sellers don't have their regular sales, or the timing of purchases shifts.**
>
> **Larger retailers generally have the resources to adapt, but sales tax holidays can hit smaller retailers hard.**

Updates to tax holidays

Lawmakers in several states have proposed amending existing tax-free weekends.

- Alabama is increasing price caps; New Mexico and West Virginia may do the same.
- **New Mexico** may also lengthen its annual sales tax holiday by a few days.
- Oklahoma may expand the items eligible for its August sales tax holiday.

While sales tax holidays seem to be a hot topic for 2025, numerous states are also looking to change sales tax rates and/or exemptions.

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New sales and use tax rates and exemptions

Changing state sales and use tax rates

Governor Tim Walz of Minnesota wants to slightly **reduce the state sales tax rate** from 6.875% to 6.8%. This proposal goes hand in hand with broadening the sales tax base.

In Florida, the Senate is trying to carve out a sales tax **exemption for clothing and shoes** priced $75 or less. The House is looking to cut a host of tax rates – including **the general state sales and use tax rate** – starting July 1, 2025. Under the House proposals, Florida would **not provide any new sales tax holidays** in 2025.

Legislation introduced in Iowa would completely **eliminate the Iowa state sales and use tax** as of January 1, 2026.

On the other hand, Missouri lawmakers are looking to increase the state's sales and use tax, which is currently **4.225%**. Under **SJR 56**, the general state sales tax for most goods and **taxable services** could jump to as high as 5% from January 1, 2028, to January 1, 2030, and up to 7% after that date. The food tax, currently 1.225%, could increase to 4% from January 1, 2028, until January 1, 2030, and to 5.5% thereafter.

And **Washington, D.C.**, has already decided to raise the district's sales tax from 6% to 6.5% beginning October 1, 2025. The rate will increase again, to 7%, on October 1, 2026.

Changing food taxes

Reducing food tax rates

Alabama, Arkansas, Hawaii, Idaho, Illinois, Mississippi, Missouri, South Dakota, Tennessee, and Utah are the only states that tax groceries at the state level (local taxes may apply in other states). Most of these states are looking to change that – or already have exemptions in flight.

Alabama is accelerating a planned rate reduction for groceries: The state food tax will drop from 3% to 2% on September 1, 2025.

Arkansas will eliminate the state sales tax on groceries (0.125%) effective January 1, 2026. Local sales taxes will continue to apply.

Idaho increased the grocery tax credit from $120 to $155 with the enactment of HB 231 in March 2025; the change is retroactive to January 1, 2025.

Illinois will eliminate the state portion of its grocery tax starting January 1, 2026, but allow local food taxes.

Mississippi, which has one of the highest sales tax rates for food in the country, is lowering the sales tax rate for groceries from 7% to 5% effective July 1, 2025.

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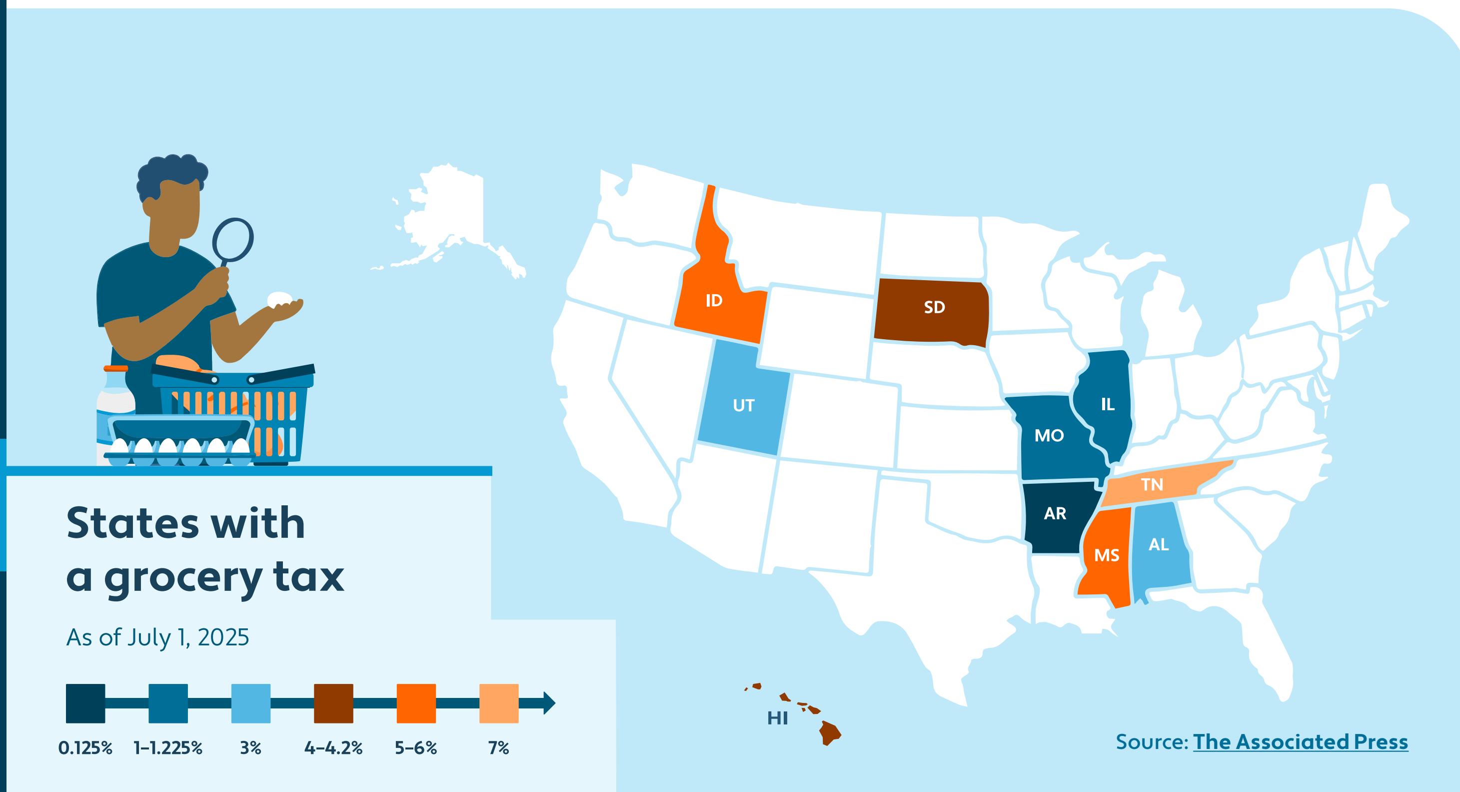
Other proposals to watch in 2025:

- **Alabama** may allow local governments to cut local food taxes.
- Missouri could eliminate the state grocery tax (currently **1.225%**) and phase out local sales taxes over four years (**SB 57**). **Local governments aren't biting**. Alternatively, as noted earlier, Missouri could increase the sales tax on food.
- Tennessee might eliminate the state sales tax on **canned, fresh, and frozen fruit and vegetables** starting July 1, 2025, but other grocery food would continue to be taxed at 4%. Alternatively, it could **exempt** retail sales of food and food ingredients from the state sales tax altogether.
- Similar but different: New Jersey may **increase alcoholic beverage tax rates** by 10%.



States with a grocery tax

As of July 1, 2025

Source: The Associated Press

Increasing taxes on candy and soda

A few states are interested in taxing sweet treats and drinks.

The Maryland Legislature considered a **two-cent-per-ounce tax on sugary beverages**. But Governor Wes Moore **said he wouldn't sign it** if it reached his desk, citing a need to keep costs for Marylanders low.

Nebraska introduced legislation to **eliminate sales tax exemptions** for candy and soda starting October 1, 2025. However, the bill was indefinitely postponed on March 20.

And the fiscal year **2026 budget proposal** introduced by Massachusetts Governor Maura Healey includes taxing candy and prescription drugs. The candy tax proposal simply removes the sales and use tax exemption for candy and confectionary products.

Getting rid of pink taxes is another area of interest for states.

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New pink tax exemptions

The term "pink tax" broadly refers to various forms of gender inequality, including gender pay gaps and the fact that some products designed for women typically cost more than similar products designed for men.

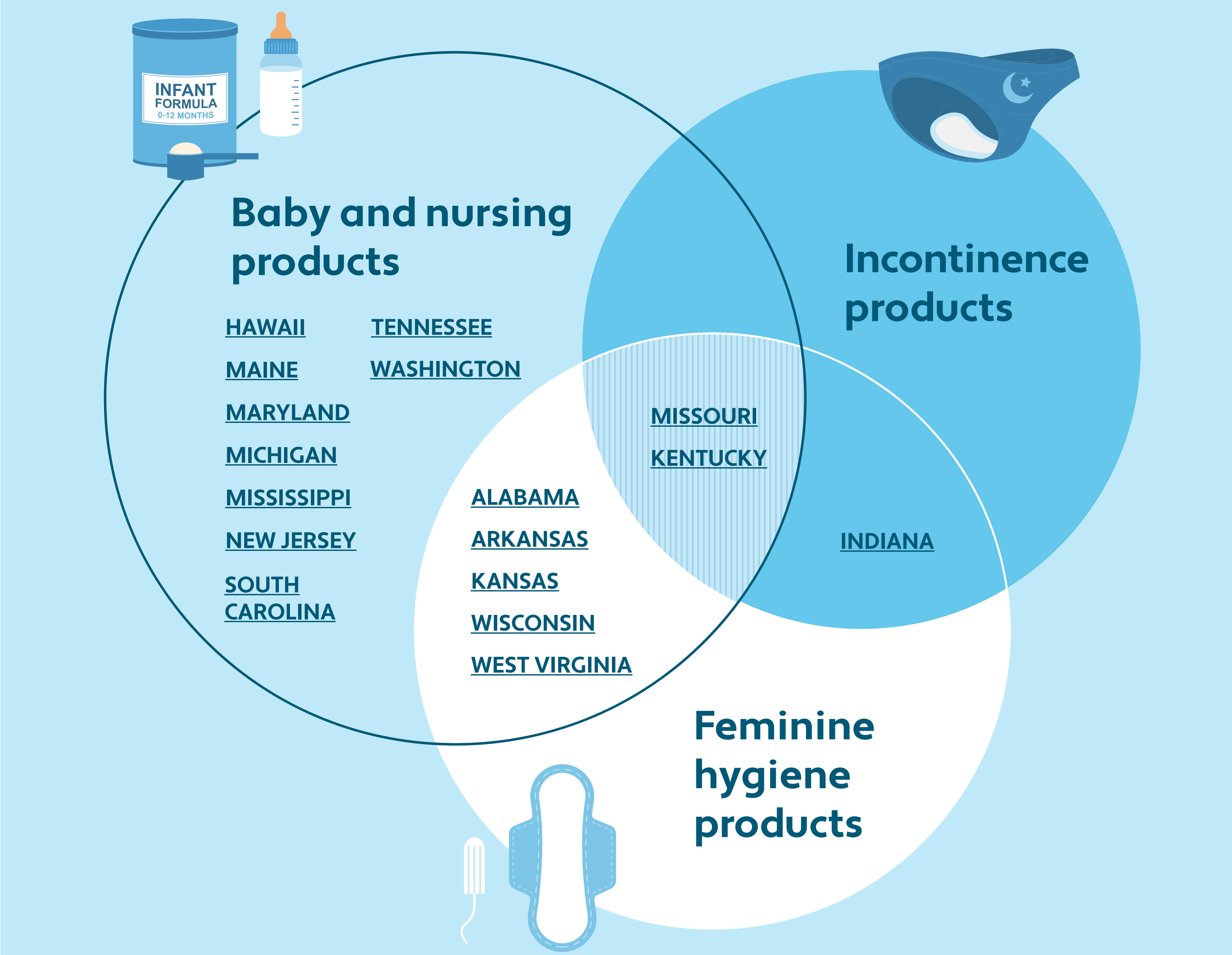
Pink tax can also refer to the sales tax on products needed by children and women, such as diapers and feminine hygiene products (e.g., sanitary napkins and tampons).

There's a growing trend among states to eliminate pink taxes. At least 16 states introduced legislation to that effect in 2025, and Alabama will exempt diapers, maternity clothing, and menstrual hygiene products starting September 1, 2025.

Exemptions for food, diapers, and/or feminine hygiene products tend to be popular, but states are interested in exempting other transactions too.

States considering pink tax exemptions in 2025

For sources, click state names



Miscellaneous tax exemptions

A lot of legislation proposing a wide variety of sales tax exemptions is usually introduced each legislative session. Under consideration in 2025:

- Florida may create a permanent sales tax exemption for data center equipment; the current exemption is set to sunset in 2027.
- Minnesota may exempt construction materials for single-family homes for first-time homebuyers.
- Missouri may exempt items used and sold at auction.
- New Jersey may exempt safety helmets.
- North Carolina may create a sales tax exemption for certain nonprofit entities.
- Ohio may exempt certain firearms and ammunition.
- **Oklahoma** is looking to provide a sales tax exemption for hearing aids, increase the sales tax exemption for vehicles purchased by qualifying veterans, and provide a blanket sales tax exemption for disabled veterans.

Sales tax exemptions adopted so far in 2025 include:

- Kansas will implement a sales and use tax exemption for data center facilities, effective July 1, 2025.
- Michigan extended a sales tax exemption for data center equipment through December 31, 2050, and created new exemptions for enterprise data centers through December 31, 2065.
- Ohio exempted all tangible personal property and construction materials incorporated into any construction (not just the original construction) of a professional sports facility starting May 1, 2025.
- Oklahoma will exempt gun safes and gun safety devices starting November 1, 2025.
- Wyoming extended an exemption for manufacturing equipment.

And there you have it.

The first half of every year is typically chock-full of tax policy legislation. If you're old enough to remember Schoolhouse Rock's "I'm Just a Bill," you know many bills never make it to law. But some will – and if you're a business, it's best to be prepared for those that do.

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Looking ahead

Businesses can spend a lot of time and money updating and configuring systems to comply with tax changes like new tariffs or sales tax holidays. Knowledge is power: The sooner you know about an upcoming tax policy change, the better you'll be able to meet it. Implementing **tax automation software** that offloads the burden of tax compliance can also help.

We cover more tax policy changes in our full Avalara Tax Changes 2025 report and on-demand webinars. For the freshest news, visit the Avalara Tax Desk blog.

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How Avalara can help

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