MULTISTATE TAX COMMISSION

Sales Taxation of Digital Products – Status Report

November 10, 2026

STATUS REPORT – WHITE PAPER

WORK ON THE DRAFT WHITE PAPER

- Drawing on the information from the work group process we are drafting sections of the white paper and publishing those.
- Publishing those drafts on the project page along with links to other information from the work group, study groups, and staff research.



An intergovernmental state tax agency whose mission is to promote uniform and consistent tax policy and administration among the states, assist taxpayers in achieving compliance with existing tax laws, and advocate for state and local sovereignty in the development of tax policy.

Search Search

The Commission Uniformity Nexus Audit Events & Training Resources

Sales Tax on Digital Products

THE REGULAR WORK GROUP MEETINGS ARE SUSPENDED WHILE DRAFTS OF THE WHITE PAPER SECTIONS ARE PREPARED AND CIRCULATED. (See those drafts on this page, below in BLUE.)

DRAFTS OF WHITE PAPER SECTIONS – TOPICS/ISSUES:

NOTE: Drafts posted below are for discussion and comment. They may be revised prior to final submission to the MTC Uniformity Committee.

Introduction and Purpose

Draft of White Paper Introduction – Purpose Section 7-15-26 (Word)(PDF)

Pupose Page of the Digital Outline, See HERE

Original Project Outline – Approved by the Uniformity Committee (PDF)

Imposition (Definitions)

Draft of Imposition (Definitions) Section – Coming Soon

Report from the Definitions Study Group – Made to the Work Group (PDF)

Evaluation of other State Approaces – See HERE – under "Evaluation of Other State Approaches" Drop Down

Imposition (Definitions) Page of the Digital Outline, See HERE

Issues of Sale

Draft of Issues of Sale Section – Coming Soon

Issues of Sale Page of the Digital Outline, See HERE

Exemptions and Exclusions

Draft of Exemptions and Exclusions Section – Coming Soon

Exemptions and Exclusions Page of the Digital Outline, See HERE

Mixed and Bundled Transactions

Draft of Mixed and Bundled Transactions Section – 4-28-26 (Word)(PDF)

Mixed and Bundled Transactions Page of the Digital Outline, See HERE

Sourcing

Draft of Sourcing Section – 8-20-26 (Word)(PDF)

Sourcing Page of the Digital Outline, See HERE

Alternative Taxes

Draft of Alternative Taxes Section

Alternative Taxes Section of the Digital Outline, See HERE

Federal Law (Internet Tax Freedom Act and Other)

Draft of Federal Law – ITFA Section – (Word)(PDF)

Draft of Federal Law – Other – Coming Soon

Federal Law (ITFA) Section of the Digital Outline, See HERE

Other Related Issues

TBD

Click Here for Digital White Paper Outline and Research

The link above takes you to a digital outline with pages for the different topics covered in this project. Each page has information used in this project including research, written comments, and any study group materials.

For notes and materials from prior work group calls, scroll to the drop-down heading on this page below.

NOTE on ALTERNATIVE TAXES:

The Outline includes a section on Alternative Taxes. This topic was not covered by the work group. At its meeting in July 2026, the MTC Uniformity Committee directed MTC staff to do research into current and proposed alternative digital taxes .

A report on this research will be provided to the Uniformity Committee at its upcoming meeting on November 10, 2026.

REPRISE OF THE PROJECT REPORT . . .

IN WHICH WE DISCUSSED SOME OF THESE TAXES

MAJOR GENRES

- Advertising tax – measured by advertising revenues
- Data collection tax – measured by number of users who have their data collected (subgenre: measured by volume of data)
- Pure social media tax – imposed on social media companies and measured by gross revenue

NEW RELEASES

- Digital asset tax – a tax on the activity of dealing with crypo assets
- Prediction markets tax – similar to a wagering tax, per exchange wager

GENERAL GENRES

- Advertising tax – measured by advertising revenues
- Data collection tax – measured by number of users who have their data collected
- Pure social media tax – imposed on social media companies and measured by gross revenue

LATEST STRAINS

- Digital Asset tax – a tax on the activity of dealing with crypo assets
- Prediction markets tax – similar to a wagering tax, per exchange wager

Important: there is significant substantive variation within genre; these are general categories!

BEHIND THE MUSIC

- Advertising – “programmatic” “targeted” “digital”
- Data collection – by a “commercial data collector” by a “social media platform business”
- Pure social media tax – a tax imposed on social media companies and measured by their gross revenues

WASHINGTON SALES TAX - ADVERTISING

- Historically, Washington has not imposed retail sales tax on advertising services.
- Effective Oct. 1, 2025, sales of advertising became subject to sales tax.
- “Advertising services" means all digital and nondigital services related to the creation, preparation, production, or dissemination of advertisements including, but not limited to:
  - (A) Layout, art direction, graphic design, mechanical preparation, production supervision, placement, referrals, acquisition of advertising space, and rendering advice concerning the best methods of advertising products or services; and
  - (B) Online referrals, search engine marketing and lead generation optimization, web campaign planning, the acquisition of advertising space in the internet media, and the monitoring and evaluation of website traffic for purposes of determining the effectiveness of an advertising campaign.

WASHINGTON SALES TAX - ADVERTISING

- Advertising services" do not include:
- (A) Web hosting services and domain name registration;
- (B) Services rendered in respect to the following:
  - (I) "Newspapers" as defined in RCW 82.04.214;
  - (II) Printing or publishing under RCW 82.04.280; and
  - (III) "Radio and television broadcasting" within this state as defined in RCW 82.04.281; and
- (C) Services rendered in respect to out-of-home advertising, including: Billboard advertising; street furniture advertising; transit advertising; place-based advertising, such as in-store display advertising or point-of-sale advertising; dynamic or static signage at live events; naming rights; and fixed signage advertising. Out-of-home advertising does not include direct mail;

CHICAGO AND ILLINOIS

- Chicago Social Media Amusement Tax 

- Illinois Targeted Advertising Services Tax
- Social Media Platform Fee
- Extension of Sports Wagering Act to cover prediction markets 

- Illinois Digital Asset Tax Act (crypto tax) 

CHICAGO SOCIAL MEDIA AMUSEMENT TAX

- Imposes tax at the rate of $0.50/per month per Chicago consumer on “the activity of social media amusement.”
- Excludes the first 100K Chicago consumers.
- The tax is imposed on “social media businesses” that collect consumer data on more than 100,000 Chicago consumers.

WHAT IS A CHICAGO CONSUMER UNDER THE TAX?

Rebuttable presumption: A Chicago consumer is a consumer whose information on record with, *or available to*, a social media business indicates:

(1) a Chicago home address,

(2) a Chicago mailing address, or

(3) an internet protocol address or other consumer data on primary usage location connected with a Chicago location.

For administrative ease, a social media business may create reasonable categorization standards to use in analyzing consumer data to determine if a consumer is a Chicago consumer.

WHAT IS SOCIAL MEDIA UNDER THE TAX?

"Social media" means websites, applications, products, and internet platforms that allows consumers to view, share, and otherwise engage with images, videos, and audio presented in types and formats including, but not limited to, performances, promotions, memes, augmented reality, artificial intelligence, and live streams. "Social media" does not include any bona fide news website, application, or platform.

"Amusement" means engagement with media content delivered through the use of social media for the substantial purpose of entertainment and enjoyment.

"Social media business" means a for-profit entity that: (a) provides individuals with access to social media and (b) collects, maintains, uses, processes, sells, or shares consumer data, other than consumer contact information, in support of the entity's business activities.

4-156-1040 Rules of interpretation.

(a) The definition of "social media business" in this article shall not be construed to include:

(1) an Internet search provider;

(2) an Internet service provider;

(3) an email service;

(4) a streaming service, online video game, or website where the content is not user generated but includes interactive functions that enable chat, comments, reviews, or other interactive functionality that is incidental to, not directly related to or dependent upon providing the content;

(5) a communication service, including text, audio, or video communication technology, provided by a business to the business's employees and clients for use in the course of business activities and not for public distribution, except that a social media business's media access includes a communication service provided to consumers by a social media business;

(6) an advertising network with the sole function of delivering commercial content;

(7) a telecommunications carrier, as defined in United States Code, title 47, section 153;

(8) a broadband service, as defined in 220 ILCS 5/21-201(c);

(9) single-purpose community groups for education or public safety;

(10) teleconferencing or video-conferencing services that allow reception and transmission of audio and video signals for real-time communication, except that a social media business's media access includes teleconferencing or video-conferencing services provided to consumers by a social media business;

(11) cloud computing services or other non-possessory computer leasing services, which may include cloud storage and shared document collaboration; or

(12) providing or obtaining technical support for a platform, product, or service.

CHICAGO SOCIAL MEDIA AMUSEMENT TAX

The purpose of the tax is:

"revenue generation for the City of Chicago by taxing the activity of social media amusement based on a social media business's monetization of consumer engagement and consumer data collected about Chicago users in conjunction with their social media use."

Proceeds to be used to provide mental health services:

"The Budget Director and the Comptroller shall create and implement a special revenue fund for supports to the City's mental and behavioral health operations and investments (the "Protecting Care Fund") and other accounting measures to track the collection and spending of all proceeds, including penalties, resulting from the imposition of the tax under this chapter."

CHICAGO SOCIAL MEDIA AMUSEMENT TAX



NetChoice has challenged the tax in Cook County Circuit Court under:

- Internet Tax Freedom Act
- Illinois Constitution (limitation on home rule tax authority)
- First Amendment
- Commerce Clause

ILLINOIS SOCIAL MEDIA PLATFORM FEE

Imposes a graduated system of fees on social media platforms that collect data from Illinois users:

10 cents per active user per month if the company has 100,000 to 500,000 Illinois users;

$40,000 plus 25 cents per user per month if the company has 500,001 to 1 million Illinois users; and

$165,000 plus 50 cents per user per month if the company has more than 1 million Illinois users.

No definition of Illinois user in the statute.

WHAT IS A SOCIAL MEDIA PLATFORM?

"Social media platform" means a website or internet medium that:

(1) permits a person to become a registered user, establish an account, or create a profile for the purpose of allowing users to create, share, and view user-generated content through that account or profile;

(2) enables one or more users to generate content that can be viewed by other users of the medium; and

(3) primarily serves as a medium for users to interact with content generated by other users of the medium.

SOCIAL MEDIA PLATFORM FEE

- Administered by the Secretary of State (not the Department of Revenue)
- Prohibits a platform from varying the cost of access, features, services, or in-app purchases for any user based on the geographic origin of the user for purposes of recouping the fee.
- Fees to be deposited in the common school fund.

ILLINOIS TARGETED ADVERTISING SERVICES TAX

- Imposes tax upon providers of “targeted advertising services” provided to Illinois user-consumers at the rate 10% of Illinois gross receipts.
- Excludes providers with less than $1 million of annual gross receipts from targeted advertising services in Illinois.
- Rebuttable presumption regarding Illinois consumers similar to the Chicago rebuttable presumption.

ILLINOIS TARGETED ADVERTISING SERVICES TAX

Differs from the Maryland Digital Advertising Tax which is currently being litigated:

The Illinois is a tax on targeted advertising services, rather than on digital advertising services.

"Targeted advertising services" means any programmatic written, oral, or graphic statement or representation conveyed through a digital interface or any other method of delivery, including, but not limited to, banner advertising, search engine advertising, interstitial advertising, and other comparable advertising services that use personal information about the people to whom the ads are being served. [Excludes news media sites.]

ILLINOIS TARGETED ADVERTISING SERVICES TAX

Findings and intent.

The General Assembly finds and declares the following: Many goods and services that traditionally have been subject to Illinois State and local use and occupation taxes have avoided taxation in the digital era. Many digital transactions are harder to bring into the sales tax base because, instead of paying a monetary fee, customers often barter their personal information for access to digital platforms. This personal information, in turn, is sold for use in targeted advertisements on digital platforms. . . .

TAX ON (CERTAIN) PREDICTION MARKETS

- Added to the Sports Wagering Act.
- 1.75% tax on each exchange wager up to 5 million wagers during a fiscal year; 3.5% tax on each additional wager.
- "Exchange wager" includes an agreement, contract, transaction, or swap that is offered, traded, or executed on a prediction market or exchange tied to a sporting contest or sporting event.

TAX ON (CERTAIN) PREDICTION MARKETS



Kalshi sued Illinois in federal district court challenging non-tax provisions of the bill that seek to regulate prediction markets.

The state agreed to halt enforcement of the tax until the lawsuit is resolved.

Kalshi claims that the Commodity Futures Trading Commission has exclusive jurisdiction over prediction markets under the federal Commodity Exchange Act

ILLINOIS DIGITAL ASSET TAX ACT

- Imposes a transaction tax upon the “privilege of receiving any digital asset business activity by a customer in [Illinois].”
- “Digital asset business activity” means exchanging, transferring, or storing a digital asset.
- Rate: 0.2% of the value of the digital asset to which the digital asset business activity relates.
- Industry claims that digital assets may include not only cryptocurrencies but also “tokenized” versions of stocks, bonds, commodities, and bank deposits.
- Requires digital asset brokers, such as cryptocurrency exchanges and other parties that facilitate digital asset transactions on behalf of customers, to collect the tax and remit it to the state.

ILLINOIS DIGITAL ASSET TAX ACT



The Chamber of Digital Commerce has challenged the tax in Sangamon County Circuit Court under:

- Uniformity Clause of the Illinois Constitution
- Due process clause of the Illinois Constitution and the U.S. Constitution
- Illinois Proportionment Penalties Clause of the Illinois Constitution
- Commerce Clause
- Internet Tax Freedom Act

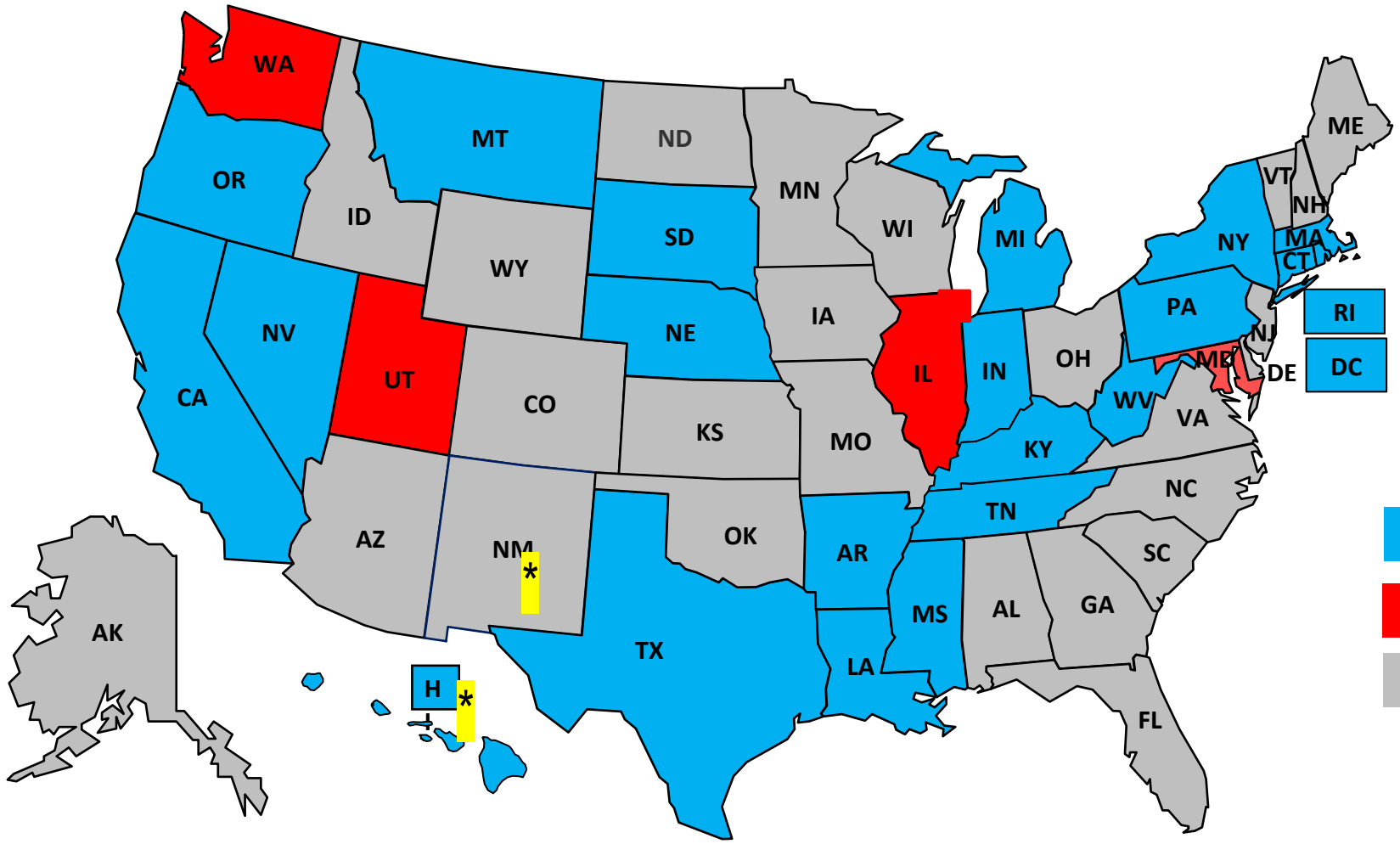
REFERENCE SLIDE

- California – A.B. 796 (2026); proposed
- Illinois – S.B. 3019 (2026); enacted
- Maryland – H.B. 468 (2026); proposed
- Massachusetts – S.B. 3208; S.B. 3089 (2026); H.B. 3126; H.B. 3224; H.B. 3263; H.B. 3118 (2025); proposed
- Michigan – Governor's FY2027 budget; H.B. 4142 (2025); proposed
- Minnesota – S.B. 5052; H.B. 5055 (2026); proposed
- Nebraska – L.B. 2025 (2026); proposed
- New Jersey – S. 4908 (2025); proposed
- New York – A.B. 1434 (2025); proposed
- North Carolina – S.B. 257 (2026); enacted
- Pennsylvania – H.B. 1678 (2026); proposed
- Rhode Island – S.B. 2028 (2026); proposed
- Tennessee – S.B. 2512 (2026); proposed
- Utah – S.B. 287 (2026); enacted
- Washington – S.B. 5814 (2025) (sales tax); enacted

MORE INFORMATION

ON HOW ALL OF THIS IS PICKING UP SPEED

ACTIVITY



Digital Ad/Data Tax Proposed (2020 – Present)

Digital Ad/Data/Social Media Tax Enacted

No legislation proposed

* Digital advertising taxed in state's consumption tax

Source: Council On State Taxation research. Proposals include both digital services taxes (DSTs) and their sales tax equivalents
Disclaimer: This information should be used for general guidance and not relied upon for compliance

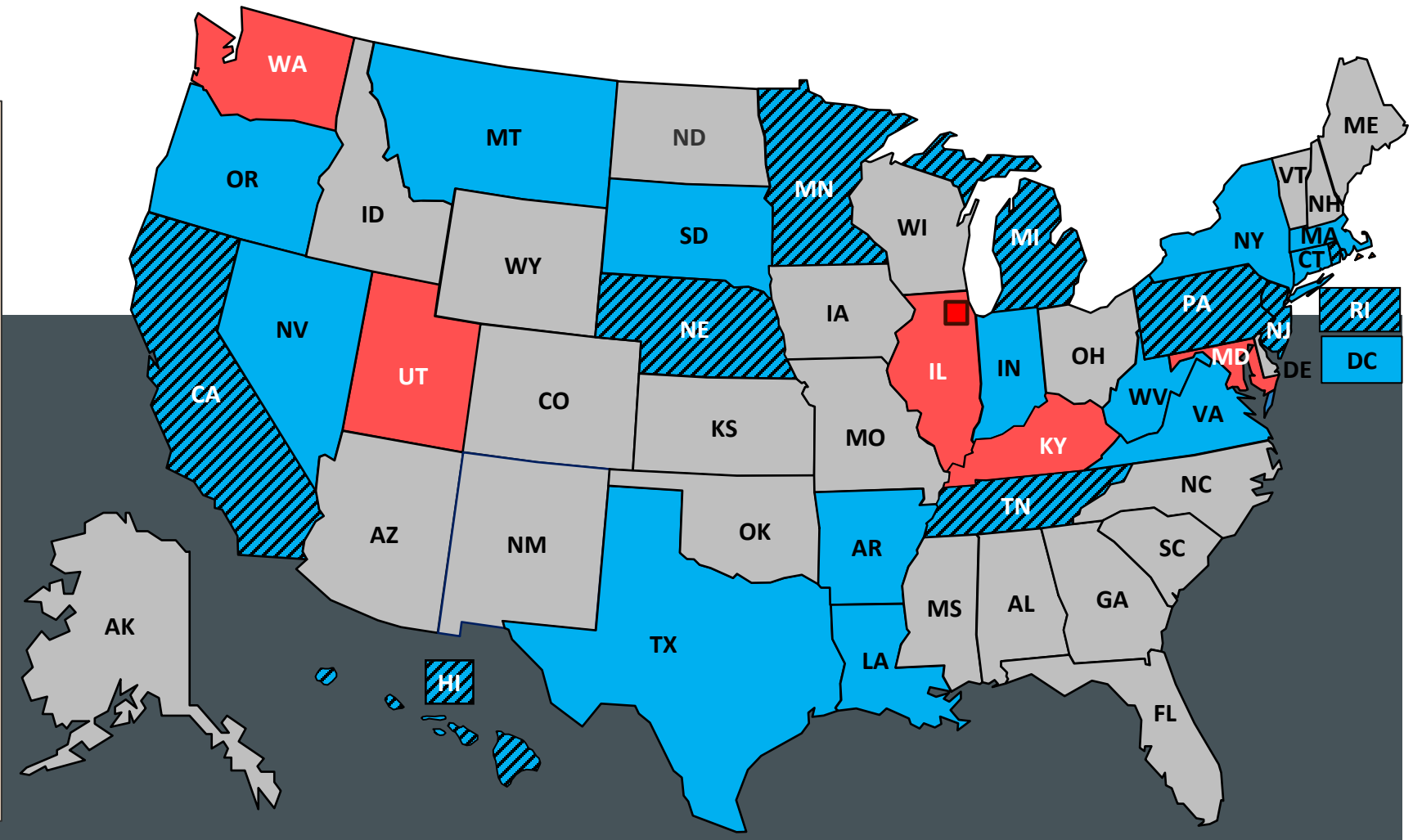
Source: Council On State Taxation research. Proposals include both digital services taxes (DSTs) and their sales tax equivalents. Please note this does not reflect HI and NM sales tax on advertising services. Disclaimer: This information should be used for general guidance and not relied upon for compliance

State Digital Advertising Services and Data Mining Tax Proposals (2020 – 2026)

- Digital Ad/Data Tax Proposed (2020 – Present)
- Digital Ad/Data Tax Enacted
- No Legislation Proposed

2026 Proposals:

- **CA A.B. 796**
- **Chicago SMAT (enacted, eff. 1/26)**
- **HI H.B. 1458**
- **IL S.B. 3019 (enacted, eff. 1/27)**
- **KY H.B. 757 (enacted, eff. 8/26)**
- **MD H.B. 468**
- **MI Governor's FY27 Budget**
- **MN S.F. 5052, H.F. 4343, S.F. 4787, S.F. 3550**
- **NE L.B. 1025**
- **NJ S. 3180**
- **NJ A. 5328 (data registration fee, enacted)**
- **NY A.11643**
- **PA S.B. 1199/H.B 1678, H.B. 1667**
- **RI S.B. 2028/H.B. 8198**
- **TN S.B. 2512, H.B. 2008**
- **UT S.B. 287 (enacted, eff. 1/27)**



CAPTURING THE INFORMATION

CREATING A RESOURCE

Click Here for Digital White Paper Outline and Research

Digital White Paper Issue Outline

NOTE: Information in this digital outline is in draft form and additional information will be added over time. There are no final recommendations at this time.

- Purpose
- Imposition (Definitions)
- Issues of sale
- Exemptions and Exclusions
- Mixed and Bundled Products
- Sourcing
- Alternative Taxes
- Federal Law
- Other related issues
- Appendix

Organization of the Digital Outline

The digital outline includes general topic areas or categories of issues and information as summarized below. You can access current information and resources on these topics using the buttons on the left.

General Topic Areas:

NOTE: Because some issues are closely related to each other, information may be included in more than one topic section of the digital outline. Also, included on each topic page are links to a summary of the history of state sales taxes and to other critical information.

- **Purpose** – Includes information on the purpose of the white paper and essential considerations impacting taxation of digital products including critical federal laws, state legislative studies, and stakeholder general issues and concerns.
- **Imposition** – Includes information on how states approach taxation of digital products currently–using a broad, medium, or narrow approach, and information on definitions.
- **Issues of Sale** – Includes information on the different types of transactions by which digital products may be provided to customers (i.e., sale, lease, license, subscription or limited access, etc.)
- **Exemptions and Exclusions** – Includes policy and administration related issues on exemptions and exclusions that might be applied to digital products.
- **Mixed and Bundled Products** – Includes information on the Streamlined bundling rules and from stakeholder interviews on this subject as well as the results of a bundling exercise study group.
- **Sourcing** – Includes information from the Streamlined sourcing rules as well as information on other sourcing issues including multiple points of use.
- **Alternative Taxes** – Includes information on taxes other than sales and use taxes that may be imposed on digital products.
- **Federal Law** – Includes information on relevant federal constitutional and statutory law.
- **Other Related Issues** – Includes direct pay rules and general enforcement issues.
- **Appendix** – Contains links to various resources for all topic areas.

Background on the Project

At the April 28, 2021 MTC Uniformity Committee meeting, the Washington Department of Revenue gave a presentation on their state's experience with including digital products in their sales tax base as well as the alternatives they considered. They proposed that the Committee take up a project to help states develop a

→ Alternative Taxes

Alternative Taxes

The work group decided not to consider alternative taxes. However, the portions of the outline devited to alternative taxes is reproduced here for states that wish to consider it.

→ Purpose

→ Imposition (Definitions)

→ Issues of sale

→ Exemptions and Exclusions

→ Mixed and Bundled Products

→ Sourcing

→ Alternative Taxes

→ Federal Law

Pros and Cons of Applying an Alternative Tax

1. True gross receipts taxes [see research done by various groups.]
   - Possible Pros – May be simpler.
   - Possible Cons – Pyramiding and need for different rates.
   - Other

2. Digital advertising taxes [summarizing the discussion of Maryland's tax.]
   - Possible Pros – Can be tailored to the industry.
   - Possible Cons – ITFA limitations and failure to address other products; OECD Pillar 1 discussions to eliminate digital taxes at the international level.
   - Other

3. "Data mining" taxes [summarizing Plattner's proposal and discussion.]
   - Possible Pros – Recognizes value in "free" services provided in exchange for data.
   - Possible Cons – Untested.
   - Other

4. Alteration of sales tax mechanics – simplifying the sales tax
   - Ability to vary the typical mechanics including separate statement of the tax so as to allow estimated amounts sourced to particular jurisdictions.
   - Elective use of a single state tax rate (i.e., the Texas approach).

Alternative Taxes

The project work group has focused on application of sales and use tax to digital products and has not considered alternative taxes as part of its discussions. This page will, instead, be used to track information on those taxes as a resource for states.

→ Purpose

→ Imposition (Definitions)

At its the MTC Uniformity Committee meeting in July 2026, the digital project work group made a presentation that included a review of the types of alternative taxes that states are beginning to consider. See that presentation, here:

Digital Project Presentation – July 2026 (PowerPoint) (PDF)

QUESTIONS OR FEEDBACK