July 22, 2026

California Department of Tax and Fee Administration
ATTN: Sandy Barrow
651 Bannon St. Suite 100
Sacramento, CA 95811

Re: Proposed Regulatory Framework for the Sales and Use Taxation of Software, Cloud Services, and Digital Products – Stakeholder Comments

Dear Board Members and Policy Division Leadership:

On behalf of the Computer & Communications Industry Association (CCIA) we write to share initial feedback and recommendations regarding the California Department of Tax and Fee Administration's (CDTFA) ongoing effort to develop regulatory guidance for the sales and use taxation of software, cloud computing, and digital products. Our organizations represent a broad cross-section of technology, telecommunications, and enterprise firms that drive innovation, productivity, and economic growth across California.[1]

As the Department evaluates potential regulatory frameworks, we urge CDTFA to prioritize administrability, certainty, and consistency. Tax rules in this area must reflect how software and digital offerings are actually developed, packaged, sold, and consumed in modern business environments. Below, we outline key principles and practical recommendations to support an administrable and fair regulatory structure.

Establish Clear Definitions and Practical Examples for Digital Products and Digital Infrastructure

Modern technology platforms are diverse, fluid, and rapidly evolving. To provide certainty for taxpayers and auditors alike, the regulations must establish clear, statutory-aligned definitions accompanied by real-world examples that distinguish between distinct product categories. Specifically, the guidance should clearly differentiate among Downloaded/Prewritten Software, Software-as-a-Service (SaaS), and Cloud Infrastructure and Platform Services (IaaS/PaaS).

Furthermore, the framework must explicitly address AI-Enabled Offerings (such as autonomous decision engines, generative models, machine learning APIs, and integrated assistant tooling), Digital Content (streamed or downloadable media, video, audio, and publications), Data Services (real-time data feeds, market research, and analytics databases), and Professional Services (such as custom software development, system architecture consulting, technical implementation, and IT managed services). Because modern enterprise platforms frequently combine several of these categories into unified offerings, clear guidance on hybrid models will be essential to prevent misclassification and inconsistent audit outcomes.

We urge CDTFA to explicitly clarify that cloud-based storage solutions (such as raw cloud storage, block storage, object storage, and foundational database infrastructure) fall squarely under the statutory exclusion for "digital infrastructure." Digital infrastructure represents foundational computing power and storage used to host, run, or build a customer's own applications and data. Because cloud providers and enterprise buyers require equal operational clarity across the industry, CDTFA should publish broad, uniform guidance confirming that core cloud storage and infrastructure-as-a-service (IaaS) offerings are non-taxable, preventing disparate treatment across cloud platforms.

Exclude or Minimize the Impact on Intercompany Transaction

In modern enterprise structures, software, centralized cloud environments, and digital platforms are frequently procured or developed by a central parent entity and shared among wholly-owned subsidiaries or corporate affiliates. Subjecting internal transfers, cost-reimbursements, management fee allocations, or intercompany journal entries to sales or use tax creates an artificial tax burden on normal corporate structuring.

CDTFA regulations should explicitly clarify that intercompany transfers, cost-sharing allocations, and transactions between affiliated entities under common control (e.g., 80%+ ownership) are outside the scope of taxable retail sales, or at minimum establish a clear intercompany exclusion when software is procured centrally for internal administrative use across corporate affiliates.

Clarify Treatment of Intellectual Property Licensing and Transfer of Technology Agreements

Clear guidance is necessary regarding the intersection of digital product tax expansion and intangible intellectual property (IP) licensing. CDTFA should confirm that a license of intellectual property or royalty transaction—when not transferring standardized executable prewritten software—remains a non-taxable intangible transaction.

Furthermore, where digital software is licensed alongside patent, copyright, or technology rights, existing Technology Transfer Agreement (TTA) principles under Revenue & Taxation Code §§ 6011(c)(10) and 6012(c)(10) should be preserved. Pure IP licensing, patent royalties, and technology transfers that convey underlying intangible rights rather than off-the-shelf digital products must not be treated as taxable sales.

Adopt Practical Sourcing Rules and Seller Safe Harbors for Enterprise Customers

Enterprise customers routinely deploy digital solutions across large workforces with end-users spread across multiple states and countries. Expecting a seller to track, verify, and source sales tax based on the physical location of every individual employee or terminal is commercially unfeasible and creates insurmountable privacy and technical challenges. To address this reality, sellers should be permitted to rely on practical enterprise sourcing based on reasonable, good-faith information provided by the customer at the time of sale—such as the customer's primary business location, primary address of software administration, or a mutually agreed allocation schedule provided by the buyer.

In addition, businesses require meaningful seller safe harbors to ensure that tax determinations made in good faith at the time of transaction will be respected. CDTFA should establish a clear safe harbor providing that if a seller collects and remits tax based on information reasonably available and provided by the customer at the time of sale, the seller will not face retroactive tax assessments if the customer's internal usage patterns or user locations subsequently shift over time.

Preserve Long-Standing Resale Principles Across Distribution Channels

The modern technology ecosystem relies heavily on multi-tiered distribution channels, including independent software vendors (ISVs), value-added resellers (VARs), original equipment manufacturers (OEMs), distributors, and digital marketplaces. The updated rules must explicitly preserve foundational sale-for-resale principles for software and digital products across all channel sales models. Resale treatment must apply whenever a product or service is purchased for wholesale redistribution, white-labeling, or re-bundling into a downstream product, ensuring tax is collected solely at the final point of retail sale.

Provide Guidance for Bundled Technology Transactions

Enterprise technology agreements frequently package software licenses or SaaS subscriptions together with implementation, custom integration, ongoing technical support, consulting, and staff training. CDTFA must establish practical guidance for evaluating these mixed transactions. The framework should incorporate a "primary purpose" test or clear unbundling provisions that allow non-taxable professional services to retain their non-taxable status when separately stated on an invoice or supported by reasonable contract allocation.

Consider Business Inputs to Prevent Tax Pyramiding

California businesses are major purchasers of cloud infrastructure, cybersecurity monitoring tools, enterprise software, and analytical databases necessary to run their day-to-day operations. Taxing these essential B2B business inputs creates tax pyramiding—where taxes compound at multiple stages of production and delivery. This ultimately artificially inflates costs for end-consumers and places California-based businesses at a competitive disadvantage relative to out-of-state competitors. CDTFA should carefully construct exemptions or exclusions for intermediate business inputs to keep the technology supply chain efficient.

Clarify Multistate and Multinational Business Allocations

Enterprise buyers frequently centralize IT procurement through a single headquarters or shared services entity in California, while actual product use is distributed globally. Guidance must explicitly address centralized procurement models and partial California use. Sellers and buyers should be permitted to use reasonable, standardized allocation methodologies—such as seat licenses, headcounts, or regional revenue ratios—to divide the tax base appropriately across jurisdictions without administrative friction.

Minimize the Risk of Multiple Taxation

As state tax authorities nationwide expand sales tax bases to encompass digital products and cloud offerings, California businesses face an escalating risk of double or multiple taxation on the same transaction. California's framework should include robust tax credit mechanisms for sales or use taxes legitimately paid to other states and align with prevailing interstate sourcing standards to ensure single-jurisdiction taxation.

Allow Sufficient Implementation Time and Publish Practical Guidance

Implementing structural changes to digital tax rules requires significant technology and workflow adjustments. Companies will need ample lead time—ideally 12 to 18 months following the publication of final regulations—to update automated tax calculation engines, enterprise resource planning (ERP) systems, billing engines, procurement workflows, and customer contracts.

Additionally, because the technology sector changes rapidly, publishing comprehensive administrative FAQs, practical flowcharts, and detailed scenario-based examples alongside regulations will be just as critical as the regulatory text itself in driving smooth compliance across all market participants.

By prioritizing administrability, certainty, and consistency, CDTFA can construct a modern tax framework that supports California's innovative economy while ensuring clear compliance expectations. We appreciate the opportunity to provide these comments and welcome the opportunity to engage with the Department throughout the regulatory process.

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CCIA appreciates the opportunity to share our views and stand ready to work with the Department on future rule development.

Sincerely,

Aodhan Downey
State Policy Manager, West Region
Computer & Communications Industry Association