



Tax Insights
from State and Local Tax
Services

Colorado expands sales and use tax to software downloads, apps, and remote access

June 15, 2026

In brief

What happened?

Colorado enacted [HB26-1223](#) on June 4, 2026. The bill contains the safety clause, which exempts the legislation from the constitutional right of referendum. Effective January 1, 2027, the bill expands sales and use tax to computer software, regardless of method of delivery, including downloaded “apps” and software accessed remotely through the internet. Custom software remains exempt. An exemption is also provided for software governed by a negotiable license agreement.

The bill also expands and codifies the exemption for sales tax on gas and electric utilities for certain prepared food retailers. It also provides a limited sales tax deduction for certain food services and hospitality industries for specified periods in 2027 and 2028.

Why is it relevant?

Colorado now joins the majority of states that impose sales tax on sales of software regardless of delivery method. The change to include computer software regardless of method of delivery in the definition of tangible personal property expands the tax base for consumers and others operating in the state. Sellers and users of software will need to revisit their tax decisions to appropriately charge or accrue tax on software.

Actions to consider

Businesses should evaluate existing software usage, contractual language, and transaction structure to determine whether these transactions will be subject to tax.

The exemption for software governed by a negotiable license agreement will require additional clarification and could create concerns regarding documentation. License agreements should be reviewed with a focus on confirming whether they are negotiable and how that would be documented should that status be challenged.

The change also creates uncertainty for sourcing software transactions. Software downloaded as apps on cell phones and other mobile devices could pose sourcing challenges. Processes to document this information should be considered. Software accessed remotely should be reviewed to determine whether use can be identified, documented, and allocated.

In detail

Effective on January 1, 2027, HB26-1223 makes significant changes to how tax applies to computer software, expanding to include all methods of delivery, including downloads, “apps,” and remote access (software as a service, or SaaS). It provides an exemption for the sale and use of software that is governed by a negotiable license agreement, which is defined generally as a written agreement that is individually bargained for between licensor and licensee and bears signatures of both parties. This provision is intended to create an exemption for some business-to-business transactions. Software developed for use by a particular user (custom) would remain exempt.

As approved by the legislature, the bill:

- Amends the definition of “mainframe computer access”
- Amends the definition of “tangible personal property” to include computer software, removing previous conditions
- Amends the definition of “computer software” to mean a set of coded instructions that are both designed to cause a computer or other electronic device to perform a task and are delivered by any means, including compact disc, download, or remote access through the internet
 - Clarifies that computer software includes applications installed on cellular phones, tablets, or other mobile devices
 - Specifically deletes an exception for computer software that is provided through an application service provider, delivered by electronic computer software delivery, or transferred by load and leave computer software delivery
 - Deletes all previous computer software-related definitions in this section, including electronic computer software delivery, load and leave computer software delivery, prepackaged for repeated sale or license, tangible medium, tear-open nonnegotiable license agreement
 - Deletes language related to internalized instruction code and allocation of licenses used in Colorado versus elsewhere

- Amends exemptions available for tangible personal property in CRS 39-26-713 to include an exemption for the sale, storage, use, or consumption of computer software that is either governed by a negotiable license agreement (related to licensee's access to) or developed for use by a particular user.

Safety clause

The act contains the "safety clause," stating that the general assembly finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, or safety or for appropriations for the support and maintenance of the departments of the state and state institutions. This exempts the legislation from the constitutional right of referendum, meaning the law takes effect immediately upon the governor's signature and cannot be petitioned to a public vote.

Other provisions of interest

Prepared food retailers – gas and electric utility exemption/credits

HB26-1223 expands and codifies an exemption found in CRS 39-26-102(21) related to certain prepared food retailers. For periods beginning July 1, 2026 through June 30, 2046, retailers who sell food or drink, and whose sales of prepared food exceed 25% of the retailer's total sales revenue, are deemed to use gas and electricity in the processing of prepared food. Eligible retailers would be able to claim an exemption for 100% of the purchase price paid by a retailer for gas and electricity (this exemption is currently limited to 55%). The exemption from the tax would be claimed directly with the gas or electric service utility. Alternatively, the tax incurred can be taken as a credit against the tax collected by the retailer. Retailers whose sales of prepared food do not exceed the 25% threshold would be allowed a credit against tax collected equal to 0.5% of a retailer's sales of prepared food.

Sales tax deduction for certain food services and hospitality industries

In 2027 and 2028, for July, August, November, and December, qualifying restaurants, bars, and certain other food vendors would be eligible to deduct up to \$70,000 of taxable sales and retain the associated state sales tax collected up to a maximum of \$14,000 in that month. This includes qualifying retailers in the alcoholic beverages drinking places industry, restaurant and other eating places industry, food service contractors, catering services, and mobile food services (including hotel-operated businesses).

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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