Cal CPA

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

Cal CPA

The $5 Million Single-Purchaser Trigger

CERTAIN SALES TO ONE PURCHASER

$5M

When the statutory trigger is met

The transaction may move into a special reporting framework.

Reporting Responsibility

May shift from the seller to the purchaser

Exact application remains subject to guidance.

Key Guidance Areas:

Application • Sourcing • Documentation • Exemptions • Transition Procedures

CalCPA

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.

NOW
Public input begins
CDTFA gathers stakeholder feedback

AUG–SEP
Stakeholder discussions
Taxpayers, practitioners, and other stakeholders engage

FALL 2026
Guidance develops
Regulatory language and implementation guidance expected

POSSIBLY DEC.
Emergency regulations
May be submitted for review

JAN. 1, 2027
Effective date
Statutory changes take effect

THE GOAL: BE READY BEFORE THE EFFECTIVE DATE

Cal CPA

Questions & Next Steps

Let’s continue the conversation.

Dan Thompson, CPA, CMI

daniel.thompson@thompsontax.com

Adam Giera, CMI

adam.giera@thompsontax.com