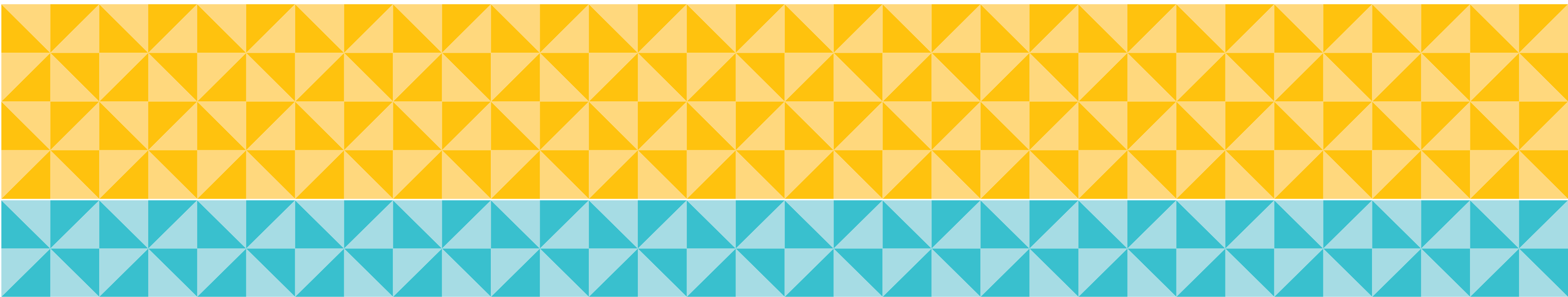




California SB 122

Digital Products Expansion: What Changes and How to Prepare

AUGUST 2026



SB 122 at a Glance: Changes & Scope

MAJOR CHANGE IN CALIFORNIA TAX TREATMENT - Effective January 1, 2027

- Expands California's definition of tangible personal property to include qualifying digital products
- May bring many SaaS and cloud-based software arrangements into the sales and use tax structure
- Taxability will depend on the product, functionality, delivery method, transaction structure, and applicable exclusions

PRODUCTS POTENTIALLY IN SCOPE · WHAT IS THE CUSTOMER PURCHASING?

- Prewritten software delivered on physical media
- Electronically downloaded software
- Remotely accessed software
- Bundles may require separating software, services, and other digital content
- Not all digital content is included - classification will be fact-specific

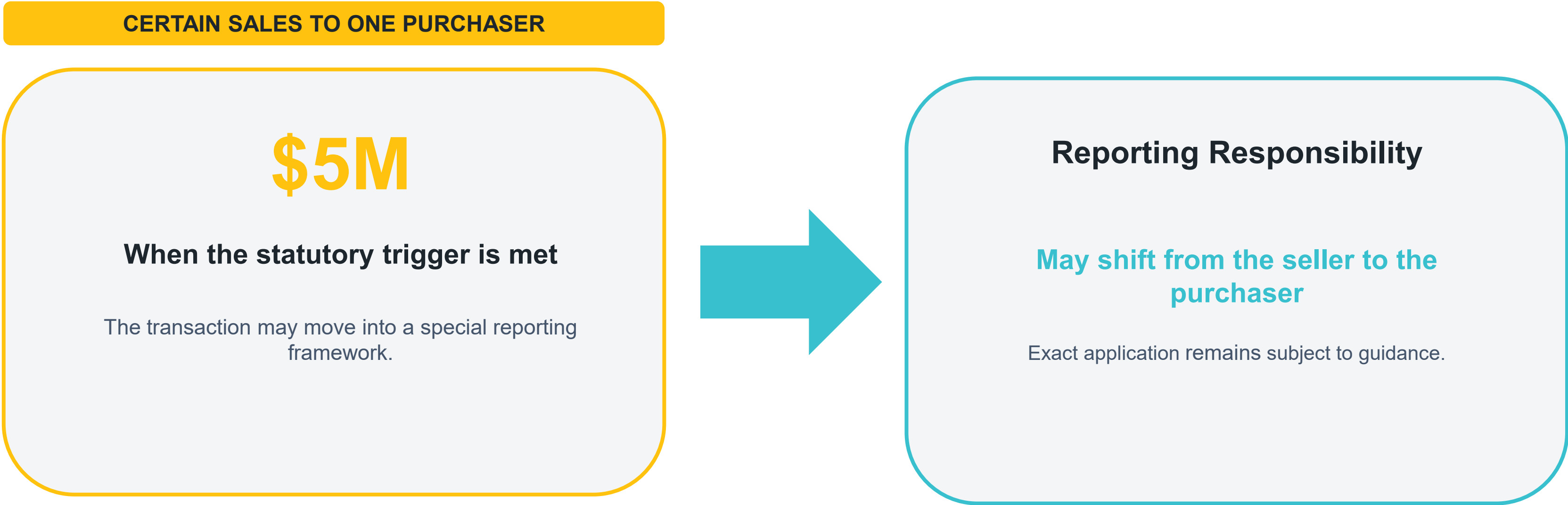
TEST · Classification, functionality, delivery method, transaction structure, and exclusions

WATCH · \$5M single-purchaser trigger; sourcing, documentation, exemptions, and transition guidance

ACT NOW · Implementation guidance is still developing



The \$5 Million Single-Purchaser Trigger



Key Guidance Areas:

Application • Sourcing • Documentation • Exemptions • Transition Procedures

Exemptions & Limitations

The law includes exclusions and limitations for specific circumstances.



Out-of-State Use

Certain qualifying uses outside California



Interstate / Foreign Commerce

Transactions protected under applicable commerce rules



Custom Software

Custom software treatment remains distinct



Qualifying Services

Some service arrangements may fall outside the expanded definition



Other Specific Circumstances

Additional statutory limitations may apply



Documentation

Support for use, location, and exemption claims will matter

APPLICATION WILL DEPEND ON FACTS AND CDTFA GUIDANCE

Working Implementation Timeline

Implementation is still developing; timing and details may change.



THE GOAL: BE READY BEFORE THE EFFECTIVE DATE

Questions & Next Steps

Let's continue the conversation.

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