2026 Indirect Tax Legislative Updates

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With You Today

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Agenda

- State Economic Updates & Trends
- Sales Tax Legislative Updates
- Tax Amnesty and Voluntary Disclosure Updates
- Questions

Learning Objectives

By the end of this course, attendees will be able to:

- Recognize how state economic outlooks impact sales tax legislative changes.
- Identify recent sales tax legislative updates and explain their potential impact on taxpayers.
- Recognize how new legislation may affect sales tax collection, reporting, and compliance obligations.
- Evaluate the practical implications of legislative developments for multistate businesses.
- Apply sales tax legislative updates to common fact patterns and client situations.

State Economic Updates & Trends

State Economic Outlook

Divergent State Economic Conditions

States show varying economic growth, stagnation, or recession risk, influencing fiscal and legislative priorities.

Focus on Property Tax Reform

Rising home values increased property tax burdens, leading to proposals for elimination, caps, or phase-outs targeting homeowners.

Impact of OBBBA

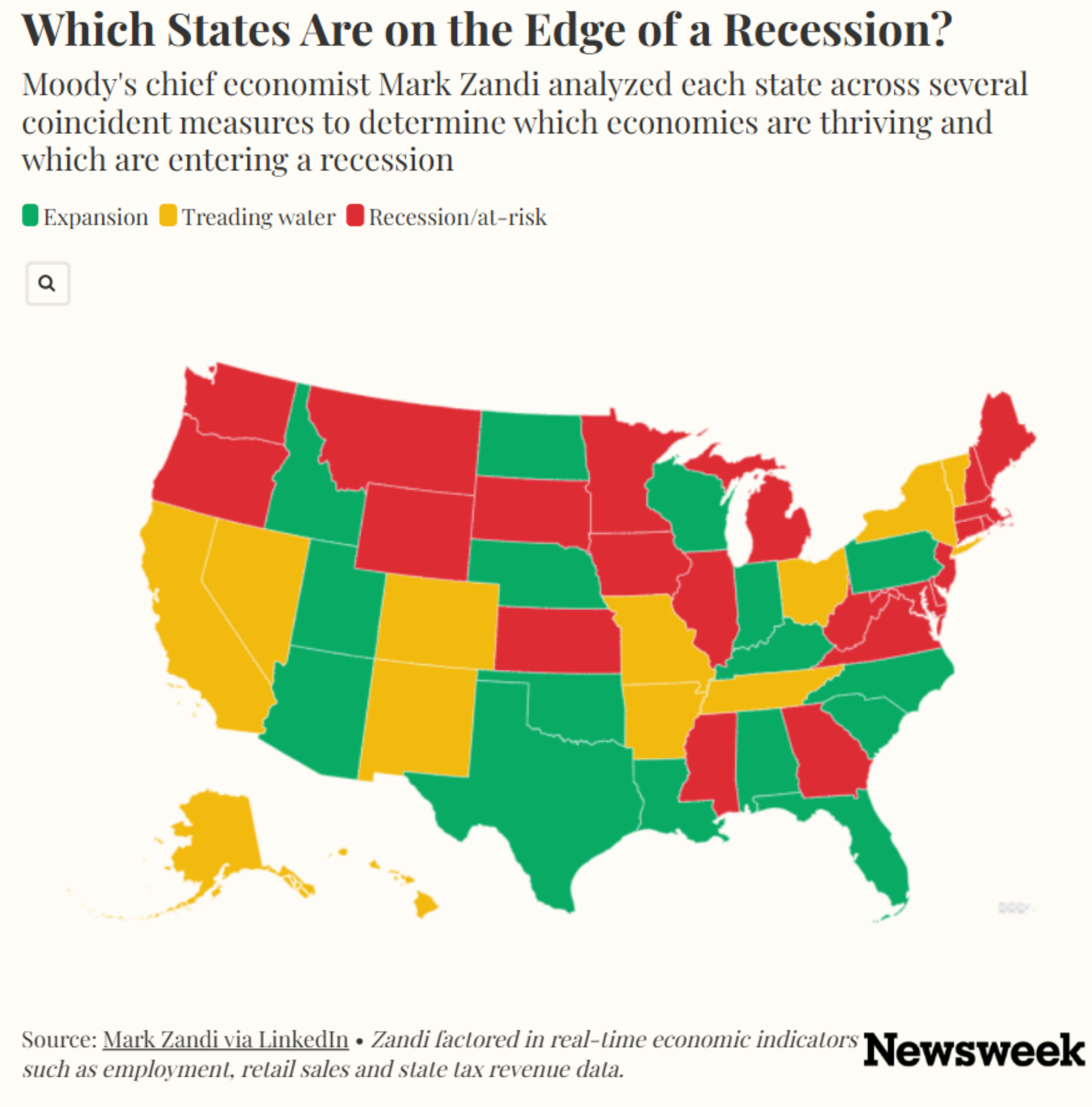
The OBBBA is expected to reduce state revenues prompting states to adopt more conservative budgets, curb spending, and increasingly pursue sales tax base expansion, with policy outcomes diverging based on individual conformity decisions.

Implications for Sales Tax Professionals

Reduced property tax revenue pressures sales tax base expansions and enforcement, impacting multistate compliance.

Economic Outlook by State

- 16 States Showing Growth
- 12 States with Stagnant Growth
- 22 States and D.C. are at-risk of Recession



One Big Beautiful Bill Act (OBBBA) State Impacts

Federal tax cuts may reduce state revenues by up to $20.5B annually *(Impact varies depending on conformity decisions)*

States are responding with more conservative FY 2026 budgets, imposing hiring freezes and slower wage growth

States need revenue stability and will look to decoupling from OBBBA, pulling back on previously planned reductions in income tax/property tax, and sales tax base expansions

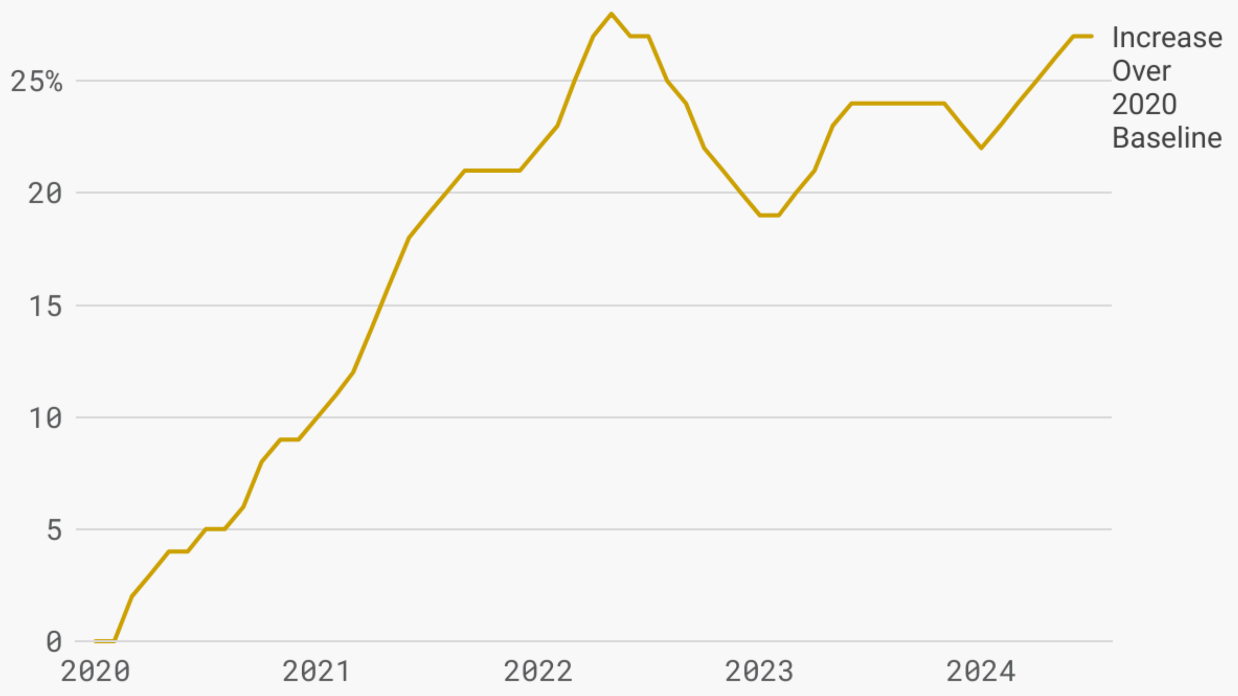
Property Tax Trends

States Considering Eliminating or Phasing Out Property Tax

- Rising home values since 2020 have significantly increased property tax burdens, prompting legislative action in multiple states
- Property tax repeal efforts are primarily focused on owner-occupied residences, not commercial property
- As of 2026, no U.S. state has fully eliminated property taxes, but several are pushing partial or phased approaches

Property Values Have Risen Far Faster than Inflation

Inflation-Adjusted Assessed Value Increases Since 2020



Source: S&P Dow Jones Indices LLC, “S&P CoreLogic Case-Shiller U.S. National Home Price Index”; US Bureau of Labor Statistics, “Consumer Price Index” (monthly).

TAX FOUNDATION

States Removing Property Tax

States with Active or High-Profile Proposals

- Florida: Multiple proposals to eliminate or phase out property taxes on homesteaded residences
- Georgia: Lawmakers proposed a gradual phase-out of homeowner property taxes (target 2032)
- North Dakota: Using state oil and gas revenues to reduce property taxes with a long-term goal of significant homeowner relief or near-elimination
- Texas: Proposals focus on eliminating school district property taxes and replacing revenue through state-level funding mechanisms

Why States Are Targeting Property Taxes

- Property taxes are highly visible and often viewed as burdensome, especially for retirees and fixed-income homeowners
- Political momentum has increased amid affordability concerns tied to inflation and housing costs

Key Challenges and Limitations

- Property taxes fund approximately 70% of local government revenue and the majority of K-12 school funding, making full elimination fiscally difficult
- Most proposals require replacement revenue (sales taxes, tourism taxes, severance taxes, or state transfers) and constitutional amendments/voter approval
- Many states are shifting toward caps, exemptions, credits or phased reductions rather than outright repeal

Broadening the Sales Tax Base

Expanding the Sales Tax Base

Nine (9) States expanded their sales tax base in 2025

At least Five (5) States with proposals to expand their sales tax base in 2025

Expansion into Services & More Specifically, Digital Services

Sales tax expansion into traditionally non-taxable services, such as security services.

More states are taxing B2B transactions

Sales tax now covers data processing, software, IT services, and digital advertising, reflecting modern economic activities.

Increased Compliance Complexity

Businesses face challenges interpreting evolving definitions, exemptions, and sourcing rules across multiple jurisdictions. Broadened tax bases create financial risks and increase administrative tasks, especially for multi-state operations.

Sales Tax
Legislative Updates

Maryland taxes data, information, and technology services

Effective July 1, 2025, Maryland Applies 3% Sales and Use Tax To:

- NAICS sector 518
  - Computing infrastructure providers, data processing, web hosting, and related services.
- NAICS sector 519
  - Web search portals, libraries, archives, and other information services.
- NAICS subsector 5132
  - Software publishing services.
- NAICS subsector 5415
  - Computer systems design and related services.

Texas Expands Tax on Data Processing

Effective April 2, 2025

- The definition of “data processing services” is “the computerized entry, retrieval, search, compilation, manipulation, or storage of data or information.
- Taxable data processing services include:
  - Payroll services
  - The production of business accounting data
  - Word processing

Effective October 1, 2025

- “Taxable data processing services” includes many marketplace provider services, such as:
  - Compiling analytics
  - Maintaining transaction records
  - Storing a seller’s product listings

Washington Enacts Sales & Use Tax and B&O Tax Changes

Legislative Overview

- Washington enacted legislation making Sales & Use tax and Business & Occupation (B&O) tax changes and clarifications as part of the 2026 legislative session
- Key provisions were enacted primarily through SB 6346, along with additional technical and administrative bills

Sales & Use Tax Changes

- Certain business-to-business services became subject to sales tax beginning October 1, 2025
- Subsequent legislation provides exemptions and clarifications, including the repeal of sales tax on specific services that were recently added to the tax base
- New exemptions enacted for certain personal hygiene, health and over-the-counter drug products

Washington Enacts Sales & Use Tax and B&O Tax Changes

B&O Tax Clarifications

- Expanded exclusions from certain high-grossing business to B&O surcharges
- Clarifications affecting industries such as technology services, data centers, insurance, and prescription drugs

Future Tax Relief Measures

- ***Sales & Use Tax Relief:***
  - Repeal of sales tax on certain taxable services added in 2025
  - Sales tax exemptions for designated essential goods
- ***B&O Tax Relief:***
  - Increased small business B&O tax credits
  - Higher B&O filing thresholds
  - Expanded exclusions from certain B&O surcharges

Washington Enacts Sales & Use Tax and B&O Tax Changes

Effective Dates

- Most sales & use tax and B&O tax relief provisions take effect January 1, 2029
- Certain exemptions and clarifications take effect July 1, 2026, or earlier depending on the provision

Contingency Provision

- Future tax relief provisions enacted under SB 6346 are contingent on the validity of Washington's new individual income tax
- If the income tax is invalidated by the courts, the future sales and B&O tax relief provisions will be null and void

SB 5814 Expands Retail Sales & Use Tax To:

- Advertising services, Customer software and websites, IT services, Lead Generation optimization, etc.

SB 5814 Excludes Services connected to:

- Newspapers, printing or publishing, radio and television broadcasting, and out-of-home advertising.

Washington Exemption Revocations

Data Center Equipment Replacement

- Prohibits the issuance of new exemption certificates after July 1, 2026, for data centers that qualify through refurbishment
  - Server equipment installed in movable or prefabricated units does not qualify for exemption

Warehousing Prescription Drugs

- Prohibits tax exemption for warehousing and reselling prescription drugs
  - Effective January 1, 2027
- 0.5% tax rate on warehousing and reselling prescription drugs
- Preferential 0.138% tax rate for qualifying critical access pharmacies

Alabama Municipal Sales Tax Exemption

Municipal Sales and Use Tax Exemptions

- Regulation clarifies that state-enacted sales and use tax exemptions do not automatically apply to county or municipal taxes
- Local sales and use tax exemptions apply only if adopted at the local level

Local Approval and Procedural Requirements

- Municipal or county governing authority must:
  - Formally approve the exemption locally
  - Satisfy statutory notice requirements
- Regulation establishes procedural steps for counties and municipalities to adopt state exemptions
- Effective May 15, 2026

Amazon Owes South Carolina Tax on Third-Party Sales - Bloomberg

- Amazon is responsible for state sales tax for a three-year period
  - Total bill for three months was more than 12.5 million in taxes, penalties and interest
- Amazon owes tax on third-party sales for three months in 2016
  - Based on a law requiring sellers of tangible property to collect tax
  - Ruling could create liability for other years before the 2019 law change
- In 2019, the law clearly required marketplace facilitators like Amazon to collect and remit tax

Utah Updates

Targeted Ad Tax

- Utah became the third state to adopt a tax on online advertising
- Critics argue the tax may conflict with the federal Internet Tax Freedom Act (ITFA)
  - ITFA bars states from imposing taxes on digital versions of products or services when no comparable tax applies to the tangible equivalent
- The tax is imposed on advertisements delivered to an audience
- The tax rate is assessed at a 4.7% rate

Remote Seller Economic Nexus Simplification (Effective July 1, 2025)

- Utah eliminated the 200-transaction nexus threshold
- Remote sellers now have sales tax nexus only if Utah sales exceed $100,000

Illinois Updates

Effective January 1, 2026

- Illinois is eliminating its 200-transactions economic nexus threshold.
- Remote sellers and marketplaces must determine on a quarterly basis whether they met or exceeded the state's $100,000 threshold during the preceding 12-month period
- Illinois is eliminating the 1% state sales tax on groceries but allowing local jurisdictions to impose a 1% local grocery tax.
- This could complicate sales tax reporting for businesses, as over 600 cities will have a local food tax starting January 1.

Illinois to assess 15% tax rate on destination-based sales with an undetermined location

- Starting January 1, 2026, the Illinois Department of Revenue can assess a 15% tax rate on transaction subject to destination-sourcing rules if the taxpayer fails to provide the information, schedules, or supporting documents necessary to determine such locations.
- The 15% undetermined location rate is primarily intended to be used with remote retailers and Illinois retailers making sales subject to destination-based sourcing who provide no destination-based sales information.

Tax Amnesty and Voluntary Disclosure Programs

Tax Amnesty Programs

- **Tax amnesty program -** allow eligible taxpayers to come into compliance by paying unpaid taxes
  - ✓ **Purpose**
    - Generate short-term revenue without raising tax rates
    - Encourage voluntary compliance
    - Reduce audit, litigation and collection costs
  - ✓ **Common Features**
    - Limited application window (30-90 days)
    - Applies only to liabilities due before a specified cutoff date
    - Requires full payment of underlying tax
    - Typically excludes taxpayers under audit or criminal investigation
  - ✓ **Relief Provided**
    - Penalties usually waived in full
    - Interest may be fully, partially, or not waived
    - Reduced risk of enforcement action for covered periods
  - ✓ **Post-Amnesty Enforcement**
    - Increased audits and penalties for non-participants
    - Designed to discourage continued noncompliance

Indiana Tax Amnesty Program

Indiana Tax Amnesty Program

- Allows taxpayers to settle qualifying past-due tax liabilities with waived penalties, interest and collection fees with the Indiana Department of Revenue (DOR). Periods ending prior to January 1, 2024
- Taxpayers who participated in 2005 or 2015 amnesty programs will not be eligible
- Program will take place between July 15 – September 15
- Taxpayers who are eligible for amnesty, but do not participate are subject to increased penalties on their eligible liabilities after conclusion of amnesty period

How to Participate

- Enter into an amnesty agreement with the DOR
- Pay in full all eligible liabilities (or establish a payment plan as permitted)
- Relinquish all rights to protest, appeal, or litigate taxes paid under amnesty
- Agree not to claim refunds for taxes paid under the program

Temporary Washington Voluntary Disclosure Programs (VDP)

International Remote Seller VDP
Program window: February 1 – May 31, 2026
Eligible taxpayers: Unregistered foreign remote sellers

Key Benefits

- **Limited lookback period**
  - **B&O tax:** 4 years plus current year
  - **Retail sales tax:** 12 months of uncollected tax
- **Waiver of penalties**

Unreported Investment Income (B&O Tax) VDP
Program windows:

- **July 1, 2025 – April 30, 2026**
- **July 1, 2026 – April 30, 2027**

Eligible taxpayers: Registered & Unregistered Taxpayers

Key Benefits

- **Lookback period:** 4 years plus current year
- **Relief provided:** Waiver of penalties and interest

Illinois Remote Retailer Amnesty Program

Amnesty Window

August 1 – October 31, 2026

Covered Period

Sales from January 1, 2021 – June 30, 2026

Key Benefits for Remote Retailers

- Simplified tax rates (no local jurisdiction tracking)
  - 9% – most tangible personal property
  - 1.75% – qualifying food items
- Full waiver of penalties and interest
- Tax must be paid in full during the amnesty period

Questions?