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 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

CUSTOM SOFTWARE DELIVERED ON TANGIBLE PERSONAL PROPERTY

CUSTOMIZATION OF CANNED SOFTWARE

SOFTWARE AS A SERVICE

*Alaska, Delaware, Montana, New Hampshire, and Oregon have no state sales tax as of November 2020. Local jurisdiction sales tax may apply. Published by Avalara, March 2021
THE LOWDOWN ON THE DOWNLOAD

- 18 states + District of Columbia charge sales tax on web-based software,
- 1 state partially charges sales tax on web-based software, and
- 1 state partially charges sales tax on B2B web-based software.


'NETFLIX' TAX

- 25 states + District of Columbia charge sales tax on video programming streamed over the internet.

DON'T BUNGLE THE BUNDLE

SOFTWARE TRAINING

- 9 states + District of Columbia charge sales tax on software training associated with the sale of on-premises software;
- 6 states charge sales tax on software training not associated with a sale of on-premises software.

HARDWARE INSTALLATION

- 21 states charge sales tax on hardware installation associated with the sale of tangible personal property;
- 18 states charge sales tax on hardware installation not associated with a sale of tangible personal property.

DOWNLOADS SOFTWARE

- 28 states + D.C. charge sales tax on optional maintenance agreements associated with sales of downloaded software that include support services + updates.

PHYSICAL MEDIA

- 35 states + D.C. charge sales tax on optional maintenance agreements associated with software delivered on physical media that includes support services + updates.

IT'S NOT JUST SOFTWARE...

- Taxed in 29 states + D.C.: Digital movies
- Taxed in 25 states + D.C.: Streaming video programming
- Taxed in 23 states: Digital photography
- Taxed in 35 states + D.C.: Purchased digital games
- Taxed in 29 states + D.C.: Rented digital games

*When ownership is permanent

Having a reliable tax solution in place that instantly applies the right sales tax rates and rules to digital goods and services was ranked highest as "very important" by technology decision makers.

Source: Avalara Sales Tax Survey for Software Companies

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. Avalara’s tax automation software integrates with your ERP, ecommerce and other financial systems, making it easier to prove compliance and plan for growth.

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