

TAX CHANGES

2022

SOFTWARE EDITION

Avalara

It probably comes as no surprise that tax compliance is unpredictable and difficult to navigate, much like almost everything we've experienced in recent years.

But one thing is for certain: Technology is needed more than ever to keep us all connected. While our

rapid transformation to the digital age makes sense, the tax laws impacting software companies seem increasingly harder to unravel.

Avalara developed a comprehensive report to make tax compliance in 2022 a little easier.

Here's a look at what might impact the **software industry** in 2022.



Old laws don't work with new technology

Because software technology evolves quicker than tax policy, old laws don't typically fit neatly with new products and services.



Software is categorized up to 10 different ways across 45 states

Is it canned or custom software? Digital or physical? Stand-alone or does it come with a service? It's all taxed differently.



Tax on bundled products and services is hard to determine

Depending on the state, sales tax applies to sales of subscription packages that also contain taxable items.



Tax laws on software are in constant flux

Digital products may be too difficult to consistently define, according to the Multistate Tax Commission.

It's impossible for a business to calculate sales tax rates accurately without a full 9-digit ZIP code, yet sellers often don't collect a buyer's full address because nothing tangible is ever delivered.

The Streamlined Sales Tax Governing Board recommends that if a seller does not obtain a complete street address or 9-digit ZIP code, the seller should calculate and collect the tax at the highest combined state and local rates in the 5-digit ZIP code for digital goods and services.



9-DIGIT ZIP
5-DIGIT ZIP

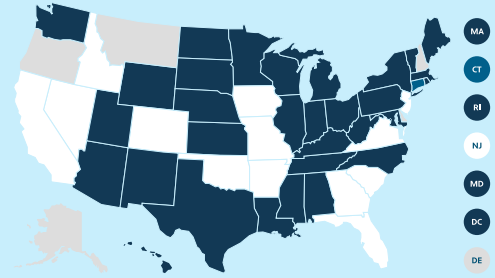
"The challenge for sourcing digital goods is they can be used in multiple locations and the seller often doesn't know where the buyer uses the goods."

THE MANY WAYS STATES TAX SOFTWARE DIFFERENTLY

CANNED SOFTWARE DELIVERED ELECTRONICALLY (DOWNLOADED)

For business use

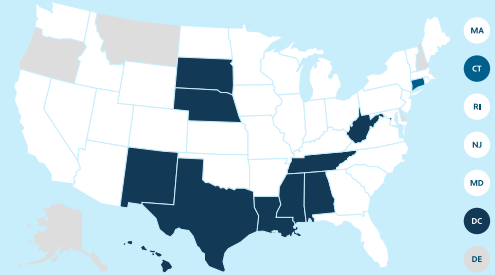
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- Taxable (reduced rate)
- Exempt
- No state sales tax



CUSTOM SOFTWARE DELIVERED ELECTRONICALLY (DOWNLOADED)

For business use

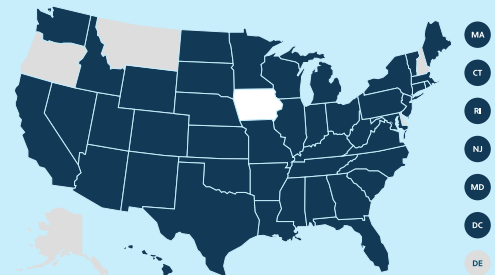
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CANNED SOFTWARE DELIVERED IN TANGIBLE FORM

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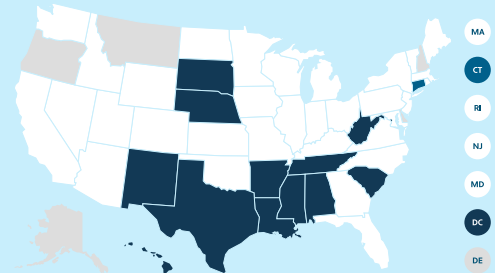
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Source: TTR

AND THIS IS ONLY THE BEGINNING

Ready for a deeper dive?
Read the full report [here](#).

