



US Indirect Tax Digest

Highlighting indirect tax developments

3rd Quarter 2026



Welcome to the US Indirect Tax Digest. We highlight significant sales and use tax legislative enactments, regulatory adoptions, judicial decisions, and administrative guidance. We hope that you find the digest valuable and look forward to your feedback.

Jennifer Jensen

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California's application of sales/use tax to digital products--CDTFA releases discussion paper and draft emergency regulations

Effective January 1, 2027, California expands its sales/use tax to certain digital products, including software delivered electronically and SaaS. CDTFA released its initial draft of emergency regulations on September 1, 2026. Final comments were due on September 24, 2026.

CDTFA continues to work with taxpayers to provide guidance to implement the expanded tax base and clarify concepts, such as the exclusion for digital infrastructure, multiple points of use, and use tax direct payment permits. The draft regulations also discuss the procedures related to the liability for transactions exceeding \$5 million in the aggregate with a single vendor.

The release includes draft language for the following amended or proposed regulations

- Reg 1502 (Amended), Computers, Programs, and Data Processing
- Reg 1502.2 (Proposed), Custom Computer Software
- Reg 1507 (Amended), Technology Transfer Agreements
- Reg 1600 (Proposed), Application of Sales and Use Tax to Digital Products
- Reg 1600.1 (Proposed), Tax Liability Threshold for Digital Products
- Reg 1600.2 (Proposed), Digital Products Purchased for Multiple Points of Use
- Reg 1600.3 (Proposed), Digital Products Purchased Solely for Use Outside this State or in Interstate or Foreign Commerce
- Reg 1699.6 (Amended), Use Tax Direct Payment Permits

These rules are still developing. Since releasing the draft regulations, CDTFA has received significant feedback. The regulations may be revised and additional guidance may be issued before the new digital product rules take effect.

Let's talk

To discuss planning strategies before the January 1, 2027 effective date, contact:

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Illinois enacts transaction tax on cryptocurrency via “digital asset business activity”

Effective January 1, 2027, the Digital Asset Tax Act imposes tax on Illinois customers that receive digital asset business activity from a digital asset broker. This activity includes exchanges, transfers, and storing of digital assets. The tax is imposed at 0.2% on the value of underlying digital assets involved in the transaction.

The fiscal year 2027 budget bill ([SB 3019](#)), signed by Illinois Governor Pritzker on June 16, 2026, includes the Digital Asset Tax Act, imposing tax on digital asset transactions. This tax resembles a transaction tax on gross receipts from digital asset transfers and requires digital asset brokers with nexus in Illinois to collect the tax on each sale. On June 22, 2026, [HB 5798](#) was introduced in the Illinois General Assembly, which if passed, would repeal this tax completely. The tax has already drawn legal challenges.

Digital asset brokers will be required to register and collect the tax.

For more information, see PwC's Insight [here](#).

Legal challenges prompt joint delayed implementation of Illinois' Digital Asset Tax Act

The Sangamon County Circuit Court approved an order delaying the effective date of the Digital Asset Tax until July 1, 2027. The Agreed (Stipulated) Motion for Preliminary Injunction to preliminarily enjoin, stay, and continue the effective date of the Digital Asset Tax was filed jointly by the state of Illinois, along with the Chamber of Digital Commerce and Illinois Blockchain Association on October 1, 2026.

The action was prompted by the two challenges initiated against Illinois' Digital Asset Tax (DAT) Act. The Chamber of Digital Commerce, along with the Blockchain Association and Crypto Council for Innovation (CCI), initially filed complaints in Sangamon County Circuit Court (July 21, 2026, and August 21, 2026, respectively). The plaintiffs seek declaratory and injunctive relief preventing enforcement of Illinois' newly enacted DAT Act. The plaintiffs also seek preliminary and permanent injunctions preventing enforcement of the Act. No court has yet ruled on the merits of the allegations. *Chamber of Digital Commerce d/b/a The Digital Chamber v. Harris, et al.*, Verified Complaint for Declaratory and Injunctive Relief, Circuit Court of the Seventh Judicial Circuit, Sangamon County, Illinois (July 21, 2026); *Blockchain Association & Crypto Council for Innovation v. Harris, et al.*, Complaint for Declaratory and Injunctive Relief, Circuit Court of the Seventh Judicial Circuit, Sangamon County, Illinois (Aug. 21, 2026)

For more information, see PwC's Insight [here](#).

Maryland Tax Court finds digital advertising tax invalid in three refund cases

The Maryland Tax Court on August 14, 2026 issued three memoranda and orders granting petitioners summary judgment, finding that:

- The digital advertising gross revenues (DAGR) tax violates the Internet Tax Freedom Act (ITFA), the dormant Commerce Clause, and Due Process.
- In one of the decisions, the broadcast news media exemption results in a First Amendment violation. In that same decision, the court separately rejected a foreign Commerce Clause challenge.

The court reversed the Comptroller's denial of tax year 2022 (TY2022) refund claims, ordering refunds along with interest for all three petitioners. *Apple Inc. v. Comptroller*, Md. Tax Ct. No. 23-DA-OO-0456 (8/14/26); *Google LLC v. Comptroller*, Md. Tax Ct. No. 23-DA-OO-0649 (8/14/26); *Peacock TV, LLC v. Comptroller*, Md. Tax Ct. No. 23-DA-OO-0654 (8/14/26).

Digital advertising service providers should:

- Assess the opportunity for any potential refund claims against the three-year limitation period, which generally runs from the date each tax payment was made;
- Inventory/track any existing refund claims that may have been initiated;
- Evaluate appropriate reserve and financial-statement treatment while judicial review remains possible;
- Carefully evaluate the impact of these decisions before ceasing payment, since the decisions are only binding for the three petitioners.

For more information, see PwC's Insight [here](#).

The Maryland Comptroller filed petitions for judicial review on September 10, 2026 (posted September 15), challenging the decisions to the Maryland Circuit Court (trial court), Anne Arundel County.

Pennsylvania shifts to destination-based sourcing for local sales tax

Pennsylvania's Act 21 of 2026 updated local sales tax sourcing rules for Philadelphia and Allegheny County from a generally origin-based approach tied to the vendor's location to a destination-based approach tied to where the taxable product or service is delivered. The change applies to Philadelphia's 2% local sales tax and Allegheny County's 1% local sales tax. Pennsylvania's 6% state sales tax and state and local use tax rules remain unchanged.

Although the new sourcing provisions apply to tax years beginning after December 31, 2025, the Pennsylvania Department of Revenue has announced that it will begin enforcing the new sourcing rules on October 1, 2026. Vendors already required to collect Pennsylvania's 6% state sales tax should evaluate whether their tax systems are configured to collect the applicable local tax on taxable sales delivered to customers in Philadelphia or Allegheny County based on the destination location.

Let's talk

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