



Date: May 20, 2026  
To: Members, Senate Budget Subcommittee No. 4  
From: Peter Blocker, Vice President of Policy  
Subject: **OPPOSITION to Governor's 2026-27 Proposed Tax Increase on Software Users**

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The California Taxpayers Association respectfully opposes the governor's 2026-27 budget proposal to increase sales taxes by nearly \$2 billion annually by expanding California's sales tax base to include sales of digital prewritten software, regardless of how the product is delivered to the purchaser.

For nearly a century, California's sales and use tax has applied only to sales of tangible personal property. The governor's May Revision proposal would upend that precedent by expanding the tax to digital products and moving California toward the taxation of services. This is a major, negative shift in law and tax policy that would add to the costs of products and services used by nearly every California resident and business, increasing the cost of living for millions of Californians.

Specifically, the proposal would impose sales tax on digital prewritten software and Software-as-a-Service products. Common services that would be subject to higher taxes include:

- **Architecture and Engineering.** Design, drafting, modeling, and project-management software used by architects, engineers, contractors, and construction firms.

- **Artificial Intelligence.** AI-powered tools used for writing, coding, research, customer service, automation, and business operations.
- **Customer Relationship Management.** Software used to manage sales pipelines, customer contacts, client communications, and business development.
- **Cyber Security.** Software and subscriptions used to protect businesses from cyberattacks, data breaches, malware, and other unauthorized access.
- **E-Commerce Payments.** Software used to process online transactions, manage digital storefronts, track orders, and support customer payments.
- **Email and Word Processing.** Common workplace software used for email, calendars, documents, spreadsheets, presentations, and collaboration.
- **Finance and Bookkeeping.** Accounting, invoicing, tax, budgeting, expense-management, and financial reporting software used by businesses.
- **Fitness and Wellness.** Software used by gyms, wellness providers, employers, and consumers for scheduling, training, health tracking, and wellness programs.
- **Insurance.** Software used by insurers, brokers, employers, and businesses to manage policies, claims, benefits, compliance, and risk; as well as the FAIR Plan's payment processing platform.
- **Legal Compliance.** Software used to manage contracts, electronic signatures, regulatory filings, employment compliance, tax compliance, and corporate records.
- **Marketing and Advertising.** Digital tools used to manage advertising campaigns, email marketing, social media, customer analytics, and outreach.
- **Payroll and HR.** Software used to process payroll, manage employees, administer benefits, track time, and comply with employment laws.
- **Video, Photo and Creativity.** Software used for graphic design, video editing, photo editing, content creation, branding, and digital media production.

The governor's proposal impacts every sector of California's economy, increasing costs for families and businesses at a time when affordability is one of the state's greatest challenges.

The proposal also creates tax pyramiding that will compound its negative effects on the economy. Sales taxes are generally intended to apply to final consumer purchases, not to the

business inputs used to produce goods and services. By taxing digital software and SaaS products used by businesses – including payroll, accounting, cybersecurity, customer management, compliance, and other operational tools – the proposal would impose tax at multiple stages of production.

Those added costs would not stop with the business that pays the software bill. They would be built into the price of finished goods and services, passed along to consumers, and then potentially taxed again when the final product is sold. This layering of taxes makes the true tax burden less transparent, increases costs throughout the supply chain, and disproportionately affects small and mid-sized businesses that rely on affordable digital tools to operate efficiently.

In practice, the proposal would not simply tax software. It would tax the modern infrastructure that businesses use to operate, embedding higher costs into nearly every sector of California's economy and ultimately raising prices for consumers.

For these reasons, CalTax respectfully opposes the budget proposal to tax digital prewritten software and Software-as-a-Service products.

*On behalf of...*

California Taxpayers Association  
Business Software Alliance  
California Businesses Roundtable  
California Retailers Association  
Contra Costa Taxpayers Association  
Family Business Association  
Greater High Desert Chamber of Commerce  
Kern County Taxpayers Association  
Silicon Valley Leadership Group  
TechNet