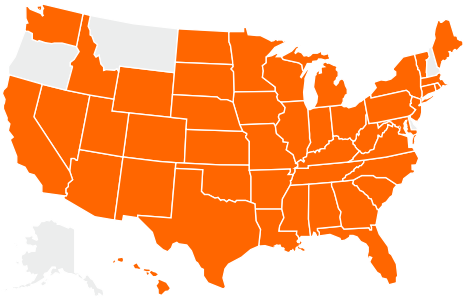
Avalara

THE COMPLEX NATURE OF SOFTWARE TAXABILITY

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

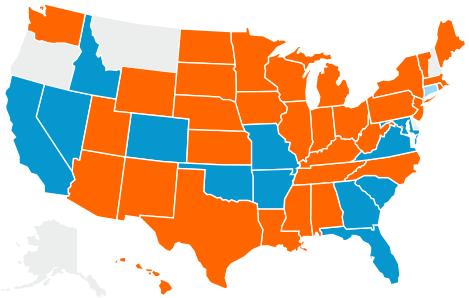
CANNED SOFTWARE DELIVERED ON TANGIBLE PERSONAL PROPERTY



Taxable

VT MA RI
CT NJ DC
MD

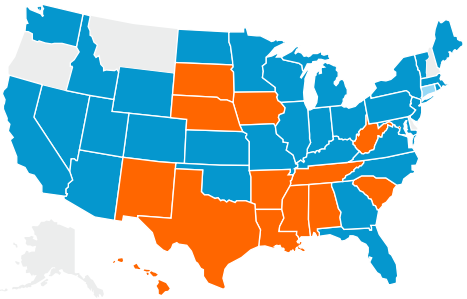
CANNED SOFTWARE DOWNLOADED



Taxable
Exempt
Taxed at 1%

VT MA RI
CT NJ DC
MD

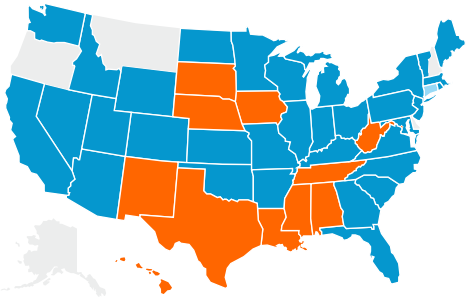
CUSTOM SOFTWARE DELIVERED ON TANGIBLE PERSONAL PROPERTY



Taxable
Exempt
Taxed at 1%

VT MA RI
CT NJ DC
MD

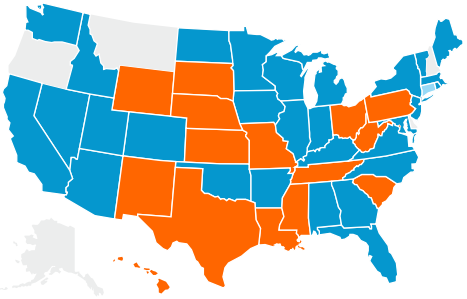
CUSTOM SOFTWARE DOWNLOADED



Taxable
Exempt
Taxed at 1%

VT MA RI
CT NJ DC
MD

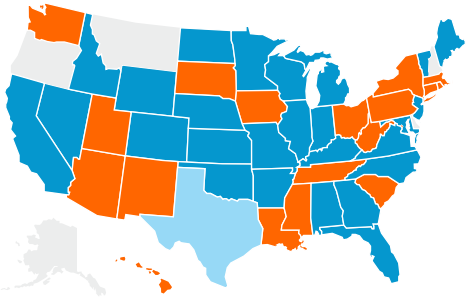
CUSTOMIZATION OF CANNED SOFTWARE



Taxable
Exempt
Taxed at 1%

VT MA RI
CT NJ DC
MD

SOFTWARE AS A SERVICE



Taxable
Exempt
80% of the charges are taxable

VT MA RI
CT NJ DC
MD

*Alaska, Delaware, Montana, New Hampshire, and Oregon have no state sales tax as of November 2020. Local jurisdiction sales tax may apply.

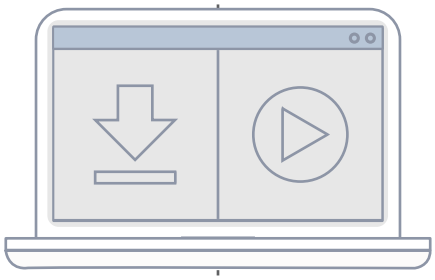
Published by Avalara, November 2020

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.

DOWNLOADED SOFTWARE

28 states + D.C. charge sales tax **4** states *partially* 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 **7** states *partially* charge sales tax on optional maintenance agreements associated with software delivered on physical media that includes support services + updates.

IT'S NOT JUST SOFTWARE...

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

*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.**

LEARN MORE AT AVALARA.COM/SOFTWARE

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