SPECIAL NOTICE

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION
651 Bannon Street, Suite 100
Sacramento, CA 95811

GAVIN NEWSOM
Governor

NICOLAS MADUROS
Secretary
Government Operations Agency

TRISTA GONZALEZ
Director

CDTFA WEBSITE
www.cdtfa.ca.gov

CUSTOMER SERVICE CENTER
1-800-400-7115

TTY
711

ONLINE VERSION

ADDITIONAL INFORMATION

Sales and Use Tax Applies to Digital Products Beginning January 1, 2027

Beginning January 1, 2027, the definition of *tangible personal property* in the Sales and Use Tax Law will be expanded to include digital products and any copyright or patent interests associated with those digital products. As a result, retail sales of digital products in this state or the storage, use, or other consumption in this state of digital products purchased from any retailer may be subject to sales and use tax.

This change is the result of a new law and generally affects:

- Sellers of prewritten computer software
- Prewritten Software-as-a-Service (SaaS) providers
- Businesses that license or provide remote access to prewritten software
- Purchasers of digital products

What is a digital product?

A digital product is prewritten computer software transferred on tangible storage media, transferred electronically, or accessed remotely.

Prewritten computer software is computer software that is held or exists for general or repeated sale or lease, even if it was initially developed on a custom basis or for in-house use, including the combination of two or more prewritten programs.

What items are not digital products?

The following items are not considered digital products under the new law:

- Digital assets (such as cryptocurrency)
- Digital audio works (such as music, spoken recordings, and ringtones)
- Digital audiovisual works (such as movies and videos with sounds)
- Digital books (also known as eBooks)
- Digital infrastructure (such as cloud platforms that allow customers to create, deploy, or run their own software applications)
- Digital video game products
- Digital visual works (such as computer-generated artwork)

What digital products are exempt?

The following digital products are exempt under the new law:

- Digital products representing a service, not including SaaS
- Custom computer software
- Digital products transferred with reproduction and distribution rights
- Digital products purchased solely for use outside of California

SEPTEMBER 2026
L-1036

Threshold rule that may shift tax liability from retailer to purchaser

When the aggregate gross receipts from sales of digital products by a retailer to a purchaser that are transferred electronically or accessed remotely exceed $5 million in a calendar year or preceding calendar year, the tax liability may shift from the retailer to the purchaser. When this happens, the purchaser may be required to register for a Use Tax Direct Payment Permit and report the tax directly to us. Refer to our *Tax Guide for Retailers and Purchasers of Digital Products* at *www.cdtfa.ca.gov/industry/retailers-and-purchasers-of-digital-products/* for more information.

Place of sale and use of digital products

For local and district tax reporting purposes, the place of sale of digital products transferred electronically or accessed remotely is generally the customer's address, and the place of use is the place where the person accessing the digital product is located. Refer to our *Tax Guide for Retailers and Purchasers of Digital Products* at *www.cdtfa.ca.gov/industry/retailers-and-purchasers-of-digital-products/* for more information.

Registration

Digital product sellers in California who are not currently registered with us must register for a seller's permit, file sales and use tax returns, and report and pay tax on retail sales of digital products.

Out-of-state sellers of digital products engaged in business in this state as defined in Revenue and Taxation Code section 6203[1] must register with us for a *Certificate of Registration—Use Tax*, collect and report use tax from retail sales of digital products sold to California consumers, and pay the tax to us.

Our Online Services[2] offers a convenient, fast, and free way to register online for a permit, license, or account.

Legislation information

Senate Bill 122 (Stats. 2026, ch. 23)[3] was signed into law on June 29, 2026.

For more information

Please refer to our *Tax Guide for Retailers and Purchasers of Digital Products* at *www.cdtfa.ca.gov/industry/retailers-and-purchasers-of-digital-products/*. You may also call our Customer Service Center at 1-800-400-7115 (TTY:711). Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays.

To be added to our distribution list regarding upcoming interested parties meetings to discuss regulatory issues related to a specific topic, including digital products, or to all topics in general, please send your contact information to *PPDD-BTC.InformationRequests@cdtfa.ca.gov*.

---

[1] *www.cdtfa.ca.gov/lawguides/vol1/sutl/6203.html*
[2] *https://onlineservices.cdtfa.ca.gov*
[3] *www.leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260SB122*