

# 2026 MIDYEAR UPDATE

10<sup>TH</sup> EDITION

**TAX CHANGES**

Avalara

A TAX COMPLIANCE GUIDE FOR BUSINESSES



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# Introduction

To be tax compliant, businesses must identify and implement every applicable tax requirement, for everywhere they do business, all at once (or so it can seem). Tracking tax policy trends is helpful, because it's hard to fulfill obligations you don't know about. Using tax automation solutions powered by agentic artificial intelligence is essential, because the world of tax compliance is complex and vast.

In this midyear update to our Avalara Tax Changes 2026 report, we highlight key state and local tax policy changes affecting compliance requirements. We also demonstrate how tax automation solutions powered by [Avalara Agentic Tax and Compliance™](#) can enhance and streamline tax compliance processes for businesses.

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

**“Sales tax laws are expanding and evolving daily. The burden of keeping up with what is going on, along with trying to maintain a constant state of accurate calculations, is virtually impossible. Avalara takes on that responsibility and weight, allowing more time to focus on other tasks and projects while having peace of mind that your customers are being charged correctly at any given moment.”**

**—Courtney Sullivan, Senior Tax Accountant, Bottomline Technologies**

Industry: Fintech

## 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.



# What the numbers tell us about tax compliance

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# 417,110

taxability updates across the U.S. and Canada in 2025



# 11,889

sales and use tax rate updates in the U.S. in 2025

Source: Avalara

# 9

states + D.C. are working to cut business personal property taxes

Source: Grant Thornton



# 7

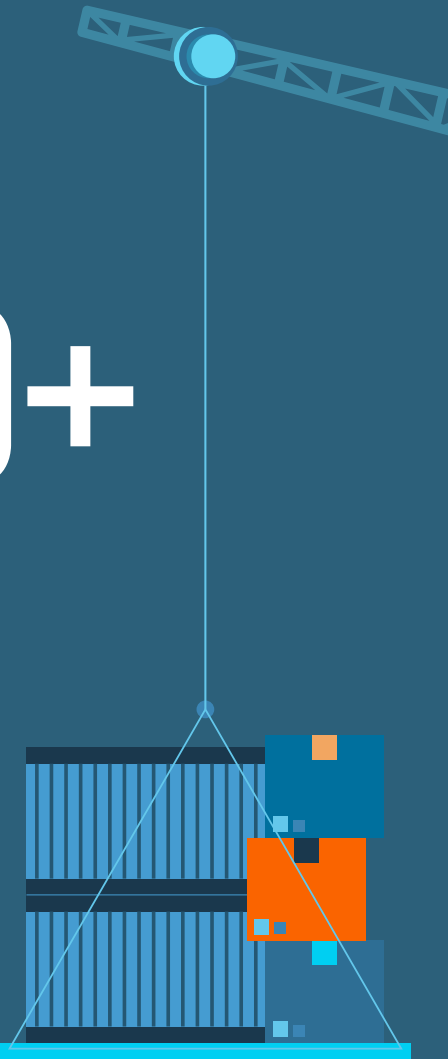
states reduced business personal property taxes

in 2025

As of March 4, 2026

# 330,000+

importers made over 53 million entries subject to IEEPA tariffs



Between January 20, 2025, and June 2, 2026, President Trump issued

Source: Ballotpedia

# 42

executive orders



# 4

memoranda



# 13

proclamations

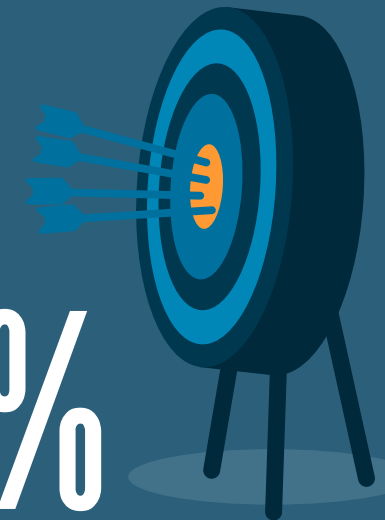
related to trade and tariffs



# 99.9999%

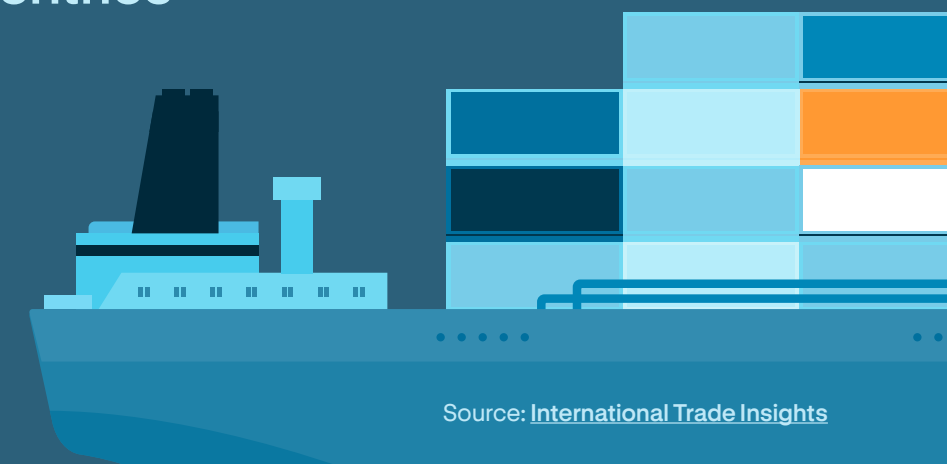
accuracy for 54B+ AvaTax API calls in 2025

Source: Avalara



# 53M+

entries



Source: International Trade Insights

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# The state of state budgets and shifting revenue trends

Many states are facing [budget challenges](#) in 2026, and many expect fiscal year 2027 to bring [flat or declining revenue](#). Only 25 states had enacted a budget as of April 15, 2026, according to the [National Conference of State Legislatures](#) (NCSL), and 15 of those had adopted biennial budgets in 2025. For states still grappling with their budgets, uncertainty abroad and at home isn't making the job any easier.

Costs for states are rising; tax collections are down; and [state rainy day funds declined](#) during fiscal year 2025 for the first time since the Great Recession. Rising costs stem in part from federal funding cuts to Medicaid and the Supplemental Nutritional Assistance Program (SNAP). Geopolitical strains — like the war with Iran — are also contributing to higher prices (and the likelihood of a [recession](#)).

The reduction in state tax collections is largely self-made.

[Nearly every state has cut taxes](#) since 2021, and most made cuts to more than one tax type. At least [28 states](#) reduced top marginal income tax rates, and some, including [Georgia](#), [Utah](#), and [West Virginia](#), approved additional cuts this year. At least 23 states have lowered real property taxes since 2021, and at least 10 states passed or considered property tax relief in 2026. [Arizona](#), [Indiana](#), [Texas](#), and [Wyoming](#) are among the states that have reduced business personal property taxes.

## STATES DROPPING REAL PROPERTY TAXES

Sources: [Pew Research Center](#); [Stateline](#); [Tax Policy Center](#)



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Cutting income tax and/or property tax necessitates spending less, finding other sources of revenue, or both; property taxes alone make up about [70%](#) of local tax revenue in most states.

Some states are finding creative ways to pay for the cuts they desire: Pennsylvania tapped into [gaming revenues](#), for instance, and New Hampshire is considering a state [income tax](#).

Boosting sales tax collections is another way for state and local governments to ease budget pressures. This can be done by raising rates or expanding the sales tax base.

At least one state is increasing rates: South Dakota will allow its state sales tax rate to return to 4.5% from 4.2% in 2027, and the additional 0.3% will feed a property tax reduction fund. South Dakota is also allowing counties to raise local taxes to fund property tax relief.

Other states are looking to tax more goods and services. Though services now make up [“the bulk of economic activity”](#) for the U.S. economy, the sales tax base in most states still centers on tangible personal property. Furthermore, many states haven’t updated their sales tax codes to address the digital services businesses and individuals now use daily.

“Broadening the sales tax base to include more services and digital transactions is one of the clearest trends in state tax policy,” says Amanda Denniston, Government Relations Manager at Avalara. “Many state tax systems haven’t kept pace with how consumers spend their money today, and as budget pressures persist, more states are likely to pursue these changes in 2026 and beyond to better align their tax codes with the modern economy.”

AMANDA DENNISTON

Government Relations  
Manager at Avalara

“Broadening the sales tax base to include more services and digital transactions is one of the clearest trends in state tax policy.”



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# New and proposed sales tax requirements

No two states are looking to enhance sales tax collections in quite the same way, but many are eyeing transactions involving:

- Artificial intelligence
- Digital goods and services
- Digital advertising and social media
- Data centers
- Personal, professional, and recreational services

**“Avalara keeps us in compliance with the ever-changing tax rules. States continue to make changes and Avalara keeps us informed and up to date on these changes. Having them as part of our team gives us confidence in how we are doing business.”**

**—Kurt Toliver, Chief Financial Officer, Asurvio, LP**

Industry: Software

## Taxing artificial intelligence and new technologies

Most 2026 bills related to AI focus on governance issues, not tax. However, Michigan House Speaker Matt Hall is interested in [taxing AI services](#), and New York introduced a [Robot Tax Act](#) that would tax certain businesses that displace people with AI. Enforcing such a tax could be complicated.

Two states explicitly addressed the taxability of AI products and services for specific taxpayers in 2025. In July, the Indiana Department of Revenue decided the [generative AI chatbot services](#) provided by one out-of-state company were not subject to Indiana sales tax. The Illinois Department of Revenue reached a similar [conclusion](#) a couple of months later.

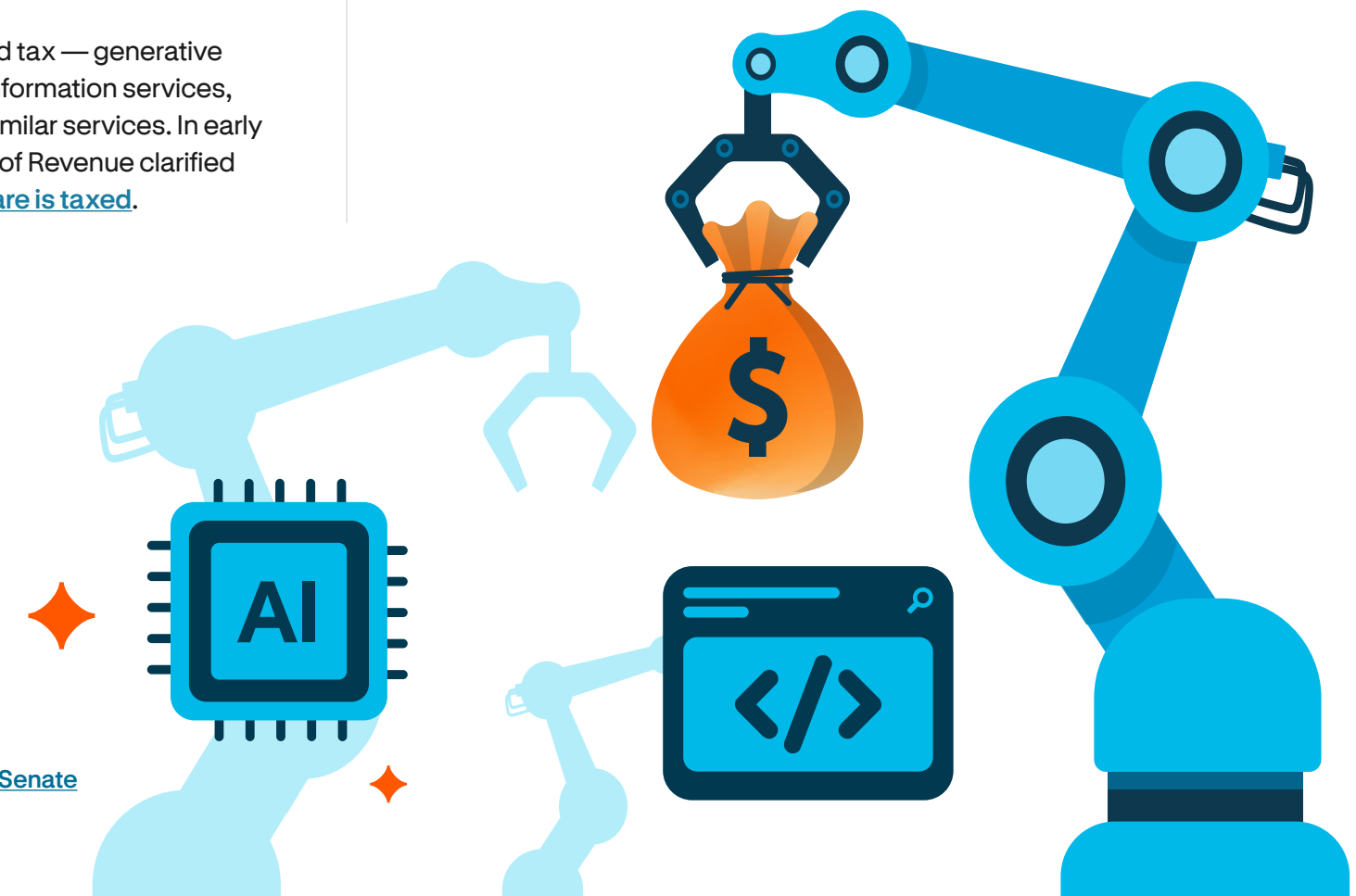
Other states will categorize — and tax — generative AI as data processing services, information services, software as a service (SaaS), or similar services. In early 2026, the Kentucky Department of Revenue clarified that [AI doesn't affect how software is taxed](#).

Source: [The New York State Senate](#)



## THE ROBOT TAX ACT

The act would impose a tax on businesses when people are displaced from their employment due to certain technologies, such as “machinery, artificial intelligence algorithms, or computer applications.”



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That sort of clear guidance is extremely helpful for businesses. With any luck, additional states will start providing it.

“Guidance from states on emerging trends is critical for taxpayers, especially as AI represents a transformative shift in the software industry,” says David Lingerfelt, Senior Director of Indirect Tax at Avalara. “As AI adoption accelerates, it will likely push states to broaden their tax base to include services delivered electronically to prevent erosion of traditional sales tax revenues.”

### DAVID LINGERFELT

Senior Director of Indirect Tax at Avalara

“As AI adoption accelerates, it will likely push states to broaden their tax base to include services delivered electronically to prevent erosion of traditional sales tax revenues.”

Today, states generally tax software based on three factors: 1) what it is (prewritten vs. custom); 2) how it’s delivered or accessed; and 3) which rights are transferred (terms of use). “All these are grounded in the legal distinction between a sale of property and a limited license or service,” explains Lingerfelt. “AI does not fundamentally change delivery: Most AI offerings are still accessed via SaaS, APIs, or related frameworks like model context protocols (MCPs), which structure how models interact with data and tools. However, AI significantly complicates the terms of use and custom vs. prewritten distinctions.”

Lingerfelt further explains that with AI, customers aren’t truly licensing software in the traditional sense: They submit inputs and receive outputs. “Historically, custom software meant code built or modified for a specific customer. In contrast, AI enables highly customized outputs using the same underlying model for all users. Techniques such as prompt engineering, fine-tuning with customer-specific data, and retrieval systems (e.g., vector databases) fall into a gray area: They are more than simple configuration but do not rise to the level of new, customer-specific code. Increasingly, the ‘custom’ element lies in the output rather than the software itself.”

Recent guidance like that from Kentucky reflects this shift by treating AI-powered offerings as prewritten software, with customization viewed as configuration rather than true custom development. “The more significant policy inflection point will come as states move beyond software classifications altogether and expand the definition of taxable digital services to include services delivered electronically,” Lingerfelt says.



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## Taxing digital goods and services

While a few states have started to address the taxability of emerging AI, others are still clarifying whether and how to tax the digital goods and services used by businesses and individuals for more than a decade.

Utah sales tax has applied to “products transferred electronically” for years. The enactment of [Senate Bill 162](#) in March 2026 clarifies that sales and use tax applies to the following digital goods and services starting July 1, 2026:

- Digital products, including digital audiovisual works, audio, books, and gaming services — streamed or accessed by subscription — regardless of delivery method or whether access is one time or ongoing
- Prewritten software, including software delivered electronically, by load-and-leave, or hosted by the seller (SaaS), regardless of whether the access is permanent or any downloading occurs

On August 4, 2026, Missouri [voters will decide](#) whether to 1) phase out the income tax, and 2) authorize lawmakers to end exemptions for digital goods and numerous services. In 2016, Missouri voters [prohibited the state from expanding sales tax](#) to goods and services that were not taxable as of January 1, 2015. It will be interesting to see if their opinions have changed.

Kansas also considered [legislation](#) that would reduce income tax, privilege tax, and property tax revenue and increase sales tax collections by [eliminating certain sales tax exemptions](#). Digital products and services are obvious targets.

Tax bills don’t always make it into law, of course. In both [2024](#) and [2026](#), for example, Virginia lawmakers tried and failed to tax digital personal property, and various services. Yet legislation isn’t the only tool states are using to tax additional types of transactions.

A [2025 ruling](#) by the State of New York Court of Appeals will almost certainly increase the number of information services subject to New York sales and use tax, and a January 2026 ruling by the State of New York Supreme Court, Appellate Division, will likely have a similar effect on services reliant on prewritten software. In the [Matter of Beeline.com, Inc. v. State of New York Tax Appeals Tribunal](#), the Appellate Division determined the true object of the transaction was the taxable prewritten software, not the exempt staffing service.

“The Beeline decision is certainly an important case,” observes Argi O’Leary, Principal Advocacy Practice at Ryan, LLC. “Not for the clarity it offered, but for the continued muddiness it has injected into the taxation of services delivered online where software is a component of how the service is delivered.”

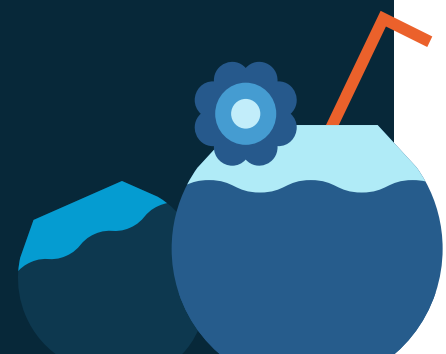
O’Leary says the Appellate Division danced around whether a primary function analysis is required. “As a result, the Department of Taxation and Finance is emboldened to tax services with any software component, no matter how insignificant. This is already leading to service providers overcollecting tax on their sales of nontaxable services because of the fear of receiving a large sales tax assessment years later.”

There’s an important case underway in Colorado too. The [Colorado Supreme Court](#) has agreed to weigh in on whether Netflix streaming services are subject to the state’s tax on retail sales of tangible personal property. So far, the courts have been split.

ARGI O’LEARY

Principal Advocacy Practice  
at Ryan, LLC

“The Beeline decision is certainly an important case. Not for the clarity it offered, but for the continued muddiness it has injected into the taxation of services delivered online where software is a component of how the service is delivered.”



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## Taxing digital advertising and social media

After **Maryland** enacted the country's first [digital advertising tax](#) in 2022, other states watched to see what would happen. The tax was immediately challenged, and in mid-2025, the courts overturned a provision preventing businesses from passing the cost of the tax on to customers. But since the tax itself remains in effect, at least for now, the floodgates have been opened.

**Utah** is taking an aggressive approach to taxing emerging areas of the digital economy, enacting multiple new (and likely contested) measures.

Starting January 1, 2027, Utah's [targeted advertising gross receipts tax](#) applies to large digital advertising companies that derive at least 50% of their total gross receipts from targeted advertising activities and have:

- At least \$1 million in gross receipts from targeted ads delivered in Utah; and
- At least \$100 million in gross receipts from targeted digital ads worldwide.

**Avalara AvaTax has a new feature that allows customers to add gross receipts taxes. The tax record is stored in the core content, and customers can select the tax record and create a custom rule to recover the tax on a transaction-by-transaction basis.**

And effective October 1, 2026, Utah will impose the first-ever state excise tax on certain entities that provide [material harmful to minors](#) (aka, content designed to appeal or pander to “the prurient interest”). The tax equals 2% of charges for access to digital images, video, audio, books, or gaming services by a commercial entity required to perform age verification.

On June 1, 2026, the **Illinois** Legislature passed a [budget bill](#) that includes a digital advertising tax and a tax on social media platforms. If the governor signs it, as expected, these taxes will come into effect on January 1, 2027.

Lawmakers in [California](#), [Massachusetts](#), [Minnesota](#), [New York](#), [Pennsylvania](#), and [Rhode Island](#) are among the states considering digital advertising taxes in 2026, and in December 2025, a bill seeking to establish a [federal digital ad tax](#) was introduced in Congress. Taking a slightly different approach, **Washington state** extended sales tax to digital and certain nondigital advertising services on October 1, 2025.

The nation's first *local* social media advertising tax (SMAT) took effect in **Chicago** on January 1, 2026. The [Chicago SMAT](#) is already being challenged on the [grounds](#) that it violates the First Amendment, the Commerce Clause, the Internet Tax Freedom Act, and the Illinois Constitution. Nevertheless, **Minnesota** Governor Tim Walz is pursuing a [statewide SMAT](#).

“Although these social media advertising taxes are expected to be challenged, absent court injunctions preventing their implementation, taxpayers will be faced with difficult compliance challenges, including what content is subject to the tax and how to source activity occurring within a jurisdiction's borders,” says O’Leary. “Legislators should also be cautious

about projecting the fiscal impact of this type of legislation. Maryland's digital advertising tax was projected to raise \$250 million annually; but as of last August, the University of Maryland reported the tax was only raising about \$90 million per year, and Maryland may have to refund what it has collected if court challenges are successful.”

## STATES CONSIDERING DIGITAL ADVERTISING TAXES IN 2026



Sources: [California](#), [Massachusetts](#), [Minnesota](#), [New York](#), [Pennsylvania](#), [Rhode Island](#), and [Congress.gov](#)

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Taxing data centers (or not)

Should states encourage or prevent data center expansion through tax policy? The rapid expansion of data centers has become a contentious issue, with some people welcoming the economic opportunities new data centers can bring, and others firmly opposed to having them in their backyard.

According to the NCSL, at least 38 states currently offer [incentives](#) to data centers, including sales tax exemptions and property tax abatements. Some of those tax breaks are now on the chopping block, as the following examples show.

**Alabama** [reduced tax breaks for data centers](#), in part by limiting property tax abatements and requiring large facilities to pay sales and use taxes on their purchases.

**Maine** is [ending personal property tax relief](#) and certain other tax incentives for data centers beginning operations on or after August 1, 2026.

The **Virginia** Legislature passed several bills to rein in sales and use tax exemptions for data centers that have cost the state billions (about [\\$1 billion](#) in fiscal year 2024 alone), but the [governor pushed back](#).

**Washington** state narrowed its sales and use tax exemptions for data centers with the enactment of [SB 6231](#). Effective July 1, 2026, Washington is ending a sales tax break on equipment and labor required to refurbish existing data centers. It's preserving tax benefits for new facilities.

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## Taxing personal, professional, recreational, and industry-specific services

Kentucky will [tax data brokering services](#) starting August 1, 2026, thanks to the enactment of House Bill 757.

Michigan could [extend sales tax](#) to *professional services* like environmental consulting, limousine services, newspaper publishing, private jets services, and political advertising; *recreational services* like country club memberships, marina services, performing arts, skiing, and golf; and *industry-specific services* like tourism and travel agencies.

A [tax omnibus bill](#) in Minnesota would lower the state sales and use tax rate to 6.425% and expand the sales and use tax base to include accounting services, banking and brokerage services, and legal services — when purchased by a person other than a trade or business. Certain tax preparation services would remain exempt.

Nebraska introduced [legislation to tax specific items](#), such as agricultural chemicals, candy and soda, and manufacturing machinery. [Another bill](#) sought to tax a wide range of services. However, neither bill made it to law before the Legislature adjourned in mid-April.

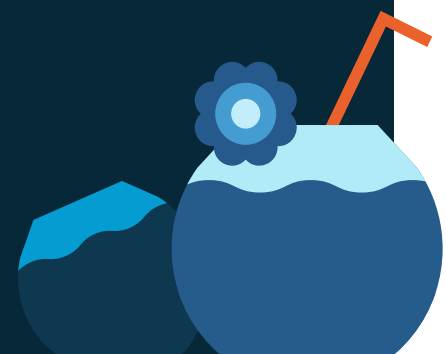
Washington is exempting some services that became taxable last October. Starting July 1, 2026, the following services are exempt from sales and use tax when sold to [libraries and schools](#): custom website development; custom software and customization of prewritten software; information technology services; investigation, security, and armored car services; live presentations; and temporary staffing. As of the same date, Washington is expanding an exemption for temporary staffing services for [staff provided to hospitals](#).

Sifting through all the legislation, regulations, and rulings that shape tax compliance is an enormous undertaking. Using an agentic AI tool like Avi for Tax Research can help. A conversational, AI-powered agent embedded directly within Avalara Tax Research, Avi is designed specifically for tax research. “Avi for Tax Research leverages millions of Avalara tax content data points, most of which are not available on the web,” explains Albert Boulus, Lead Product Manager at Avalara. “This allows Avi to deliver accurate and reliable responses, grounded in trusted sources.”

ALBERT BOULUS

Lead Product Manager  
at Avalara

“Avi for Tax Research leverages millions of Avalara tax content data points, most of which are not available on the web.”



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# Pennies and swipe fees

Though many 2026 sales tax changes pertain to AI, data centers, digital advertising, digital products, social media, and services, states are also changing other more operational types of sales tax policies. Pennies and swipe fees come to mind.

## Penny rounding

The United States Mint produced the nation's last penny on November 12, 2025. As a result, retailers occasionally find themselves unable to make exact change and unsure of what to do when this situation arises. [How does rounding up or down affect sales tax?](#) States are still sorting it out.

At least eight states have passed laws establishing rounding rules and sales tax guidance, and many others have legislation pending. Absent legislation, state departments of revenue are publishing advice. States generally hold that when rounding to the nearest nickel is necessary, it should not alter the sales tax calculation itself.

“When addressing the penny shortage, state legislatures (and/or the U.S. Congress) should avoid making the collecting of taxes and fees more burdensome,” advises the [Council on State Taxation](#). It recommends that states not mandate different rounding rules for cash and noncash transactions, as some have proposed. It also advises states not to require sellers to post rounding notices, as some already do.

## Swipe fees

Another trend relates to swipe or interchange fees, the fees charged by a payment card network for the purpose of compensating the issuer for its involvement in an electronic payment transaction.

Numerous states are looking to [prohibit credit card interchange fees on the sales tax](#) and/or gratuity portion of a card transaction. Illinois started this trend in 2024 when it passed a law prohibiting interchange fees on taxes and tips. Alabama has taken a different approach: It's [excluding credit card transaction fees](#) from the sales and use tax base starting September 1, 2026.

“If the Illinois law is allowed to stand and other states pass similar laws, sales tax data will need to be included in payment card transaction flows,” explains Ben Beaudoin, VP of Tax at Avalara. “This would require including sales tax amounts for each transaction throughout the payment card ecosystem. Since this information probably isn't being collected today, the change will likely be burdensome for payment card networks and sellers.”

Beaudoin adds that this issue is unlike other sales tax issues. “It's not about taxability. It's about governments deciding the portion of a transaction on which interchange fees may legally be charged. These policies may require sellers to provide timely and accurate sales tax amounts on a transaction-by-transaction basis when processing card payments. Avalara AvaTax has been designed to do that quickly and accurately.”

## STATES CONSIDERING PROHIBITING SWIPE FEES ON TAXES



Sources: [Alaska](#), [Arizona](#), [California](#), [Colorado](#), [Georgia](#), [Indiana](#), [Iowa](#), [Kansas](#), [Massachusetts](#), [New Jersey](#), [New York](#), [North Carolina](#), [Oklahoma](#), [Pennsylvania](#), [Rhode Island](#), [South Carolina](#), [Tennessee](#), [Texas](#), [Vermont](#), [Virginia](#), [Washington](#), [Washington, D.C.](#), and [West Virginia](#)

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# Online sales tax changes

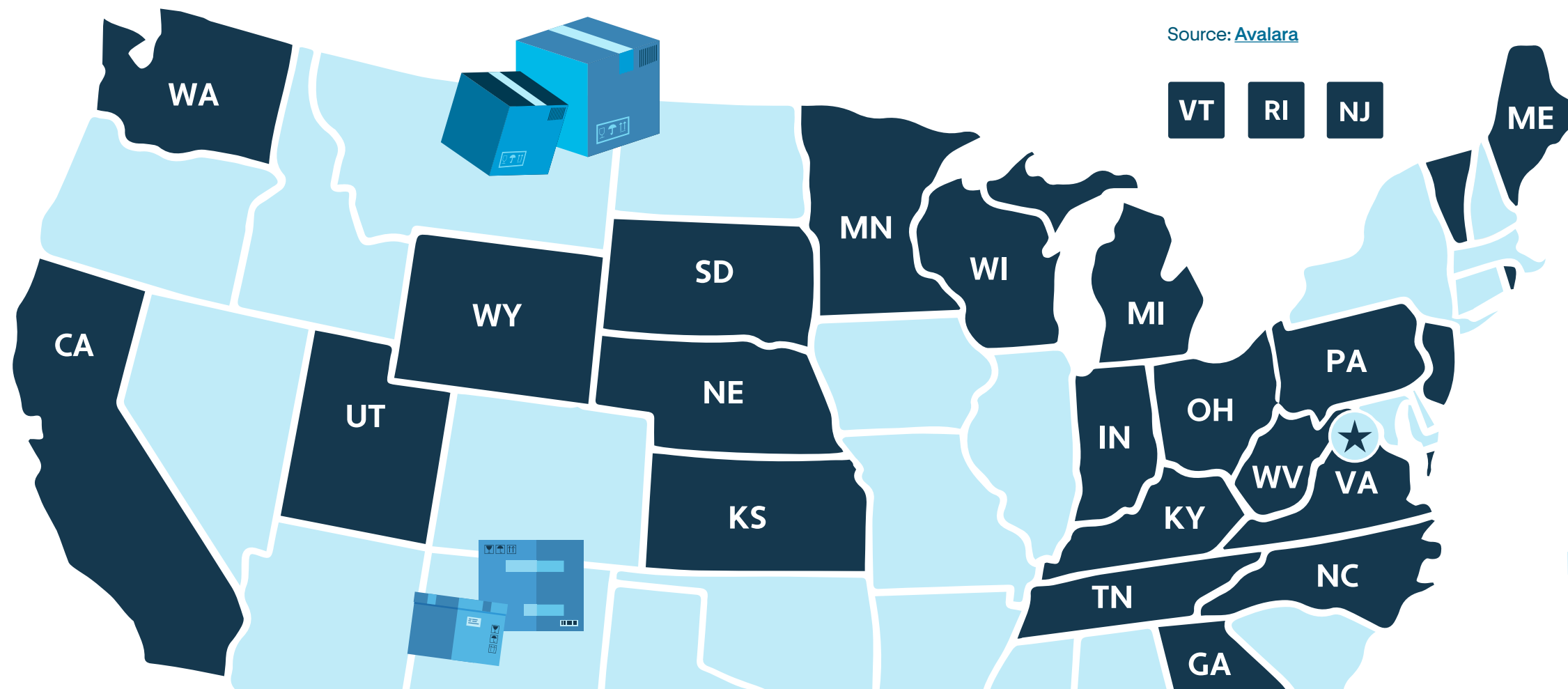
In addition to grappling with new issues like the disappearing penny or the taxability of interchange fees, states continue to modify requirements for remote online sellers and marketplace facilitators.

Illinois [got rid of its economic nexus transaction threshold](#) effective January 1, 2026. Remote sellers and marketplace facilitators no longer need to count the number of times they sell goods to Illinois consumers; they just need to know when their cumulative gross receipts from sales of tangible personal property to purchasers in Illinois reach \$100,000.

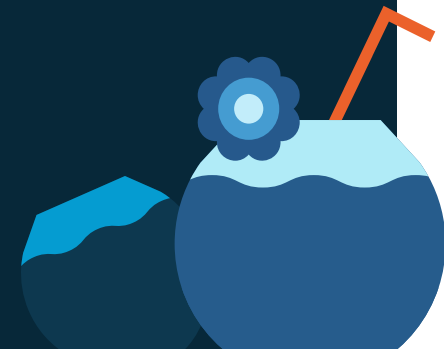
Kentucky will [remove its remote seller transaction threshold](#) as of August 1, 2026. New Jersey lawmakers have talked about [eliminating the state's 200-transaction threshold](#) since 2024, and the idea is being discussed in Michigan too. All three states are members of Streamlined Sales Tax (SST), an organization created to simplify and modernize sales and use tax administration and reduce the burden of compliance. [SST recommends member states do away with the transaction threshold.](#)

“Avalara connects directly to the ecommerce platforms and marketplaces our customers use, helping them track where they’re making sales and automatically

applying the right rates, rules, and product taxability based on marketplace facilitator requirements,” explains Danny Fields, EVP and Chief Technology and Customer Operations Officer at Avalara. “We automatically alert customers when they’re approaching economic nexus thresholds and point them to sales-by-jurisdiction reporting and automated registration as next steps. With Avalara AvaTax, automated returns, and Avalara Agentic Tax and Compliance™ — our network of AI agents that monitor data, surface risks, and execute tax tasks like registrations, filings, and remittances — online sellers can manage multistate sales tax compliance at scale without adding headcount.”



**20+**  
states indicate marketplace inventory can create physical presence nexus



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The Nevada Tax Commission is working to [clarify requirements for marketplace facilitators and sellers](#). In addition to defining certain terms, the draft regulation lists the responsibilities of marketplace facilitators and sellers, explains when marketplace sellers are required collect and remit sales and use tax or file returns, and establishes refund procedures for marketplace transactions.

California is also interested in marketplace transactions. In two separate cases, the California Office of Tax Appeals (OTA) ruled that out-of-state marketplace sellers are liable for the state's minimum franchise tax — and in one case income tax — based on their participation in Amazon's Fulfillment by Amazon (FBA) program. The key takeaway: [Storing inventory and making sales](#) may be enough to establish taxable business activity in California.

### DIANE YETTER

Founder of the Sales Tax Institute and President and Founder of YETTER Tax

“California has taken the position that any inventory in the state — whether controlled by a marketplace or the seller — creates physical presence in California for all tax types.”

Diane Yetter, Founder of the Sales Tax Institute and President and Founder of YETTER Tax, says these rulings were expected. “California has taken the position that any inventory in the state — whether controlled by a marketplace or the seller — creates physical presence in California for all tax types. This has been a sales tax issue for years, creating significant liabilities for businesses and prior cases questioning who's responsible for the collection of sales tax for periods prior to enactment of California's Marketplace Facilitator Act in October 2019.”

Marketplace inventory has been at the center of litigation in **South Carolina**, as well. In March 2026, the South Carolina Supreme Court ruled that [Amazon owes \\$12.5 million in sales tax](#), interest, and penalties on third-party sales made during the first three months of 2016. This was before the state's marketplace facilitator law took effect on [April 26, 2019](#).

Amazon began collecting South Carolina sales tax on January 1, 2016, because it had a physical presence in the state, and a temporary exemption created in 2011 to encourage that presence had expired. Shortly afterward, the Department of Revenue discovered that while Amazon was collecting tax on its direct and affiliate sales, it wasn't collecting tax on third-party sales.

In December 2016, the Department of Revenue sent Amazon a proposed assessment for more than \$9.8 million in sales and use tax, plus penalties and interest, for third-party sales made in Q1 2016. The company [fought the assessment](#), arguing that the marketplace sellers were the retailers liable for the tax. The courts consistently found Amazon to be the deemed retailer responsible for collection of the tax.

“If there was ambiguity in the law, the court would have needed to find in favor of Amazon,” observes Yetter, who's closely followed this important case since it began. She adds that Amazon could end up owing South Carolina a lot more than \$12.5 million because

the assessment only covers one quarter of 2016. “Assessments exist for all subsequent periods until Amazon began collecting as a marketplace in April 2019.”

But we're still not sure Amazon will have to pay up. On April 17, 2026, Amazon filed a petition for a rehearing with the South Carolina Supreme Court. Their argument is that the court incorrectly interpreted the state's sales tax law, as it didn't consider the entire statute when crafting its option. The court has asked the Department of Revenue for its reply.

“This is an unusual path to take and rarely are these petitions effective,” explains Yetter. “Amazon will need to detail specific points of law or facts that the court overlooked or misunderstood. If this effort is unsuccessful, it is unknown at this point whether Amazon will appeal this to the U.S. Supreme Court. If it does, it would likely argue a violation of due process due to the retroactive application of the marketplace facilitator laws. Given no retroactive application of the law was a key determining factor in the South Dakota v. Wayfair decision in 2018, the South Carolina case would provide the U.S. Supreme Court an opportunity to review this issue and its implications for how states interpret and enforce its laws.”

A different sort of marketplace case is underway in **Georgia**, where the Department of Revenue handed Uber a bill for about \$22 million (later reduced to about \$9 million) in unpaid sales tax and penalties from 2018. The department determined Uber was liable for the tax under the state's taxicab regulation. Uber appealed to the Georgia Supreme Court, which on March 26, 2026, sent the [case back to the Court of Appeals](#) for reconsideration.

In addition to monitoring nexus and marketplace issues, online sellers and marketplace facilitators need to pay attention to applicable sales tax holidays and sales tax rate changes.



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# Sales tax holidays and rate changes

At least 23 states introduced legislation to amend existing sales tax holidays or create new tax-free periods in 2026, which isn't surprising given the rising costs of consumer goods. A handful of states also introduced legislation to change the state sales tax rate.

## Sales tax holidays

"Sales tax holidays are temporary, targeted, and highly visible," observes Amanda Denniston. "They tend to be popular among voters, but whether they actually provide the economic impact legislators claim they do is uncertain."

As of June 1, 2026, the following sales tax holiday changes were enacted:

- [Alabama](#) exempted groceries from state sales and use tax May 1 through June 30, 2026 (local sales taxes on food remained in effect).
- [Connecticut](#) increased the price cap from \$100 to \$300 and expanded eligibility to backpacks and cleated shoes.
- [Illinois](#) established a 10-day sales tax holiday for clothing and school supplies in August 2026, with a reduced tax rate on eligible items.
- [Mississippi](#) made firearm safes eligible for its Second Amendment tax-free weekend.
- [Ohio](#) canceled its expanded sales tax holiday but will offer a three-day back-to-school sales tax holiday.

- [Georgia](#) suspended gas tax March 20 through May 19, 2026.
- [Indiana](#) Governor Mike Braun announced a 30-day gas tax holiday on April 7, 2026.
- [Utah](#) reduced the tax on all motor fuel sold, used, or received between July 1 and December 31, 2026.

Other sales tax holiday proposals include temporary tax breaks for small businesses in [South Carolina](#), tangible personal property in [Rhode Island](#), and veterans in [Maryland](#). [Iowa](#) and [West Virginia](#) may increase price caps for existing sales tax holidays, and [Pennsylvania](#) lawmakers introduced 19 (!) different sales tax holiday bills. Gas tax holidays have been discussed in several states, including [Arizona](#), [California](#), [Connecticut](#), [Maryland](#), and [South Carolina](#), and Congress could suspend the 18.4-cents-per-gallon [federal gas tax](#).

The AI-powered research assistant within Avalara Tax Research can help businesses keep up with new and changing sales tax holidays.

"Avi for Tax Research makes tax research easier than ever by enabling natural language queries that surface relevant, location-specific answers instantly," says Albert Boulus. "Our curated tax content includes sales tax holidays, exemptions, and local rules, all in one place. Users don't have to piece together fragmented sources or guess if they're looking at current information."

**23+** STATES INTRODUCED SALES TAX HOLIDAY BILLS IN 2026

Sources: [Florida](#), [Georgia](#), [Minnesota](#), [New Mexico](#), [New York](#), [South Carolina](#), [West Virginia](#)



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“The AI-powered search in Avalara Tax Research has been a game changer, cutting my research time by more than 80%.”

—Dakota Cox, Accounts Payable, Averitt Express

Industry: Freight transportation, logistics, and supply chain management

Sales tax rate changes

State sales tax rate changes are far less common than local rate changes, but they happen. South Dakota is allowing a [temporary state sales tax rate reduction](#) to expire, so the state rate will increase from 4.2% to 4.5% effective [July 1, 2027](#). Oregon will [increase the state transient lodging tax](#) from 1.5% to 2.75% on January 1, 2027.

Several other states introduced legislation to change state sales tax rates in 2026. For example:

- Alaska SB 227 would implement a [statewide sales tax](#).
- Maryland HB0133 would increase income tax rates and [lower sales and use tax rates](#).
- Minnesota Governor Walz wants to [lower](#) the state sales tax rate (and broaden the sales tax base), but other lawmakers want to [increase](#) it.

- New Jersey [S2466/A2702](#) would lower the state rate from 6.625% to 6%.
- Virginia [HB 900](#) would lower the sales and use tax rate from 4.3% to 4% and broaden the sales tax base.

Applying the correct rate to every transaction is critical. Amazon is currently facing two potential class action lawsuits over sales tax: one for charging [Tennesseans](#) a sales tax rate of 9.5% instead of 9.25%; another for improperly charging [Floridians](#) sales tax on items that had become sales tax exempt. And, after incorrectly [applying sales tax to exempt items in New Jersey](#), the online clothing company Skims Body Inc. agreed to pay a civil penalty of \$200,000 (and to update its sales tax systems). It’s also taking steps to identify and reimburse impacted customers.

ALASKA’S PROPOSED SEASONAL SALES TAX

Source: [Avalara](#)

The higher tax rate reflects the months of peak tourism and would take effect January 1, 2027, on personal property and services. It would expire in 2034.

“We trust Avalara over AI/ ChatGPT to look up tax rates because Avalara knows our business. We’re partners in ensuring that we collect and remit the right sales tax at the right time and place.”

—Patty Martyn, Tax/Accounting Manager, ClickBank  
Industry: Ecommerce

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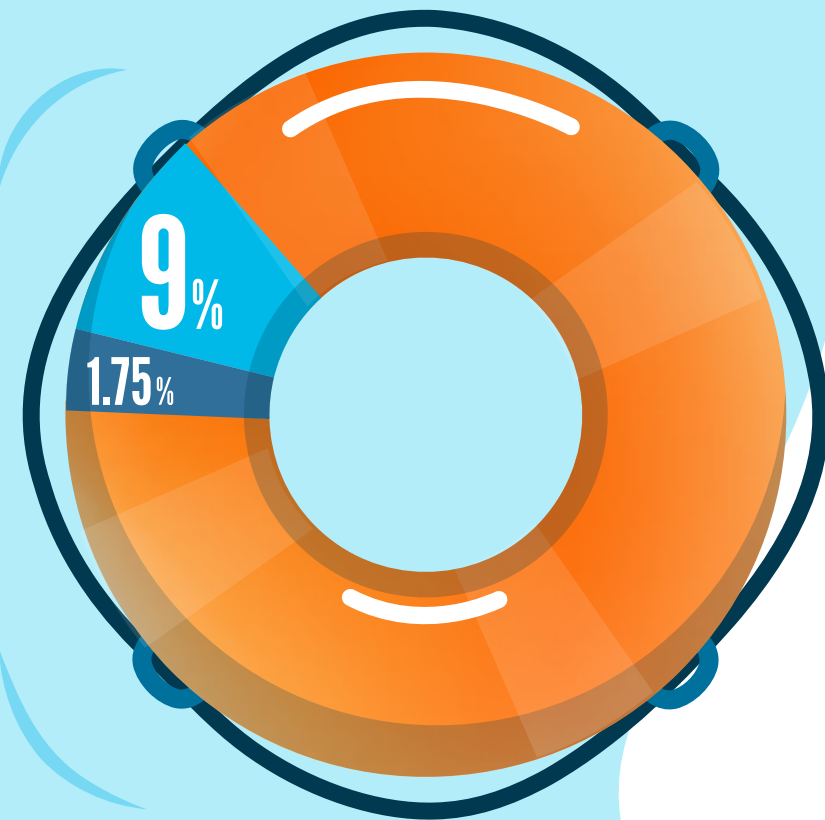
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ILLINOIS  
REMOTE RETAILER  
AMNESTY

AUGUST 1–OCTOBER 31, 2026



- 1.75% tax rate on qualifying food and medical items
- 9% simplified retailers' occupation tax rate on tangible personal property

Applies to sales made between January 1, 2021, and June 30, 2026.

## Tax relief and compliance opportunities

Several states have offered, are offering, or are about to offer [tax amnesty programs](#) to encourage businesses with outstanding tax obligations to report and pay those taxes. The states could use the extra money.

**New Hampshire** ran a tax amnesty program from December 1, 2025, through February 15, 2026. It brought in more than [\\$103 million](#), according to the New Hampshire Department of Revenue Administration, far exceeding expectations.

**Indiana** is offering a general [tax amnesty program](#) July 15 through September 9, 2026, under a bill enacted in 2025. Earlier this year, the Legislature passed [a law extending eligibility](#) for the program by one year, which [could increase revenue](#) by \$15 million to \$55 million.

**Illinois** will offer a [remote retailer tax amnesty program](#) August 1 through October 31, 2026. Qualifying retailers will pay the 9% simplified retailers' occupation tax rate on tangible personal property and a 1.75% tax rate on food and medical sales made between January 1, 2021, and June 30, 2026. The state provided a more general tax amnesty program in the fall of 2025, which generated about [\\$240 million](#).

**Washington** ran an [international remote seller voluntary disclosure program](#) from February 1 through May 31, 2026. It's also temporarily waiving penalties for qualifying businesses that failed to collect sales and use tax and retailing B&O tax on [the services that became taxable October 1, 2025](#); applications for this voluntary disclosure program are due by September 30, 2027.

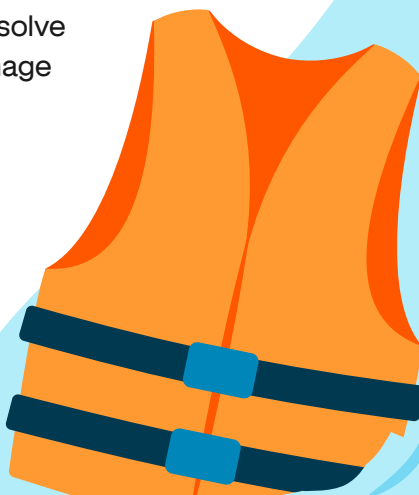
Source: [Illinois Department of Revenue](#)

Finally, the **Guam** Department of Revenue and Taxation has been authorized to provide a [tax amnesty program](#) for taxes due in 2025.

Whenever a state enacts an amnesty program or a voluntary disclosure program, Diane Yetter recommends every taxpayer — registered or unregistered — learn about the program and decide whether they have any liability that could qualify for resolution. “A major difference between an amnesty program and a voluntary disclosure program (VDP) is that registered as well as unregistered taxpayers can participate in a tax amnesty program, while in most states only unregistered businesses can participate in VDPs.” Penalty abatement is typically included in both types of programs, but amnesty programs also usually include partial if not full interest abatement.

Amnesty programs typically have a longer lookback period than voluntary disclosure programs, according to Yetter, and tend to require full payment within the (usually shorter) amnesty program filing period. “There are some exceptions to this, such as the current Washington amnesty program for foreign remote sellers. This is an amazing opportunity for any companies headquartered outside of the 50 United States, as it only requires a 12-month lookback for sales/use tax.”

State tax relief programs can help businesses settle outstanding state tax liabilities, yet they don't resolve compliance issues related to tariffs. To truly manage risk, companies that buy and sell internationally need to be able to quickly and correctly address cross-border tax changes.



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# Tariff turmoil and global trade shifts

Tariffs have caused a lot of businesses a lot of compliance pain since President Trump returned to the Oval Office, largely due to the volume and speed of policy changes. [Between January 20, 2025, and June 2, 2026](#), Trump issued 42 executive orders, four memoranda, and 13 proclamations related to trade and tariffs.

The [tariff turmoil](#) continues in 2026.

For one thing, the Trump administration hasn't given up on tariffs. Shortly after the Supreme Court of the United States ruled that the International Emergency Economic Powers Act ([IEEPA does not authorize the president to impose tariffs](#)) (February 20, 2026), the administration implemented a temporary 10% global tariff under Section 122. These will expire July 24, 2026, unless Congress extends them.

The [Section 122 tariffs were challenged](#) almost immediately after taking effect, and on May 7, 2026, the Court of International Trade found them to be invalid. The court issued a permanent injunction for three plaintiffs but didn't strike down Section 122 tariffs for everyone. Resolution will take time.

In the meantime, the administration has initiated dozens of [Section 301 investigations](#) into more than 60 countries plus the EU. These investigations could lead to new country-specific tariffs like those previously imposed under IEEPA. And on April 2, 2026, the one-year

anniversary of Liberation Day, the president invoked Section 232 to establish a [100% tariff on certain patented drugs](#) and to amend [tariffs on aluminum, copper, and steel products](#).

"Global trade is constantly changing, making it critical for businesses to stay current on how goods are taxed," observes Albert Boulus. "Avalara Tax Research provides access to up-to-date trade intelligence — including tariff rates, rules, and restrictions — so teams can plan confidently and make informed decisions."

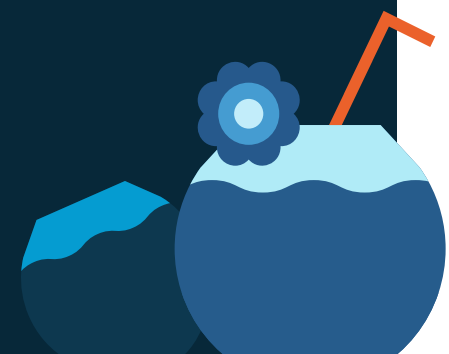
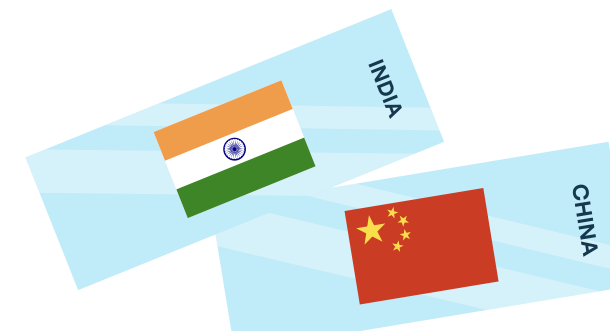
While the administration pursues new tariffs, the federal government is dealing with the IEEPA tariff refunds.

60+

COUNTRIES ARE SUBJECT TO THE SECTION 301 INVESTIGATIONS LAUNCHED IN MARCH 2026

UNITED STATES OF AMERICA

Source: Federal Register



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## Refunds or bust

Refunding approximately \$166 billion in IEEPA duties is an enormous undertaking. Indeed, U.S. Customs and Border Protection (CBP) needed to develop new functionality in the agency’s Automated Commercial Environment (ACE) — the Consolidated Administration and Processing of Entries (CAPE) — to process refunds at that scale. Phase one was activated on April 20, 2026, and according to [CBP](#), valid IEEPA refunds will generally be issued within 60 to 90 days of acceptance of CAPE declaration. [Read about how to request tariff refunds](#) for the latest developments.

Companies using [Avalara international trade compliance solutions](#) are well positioned to pursue IEEPA tariff refunds with the ability to identify impacted entries, quantify duties paid, and assemble the documentation needed to support refund claims. As Boulus notes, “Avalara Tax Research includes a built-in classification tool that helps identify the correct HS code for each product, along with an audit-ready report that clearly documents how each classification was determined.”

### Consumers want tariff refunds now

While CBP works to refund IEEPA duties, some businesses are being sued for collecting them in the first place.

Consumers are [pursuing class action lawsuits](#) against logistics providers that collected itemized tariff surcharges as well as retailers that raised prices in response to the IEEPA tariffs. The complaints charge that the companies unjustly enriched themselves by collecting the now-invalidated tariffs. At least five class actions have been filed in federal district courts, and more lawsuits could emerge. It’s messy.



“All of the recent actions, including the IEEPA tariffs, refunds, and lawsuits, underscore how important it is to have accurate trade data,” says Craig Reed, GM of Cross-Border at Avalara. “With the administration hinting at new Section 232 and 301 tariffs and other avenues to reinstate the spirit of the IEEPA tariffs, it’s more important than ever to ensure that you have accurate trade information. Avalara has the tools, services, and resources to ensure you can meet any new requirements with confidence.”



## Down with de minimis

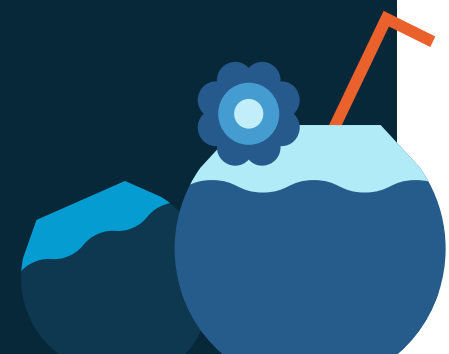
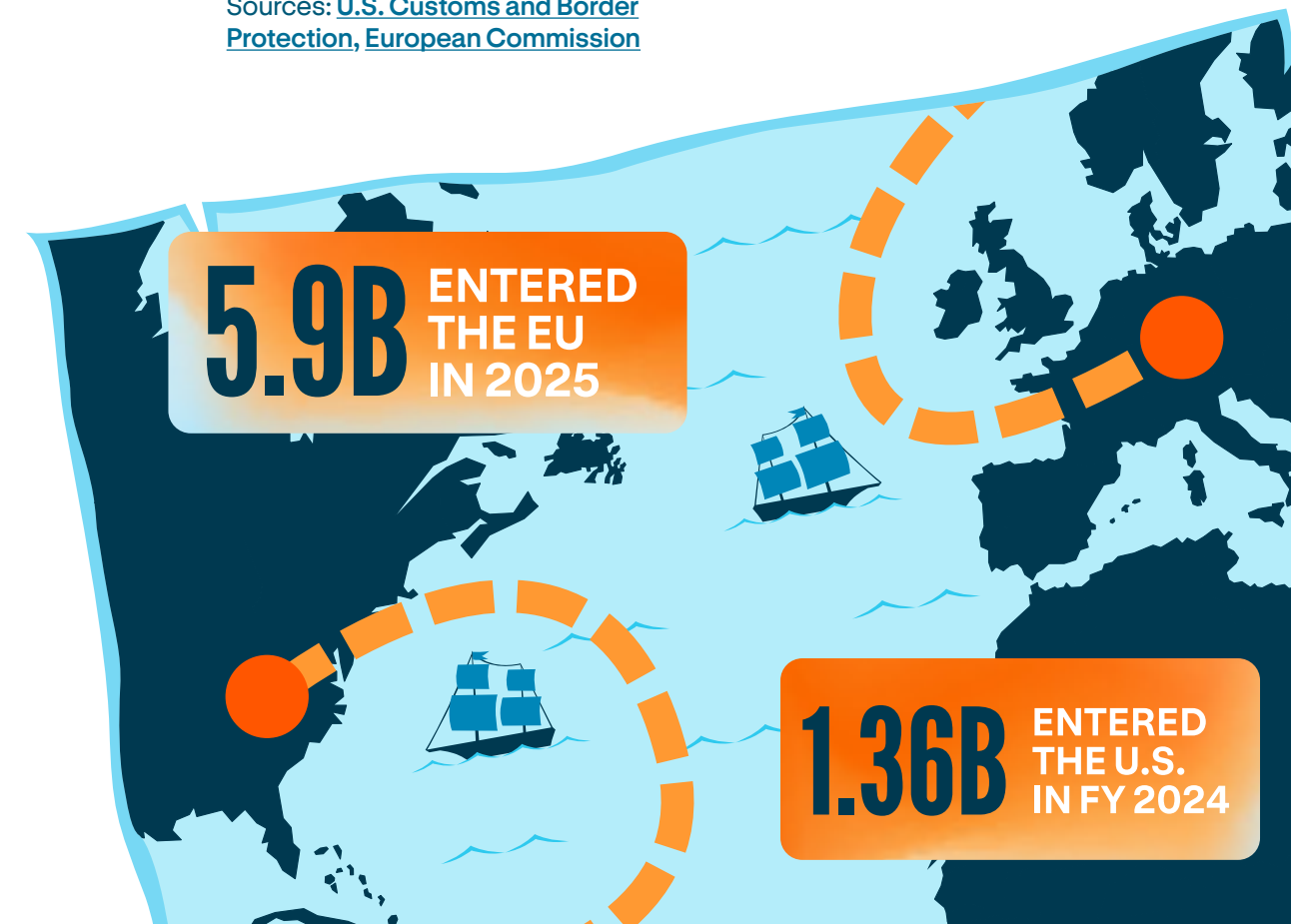
Another hot topic for cross-border trade in 2026 is de minimis — a set value below which imports can enter a country without incurring duties or taxes.

The United States suspended its \$800 [de minimis](#) exemption in 2025, first for China, then for all countries. In February 2026, President Trump [extended the suspension of de minimis](#).

As low-value postal shipments are subject to all applicable duties, all goods entering the U.S. must be assigned the appropriate 10-digit HTSUS code and country of origin, along with other data elements.

## DE MINIMIS SHIPMENTS

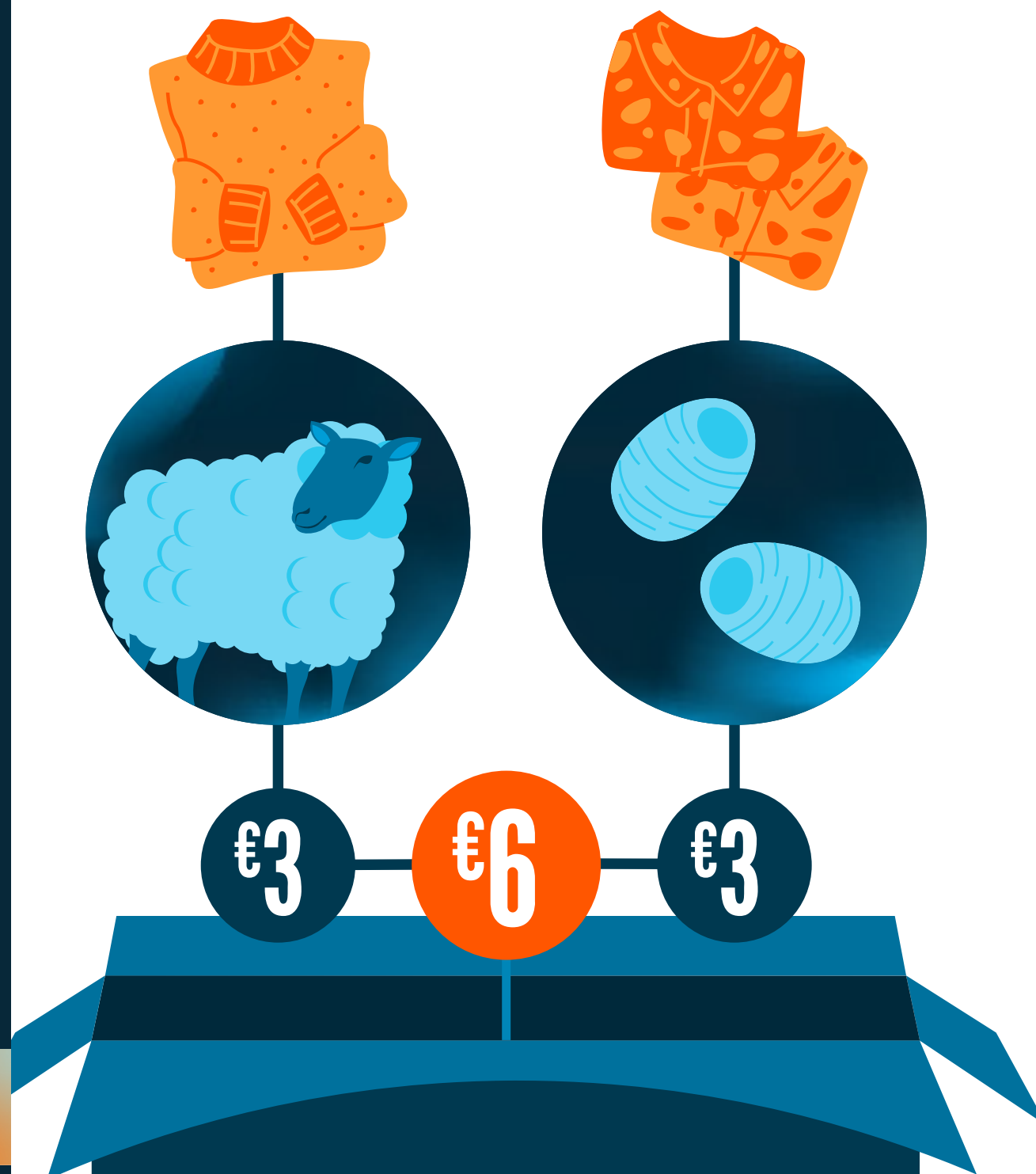
Sources: [U.S. Customs and Border Protection](#), [European Commission](#)



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### FLAT RATE CUSTOMS DUTY

A parcel contains 1 blouse made of silk and 2 blouses made of wool. Due to their different tariff subheadings, the parcel contains two distinct item types and €6 in customs duty should be paid.

Source: [European Commission](#)



Other countries are also eliminating their de minimis exemptions or placing fees on low-value goods, in part because after the U.S. ended de minimis for China in May 2025, China shifted its focus to the rest of the world. Thus:

[Thailand](#) dropped its de minimis threshold from 1,500 baht to 1 baht on January 1, 2026, essentially eliminating it.

The [European Council](#) is introducing a flat rate customs duty on items valued at less than €150 starting July 1, 2026. The €3 duty will be levied on each different category of item in a low-value parcel, identified by tariff subheadings.

The EU is also working to impose an additional per-parcel [handling fee](#) on low-value packages no later than November 1, 2026; the value is to be determined but €2 has been discussed. In the meantime, member countries may impose their own parcel fees. It will create a single EU customs data hub and eventually [eliminate de minimis](#) for parcels valued at under €150.

[Italy](#) implemented a €2 small parcel fee on January 1, 2026, but after discovering that importers were rerouting packages to other destinations in the EU to avoid the fee, [Italy suspended the fee](#).

[France](#) implemented a €2 fee on parcels valued less than €150 on March 19, 2026. It's set to expire when the EU fee takes effect.

The United Kingdom is expected to end its exemption for goods valued less than £135 by [March 2029](#).

“Ending de minimis is forcing global sellers to move from ‘ship fast and cheap’ to ‘ship compliant and predictable,’ as duties now apply to low-value goods,” observes Shane Bogdan, Director of Cross-Border Sales at Avalara. “This increases cost pressure and operational complexity, making landed cost transparency and automation critical to protect margins and avoid customer friction.”

Avalara helps businesses assign the correct tariff code to each and every product shipped from one country to another, improving international tax compliance.

**“The Self-Serve Tariff Code Classification tool has transformed the way our merchants approach international shipping. It’s an easy, accurate, and cost-effective solution that has streamlined the process, enabling our customers to expand their operations without the fear of customs-related complications.”**

—Shea Felix, Vice President, GlobalPost International

Industry: Logistics and international shipping

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# Looking ahead

This midyear update highlights the latest trends shaping sales tax and tariffs. We cover tax policy changes more thoroughly in our full annual Avalara Tax Changes report and on-demand webinars. Visit the Avalara Tax Desk blog for the freshest news.

[READ THE FULL REPORT](#)[WATCH A WEBINAR](#)[EXPLORE THE BLOG](#)

## How Avalara can help

Businesses can spend a lot of time and money updating and configuring systems to comply with tax changes. Businesses that have implemented Avalara Agentic Tax and Compliance™ solutions don't have to.

Avalara can help your business account for tax changes and improve tax and compliance. Learn more about our automated solutions for tax research, calculating tax rates, preparing returns, and managing exemption certificates.

[EXPLORE SOLUTIONS](#)