It's easy to see why software companies struggle with getting sales tax right. How do you apply a tax meant for tangible personal property to an intangible product or service? Attempts by states to solve for this challenge have resulted in a complex tapestry of tax rates and rules for software and software as a service (SaaS).

### SOFTWARE TAXABILITY BREAKDOWN

**CANNED SOFTWARE DELIVERED ON TANGIBLE PERSONAL PROPERTY**
- **Taxable**: VT MA RI CT NJ DC MD
- **Exempt**: All other states

**CANNED SOFTWARE DOWNLOADED**
- **Taxable**: VT MA RI CT NJ DC MD
- **Exempt**: All other states

**CUSTOM SOFTWARE DELIVERED ON TANGIBLE PERSONAL PROPERTY**
- **Taxable**: VT MA RI CT NJ DC MD
- **Exempt**: All other states
- **Taxed at 1%**: All other states

**CUSTOM SOFTWARE DOWNLOADED**
- **Taxable**: VT MA RI CT NJ DC MD
- **Exempt**: All other states
- **Taxed at 1%**: All other states

**CUSTOMIZATION OF CANNED SOFTWARE**
- **Taxable**: VT MA RI CT NJ DC MD
- **Exempt**: All other states
- **Taxed at 1%**: All other states

**SOFTWARE AS A SERVICE**
- **Taxable**: VT MA RI CT NJ DC MD
- **Exempt**: All other states
- **80% of the charges are taxable**: All other states

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*Alaska, Delaware, Montana, New Hampshire, and Oregon have no state sales tax as of November 2022. Local jurisdiction sales tax may apply.*
The reality is that sales tax isn’t going to get easier for software companies anytime soon. The more you can predict and plan for these changes in your business, the better off you’ll be. Tax automation software from Avalara integrates with your ERP, ecommerce, and other financial systems, making it easier to prove compliance and plan for growth.

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