

The Ad Hoc Joint Committee on the Tax Treatment of Digital Goods and Services recognizes that businesses, taxpayers, the Department of Revenue (DOR), and local taxing authorities need statutory direction regarding what constitutes a taxable event for digital goods and services. To ensure that Arizona's economy maintains a competitive tax environment, the Committee recommends that the Legislature consider legislation intended to provide such clarity in the 2018 session. The Committee recommends that any such legislation should:

- 1) create and/or update relevant statutory definitions to include "prewritten software", "digital goods" and any related terms;
- 2) determine which digital goods and services (perpetual and non-perpetual right of use) are exempt from tax consideration;
- 3) determine which digital goods and services (perpetual and non-perpetual right of use) are taxable and which current DOR classification they are taxable under (excluding the rental classification);
- 4) provide uniformity in state and local tax treatment of digital goods and services; and
- 5) clarify the sourcing and nexus for the new statutory definitions.

It is the belief of the Committee that legislation drafted based on these recommendations will:

- 1) increase taxpayer compliance and reduce the administrative burden of DOR;
- 2) encourage and promote the investment of high technology and high value-added service sectors in line with the Governor's 21st Century Economic priority; and
- 3) protect Arizona businesses from being competitively disadvantaged against out-of-state providers.