

State Tax Alert April 2026

State Sales and Use Tax Quarterly Update - April 2026

Ernst & Young LLP's Sales and Use Tax Quarterly Update provides a summary of recent major legislative, administrative and judicial sales and use tax developments.

Hawaii proposes ending exemption for most securities transactions; why this measure may have broader implications

On March 2, 2026, the Hawaii House Finance Committee recommended passage of a bill ([HB 1813](#)) that would repeal the general excise tax (GET) exemption for receipts from most securities transactions under Haw. Rev. Stat. Section 237-24.5. A companion bill ([SB 2920](#)) is currently before the Senate Ways and Means Committee.

If enacted, the bills would eliminate the exemption for amounts received by exchanges¹ from transaction fees charged to exchange members for:

1. sales or purchases of securities or products;²
2. order book executions made for purposes of effecting transactions; and
3. trade processing performed by an exchange.

The bills also would eliminate the exemption for membership dues, assessments, fines, service fees, listing and listing maintenance fees and certain other exchange receipts, as well as the exemption for sales of exchange memberships. Finally, the bills would eliminate the exemption for amounts received by exchange members for executing a securities or product transaction on an exchange, if the amounts are received from:

1. brokers or dealers registered with the Securities and Exchange Commission;
2. futures commission merchants, brokers, or associates registered with the Commodities Futures Trading Commission; or

¹ "Exchange" is defined as any "exchange or board of trade ... subject to regulation by the Securities and Exchange Commission or the Commodities Futures Trading Commission or an organization subject to similar regulation under the laws of a jurisdiction outside the United States." Haw. Rev. Stat. Section 237-24.5(b).

² "Products" means contracts of sale of commodities for future delivery, futures contracts, options, calls, puts, and similar rights." *Id.*

3. similar individuals outside of the United States for executing a securities or product transaction on an exchange.

The repeal of the exemptions would subject most exchange activity to Hawaii's 4% GET, plus applicable local GET (typically 0.5%). While the tax would not apply to gains from the sale of securities, the additional transaction costs could be passed on to consumers. The proposed measures come as Hawaii is dealing with significant anticipated budget shortfalls resulting from reductions in federal funding to the state, which are expected to impact essential services. Governor Josh Green already has proposed a three-year pause to planned personal income tax cuts that were to take effect after 2027.

Our Observation: Although this legislation is limited to Hawaii, it signals a broader effort by the states to generate additional revenue from historically nontaxed services. While such activity has been common during times when states face fiscal challenges, the trend has been rapidly accelerating in recent years with new industries, such as financial services, being targeted. In recent years, Maryland has moved to tax digital goods, digital advertising services, and most data and information technology related services.

Other Recent Sales and Use Tax Developments

Nexus and Marketplace

Idaho: The Idaho Department of Revenue (ID DOR) issued a reminder to short-term rental marketplaces that booking fees charged to customers are subject to tax; taxes that apply include sales tax, travel and convention tax, and auditorium district tax if the lodging is in an auditorium district. The ID DOR noted that these taxes may apply to other lodging and lodging-related sales. The ID DOR has posted additional information on lodging taxes [here](#) and a list of common charges and which taxes apply to such charges [here](#). Idaho Dept. of Rev, "[Common Charges for Property and Services for hotels, motels, and other providers of short-term lodging or rentals in Idaho](#)" (December 5, 2025).

Oklahoma: In response to a ruling request from a remote online retailer whose sales are made through its own website and third-party marketplaces, the Oklahoma Tax Commission said that the storage of the retailer's inventory at a marketplace facilitator's Oklahoma warehouse for which the remote retailer has no control or management authority, does not create substantial nexus for the retailer. The remote retailer also does not have economic nexus in the state as sales through its online website are below the \$100,000 nexus-creating threshold. Accordingly, the online retailer is not required to collect and remit Oklahoma sales and use tax on sales made through its own website. Sales and use tax on sales made through the

marketplace are collected and remitted by the marketplace facilitators. Okla. Tax Comm'n, [Letter Ruling 25-006](#) (January 7, 2026).

Tax Base and Taxability

South Dakota: The South Dakota Department of Revenue (SD DOR) issued guidance on the application of the state's sales tax and applicable municipal sales tax to shipping and delivery charges. Generally, sales tax applies to delivery and handling charges when the product delivered in South Dakota is taxable and does not apply to these charges when such products are not taxable. Delivery charges include shipping, transportation, postage, handling, crating, packing and fuel charges. If a transportation company is used to deliver the product and the retailer charges the customer for the delivery service, the retailer must include the charges in their taxable receipts. If both taxable and nontaxable products are shipped together, tax is due on the portion of the delivery charge for the taxable products. The portion of delivery charge is determined by using either the percentage of the sales price of taxable products compared to the total sales or by using the weight of the taxable products compared to the total weight of all property in the shipment. S.D. Dept. of Rev., "[Shipping and Transportation](#)" (November 2025).

Exemptions, Exclusions and Refunds

Illinois: In response to a ruling request for clarification regarding the taxability of dietary supplements, the Illinois Department of Revenue (IL DOR) said that dietary supplements that do not make medicinal claims qualify as food, and starting January 1, 2026, sales of food for human consumption off the premises where it is sold, are exempt from state sales and use taxes. Such dietary supplements, however, qualify as "groceries" for purposes of the new Municipal Grocery Occupation Tax and County Grocery Occupation Tax (collectively, "local grocery taxes"). Accordingly, starting in 2026 sales of these dietary supplements would be subject to applicable local grocery taxes. (Local grocery taxes may be imposed at a 1% rate by ordinance.) The IL DOR noted that dietary supplements that make medicinal claims are considered drugs, which are subject to a sales and use tax at a 1% rate. Ill. Dept. of Rev., [ST 25-0065-GIL](#) (December 5, 2025).

Texas: In response to a ruling request from a business that develops and constructs modular data centers powered by hydrogen, the Texas Comptroller of Public Accounts concluded that hydrogen is not a "gas" exempt from sales and use tax under Tex. Tax Code Section 151.317. Texas law provides sales and use tax exemptions for certain uses of gas and electricity as a utility, including gas or electricity sold for use directly by a data center. The Comptroller said that it has "consistently interpreted" gas to mean natural gas. Because hydrogen is not an exempt gas, the business's purchases of hydrogen or hydrogen fuel cells to power its data centers are purchases of tangible personal property subject to the state's sales and use tax. Tex. Comp. of Pub. Accts., [Star No. 202511012L](#) (November 21, 2025).

Transactions and Services

Colorado: On February 18, 2026, the Colorado Department of Revenue (CO DOR) [held](#) a second workgroup meeting to discuss the adoption of a new rule regarding the application of sales and use tax on leases and the acquisition of leased property - [Special Rule 47](#). Under the general rule, leases of tangible personal property in Colorado are retail sales that generally are subject to Colorado state and state-administered local sales taxes, with certain exemptions. The draft rule provides that a lessor's purchase of property for a long-term lease is a wholesale sale that would be exempt from sales and use tax if it falls within the definition of a "wholesale sale" under C.R.S. 39-26-102(19)(a) and meets the requirements for the exemption in C.R.S. 39-26-713(2)(b). To be considered a wholesale sale, the primary purpose for acquiring the property would have to be to lease the property in an unaltered condition and basically unused by the lessor, except as otherwise provided. The exemption would not apply if the lessor uses or intends to use the property. The exemption would be allowed only with respect to property acquired by the lessor and leased to a lessee in the regular course of the lessor's business. Under the proposed rule, use by the lessor would be presumed if the lessor leases the property to a related party without charge or a charge below an arm's length rental charge. Regarding short-term leases, the lessor would be able to purchase the property tax free only if the CO DOR grants written permission to do so, and the lessor agrees to collect applicable Colorado and state-administered local sales taxes on lease payments. Permission to purchase tax-free property for short-term lease would apply to all property subsequently purchased by the lessor for short-term leases. The draft rule would provide that long-term lease payments are subject to Colorado and state-administered local sales taxes. Short-term lease payments also would be subject to Colorado and state-administered local sales taxes if the lessor did not pay the applicable Colorado and state-administered local sales or use taxes on the property's acquisition. The proposed rule would provide guidance on the taxability of long-term and short-term sublease payments. Generally, sale-leaseback transactions that serve to finance the purchase of the property would not be considered a lease for sales tax purposes. The draft rule would provide guidance on a lessor's responsibilities, including licensing and registration and collection of tax. Sales of previously leased property would be subject to Colorado and state-administered local sales taxes in the same manner as any other sales of used property. The rule would define key terms, including "lease" (and lists what the "lease" does not include), "long-term lease," "related party," "state-administered local sales taxes," "short-term lease" and "sublease." Taxpayers are reminded that the process is in the discussion phase only, and no rule has been adopted.

Michigan: The Michigan Department of Treasury (MI DOT) updated its Revenue Information Bulletin on the application of the state's sales and use tax on food for human consumption. In the prepared food - food sold in a heated state or that is heated by the seller discussion (Section 2.1), the MI DOT said that a "seller generally may not avoid tax by 'unbundling' the transaction" (i.e., characterizing the transaction as the sale of exempt food and the sales of service). The MI

DOT amended Section 2.3.3.3 “Provided by the seller” for sellers with a “prepared food sales percentage of greater than 75%” regarding food items with multiple servings, to provide that the number of servings packaged as a single food item is determined from the information on the food item’s label. If the number of servings cannot be determined from the food item’s label, the seller may determine the reasonable number of servings. The MI DOT revised Section 2.3 “food sold with eating utensils provided by the seller,” amended several examples and added new examples throughout the bulletin. Mich. Dept. Treas., [RAB 2026-2 “Sales and Use Tax - Food for Human Consumption”](#) (January 29, 2026) (updates and replaces RAB 2024-13).

Michigan: The Michigan Department of Treasury issued an updated bulletin on the application of the state’s sales and use tax to the construction industry generally and contractors; the bulletin does not address the tax base for manufacturers/contractors that affix their product to the real estate of others, among other issues. Topics discussed include the following: (1) taxable sales to contractors and use tax for conversions; (2) exempt sales to contractors and core charge credit and refund, with focused discussions on nonprofit hospitals, qualified nonprofit housing, qualified water or air pollution control facilities, qualified data centers, Indian Tribes, qualified business activity (Enterprise Zones), foundations for certain machinery or equipment used in industrial processing, property to be affixed to and becoming a structural part of real estate located outside the state, and property purchased or acquired for eligible activity in transformational brownfield plans; (3) contractors engaged in retail sales; and (4) who is a retailer (supplier to the contractor) for sales and use tax purposes. The guidance includes several examples. Mich. Dept. of Rev., [Revenue Administrative Bulletin 2025-18](#) (updated December 11, 2025).

Rhode Island: The Rhode Island Department of Taxation (RI DOT) determined that an out of state company’s sales of subscriptions to online access to published legal authorities, news publications, court filings and other public records are subject to the state’s sales and use tax as vendor-hosted prewritten software. In so finding, the RI DOT, among other reasons, rejected the company’s argument that the sales were tax exempt sales of information services. Rather, the RI DOT concluded that the “process of accessing and retrieving and researching the content [in the taxpayer’s online system] falls under the definition of vendor-hosted prewritten computer software.” The RI DOT reasoned that the software performs a task, it searches data inputted by the customer, it sorts through data to match search items, and it retrieves information. R.I. Dept. of Taxn., [Admin. Hearing #2026-01](#) (January 21, 2026).

South Carolina: The South Carolina Department of Revenue (SC DOR) issued an advisory opinion in which it describes the application of sales tax to a taxpayer’s charges for the rental or lease of tangible personal property, in this case equipment, when taxpayer accompanies and remains with the equipment for the duration of a customer’s event to monitor or operate the equipment. The SC DOR said that when a person is furnished in conjunction with the rental or lease of equipment and that person uses certain skills or expertise to perform a function or produce a desired effect over a machine or device, the person is an operator providing a

nontaxable service. In contrast, such furnished person is not an operator when they caution, remind or enforce conduct for equipment users or troubleshoot or maintain the equipment. In this case, charges for rental or lease of equipment are subject to state and local sales tax. The advisory opinion includes several examples of the taxability of rentals or leases of inflatables, mechanical bulls, construction equipment, gaming trailer, mobile simulator (e.g., golf, car, airplane), mobile laser tag equipment and a laser tag course, and tables and chairs. S.C. Dept. of Rev., [SC Rev. Ruling #26-3](#) (February 17, 2026).

Utah: Beginning January 1, 2027, SB 287 (enacted March 25, 2026) imposes an annual tax on entities that deliver targeted advertising in the state if the entity's gross receipts from targeted advertising to an audience or individual in the state is \$1 million or more derived from targeted advertising in Utah and \$100 million or more derived from all targeted advertising, regardless of location. The tax applies if the business entity's gross receipts for the tax year derived from all targeted advertising is at least 50% of its total gross receipts for the year. Targeted advertising is a transaction in which a business entity delivers, by any means, an advertisement to an audience or individual on behalf of an advertiser in exchange for consideration, and employs the following practices to facilitate this transaction (1) it sells advertising space to the advertiser through a bidding process, (2) it obtains or develops individuals data profiles to deliver the advertisement, and (3) the individual the advertising is delivered to can interface with the advertisement to access information or make a purchase, including via a link or QR code. The law describes how to calculate the tax and how to determine a targeted advertising entity's gross receipts for the tax year derived from targeted advertising in the state. [SB 287](#) (enacted March 25, 2026).

Utah: Effective October 1, 2026, SB 73 (enacted March 19, 2026) imposes a new excise tax on commercial entities required to implement age verification systems (i.e., a "covered entity") in an amount equal to 2% of the sales price of covered transaction. A "covered transaction" is defined as "amounts paid to or charged by a covered entity for access to digital images, digital audio-visual works, digital audio works, digital books, or gaming services, including the streaming of or subscription for access to [such items]" regardless of the delivery method or type of access (e.g., single use or subscription). The new tax will be administered, collected and enforced by the state tax commission. A covered entity required to file a sales and use tax return will remit this tax on the same schedule as its sales and use tax filing. Penalty and interest will be imposed for failure to timely pay the tax or failure to file a return or statement. Utah joins other jurisdictions including Maryland, Washington and the City of Chicago in enacting taxes aimed, directly or indirectly, at social media companies. Maryland's digital advertising tax is imposed on the annual gross revenue derived from digital advertising in the state, Washington taxes sales of digital and nondigital advertising services, and Chicago's new tax is only imposed on social media companies that meet a user threshold. Jurisdictions that recently or are currently considering legislation that would tax social media companies or digital advertising services include, but are not limited to: California (social media), Hawaii (social media), Massachusetts (digital advertising), Michigan (digital advertising), Minnesota (both),

Mississippi (social media), Nebraska (social media), New Jersey (social media/data collection), New York (digital advertising), Pennsylvania (digital advertising), Rhode Island (digital advertising) and Tennessee (digital advertising). [SB 73](#) (enacted March 19, 2026).

Technology and Digital Taxes

Kentucky: The Kentucky Department of Revenue (KY DOR) in its Winter issue of *Sales Tax Facts*, said that the state's sales and use tax applies to sales of prewritten computer software and prewritten computer software access service that include Artificial Intelligence (AI) components. The KY DOR noted that an AI software program's ability to alter its responses or output based on data it receives from users without being explicitly programmed, is not custom software. Ky. Dept. of Rev., [Sales Tax Facts](#) (Winter 2025/2026).

Louisiana: The Louisiana Department of Revenue updated its guidance on the application of sales and use tax on digital products and related services to clarify "what qualifies as digital audiovisual works, what does not fall under website hosting, and what qualifies as communication and collaboration tools." La. Dept. of Rev., "[Sales and Use Tax on Digital Products and Related Services](#)" (updated November 2025).

Utah: SB 162 (enacted March 23, 2026) clarifies certain sales and use tax provisions. The law clarifies that sales and use tax is imposed on amounts paid or charge for:

- access to digital audio-visual works, digital audio works, digital books or gaming services (collectively, digital works), including subscription-based streaming services, regardless of the delivery method or whether the amount paid or charged to access the digital works is for a single-use or a subscription.
- the storage, use or other consumption of prewritten computer software delivered electronically or by load and leave, or seller-hosted prewritten computer software.

The law adds a definition of "seller-hosted prewritten computer software" to mean "prewritten computer software that is accessed through the internet or a seller-hosted server, regardless of whether: (a) the access is permanent; or (b) any downloading occurs." The law also clarifies that the exemption from sales and use tax applies to amounts paid or charged for a transaction subject to the multi-channel video or audio service tax. SB 162 takes effect on July 1, 2026. [SB 162](#) (enacted March 23, 2026).

Practice, Procedure, Policy, Controversy and Compliance

Multistate: A recent study prepared by Ernst & Young LLP (EY US) in conjunction with the Council On State Taxation (COST) and the State Tax Research Institute (STRI) shows that businesses paid \$1.1 trillion in state and local taxes in FY24, which was 45.8% of all tax revenue at the state and local level. Businesses paid \$640.8 billion in state-level taxes in FY24, which

was a 4.0% increase from the prior fiscal year, and \$507.3 billion in local taxes, which was 5.5% higher, for a combined year-over-year growth rate of 4.7% over FY23. This study is the 23rd annual report prepared by EY US. The estimates presented in this study are for fiscal year 2024 (FY24), which ran from July 2023 through June 2024 for most states.³ Business taxes include property taxes paid by businesses; sales and excise taxes on intermediate inputs and capital expenditures purchased by businesses; business entity taxes such as the corporate income tax, gross receipts tax, and franchise taxes; the share of individual income taxes paid by owners of noncorporate businesses (pass-through entities (PTEs)); unemployment insurance taxes; and all other state and local taxes that are the statutory liability of business taxpayers. Sales tax collections from business purchases of intermediate inputs and capital expenditures are the second largest source of business tax revenue for state and local governments, accounting for 21.4% of all taxes paid by businesses in FY24. The \$245.3 billion in sales tax collections was 1.7% higher than FY23.² The sales tax is the largest source of business tax revenue at the state level, accounting for 29.4% of all taxes paid by businesses. Although they are the second largest local business tax, business sales taxes only make up 11.2% of total local business tax collections. The study can be accessed [here](#).

District of Columbia: New law ([B26-0265](#)) eliminates the previously enacted sales and use tax rate increase from 6.0% to 6.5%, which was set to take effect on October 1, 2025 (see Laws 2024, [L25-0217](#)). The 6.0% rate will remain through September 30, 2026. B26-0265 does not change the scheduled sales and use tax rate increase to 7.0%, which is set to take effect on October 1, 2026. B26-0265 also extends the sunset date of the temporary increase to the rate of the additional sales and use tax on gross receipts for transient lodgings or accommodations through September 30, 2027 (from March 31, 2027). (Law enacted in 2023 temporarily increase the rate from 0.3% to 1.3%.) D.C. Laws 2025, L26-0055 (B26-0265), became law on December 6, 2025. This change was previously enacted under an emergency bill, B26-0340, which expired on December 2, 2025.

Georgia: The Georgia Department of Revenue (GA DOR) issued a bulletin on its policy regarding cash transactions following the federal government ending the production of the penny, which has caused a penny shortage. For cash transactions where exact change would be required, the GA DOR's policy is that "[i]f the sales price plus sales tax results in a total that cannot be collected without pennies, dealers may round the total amount due to the next lowest, next highest or nearest nickel." The GA DOR said that the amount of sales tax collected and remitted should not be recalculated. Sales tax is due on the initial sales price before any rounding by the dealer. The GA DOR noted that this is an evolving issue and that it may change its guidance if any changes are made to state or federal law or policy. Lastly, the GA DOR said that this bulletin

³ The fiscal year runs from July 1 to June 30 for 46 states. States that follow a different fiscal year are New York (ends March 31), Texas (ends August 31), Alabama (ends September 30) and Michigan (ends September 30). The data presented in this study is for each state's fiscal year.

should not be used to justify a rounding decision that is more than four pennies. Ga. Dept. of Rev., [Policy Bulletin SUT 2025-02](#) (December 5, 2025).

Hawaii: The Hawaii Department of Taxation (HI DOT) announced the court ordered enjoinder of Act 96 (Haw. Laws 2025), specifically the provision that imposes the transient accommodations tax on cruise ships.⁴ Due to this enjoinder, the HI DOT said that until further notice it will refrain from enforcing this tax on cruise ships. Other provisions of Act 96, however, remain in effect. Thus, the increase of the rate of the transient accommodations tax from 10.25% to 11% will be in effect for the period of January 1, 2026, through December 31, 2030. Haw. Dept. of Taxn., [Announcement No. 2026-01](#) (January 2, 2026).

Illinois (City of Chicago): Chicago Mayor Brandon Johnson declined to veto the city's alternative budget bill ([Record No. SO2025-0021719](#)) approved by the Chicago City Council on December 19, 2025, allowing it to become law without his signature. The budget bill creates new and modifies existing taxes, including a new social media amusement tax, and increases the rates of the personal property lease tax and the sports betting tax. Notably, the mayor's proposed corporate head tax, which would have been imposed on businesses with 500 or more employees at a rate of \$33 per employee per month, was not included in the final bill. The changes take effect January 1, 2026, unless otherwise noted. For more information on this development, see EY Tax Alert [2026-0384](#) (February 9, 2026).

Kentucky: The Kentucky Department of Revenue (KY DOR) in its Winter issue of *Sales Tax Facts*, said that due to the penny shortage caused by the U.S. Treasury's end of the penny production, some retailers when giving change back to customers in a cash transaction may need to round to the nearest nickel. The KY DOR said that "any rounding must not impact the calculation of the ... Kentucky sales and use tax because ... the tax must be calculated to the nearest penny" If rounding is necessary, the KY DOR recommends the use of the standard rounding rule: (1) round down to the nearest nickel if the last digit is 1, 2, 6 or 7 cents; and (2) round up to the nearest nickel if the last digit is 3, 4, 8 or 9 cents. The KY DOR noted that rounding occurs after the calculation of sales tax due. Ky. Dept. of Rev., [Sales Tax Facts](#) (Winter 2025/2026).

Michigan: The Michigan Department of Treasury (MI DOT) issued a notice on its policy regarding rounding a transaction up or down to the nearest nickel due to the penny shortage caused by the federal government's ending of the production of the penny. The MI DOT said that rounding does not affect the calculation of the sales and use tax due because the state's sales and use tax rounding requirement (i.e., seller computes sales or use tax to the third decimal place and rounds up to a whole cent when such decimal point is greater than four or rounds down to a whole cent if it is four or less) applies before the seller uses its own rounding convention. Accordingly, the seller should calculate tax based on the sales price and then round as needed to address the penny shortage; the notice includes examples. The MI DOT recommends that

⁴ See *Cruise Lines Int'l Ass'n, Inc. v. Sukanuma*, Nos. 25-8057, 25-8058 (9th Cir.).

retailers separately itemize on the customer's bill, receipt, invoice, etc., any additional amounts collected due to rounding. While the notice focuses on cash transactions, the MI DOT said the notice also applies to retailers that may choose to apply this rounding to their credit transactions. The MI DOT also noted that the notice only applies to sales and use tax legal obligations and "does not address or provide guidance on the application of any other applicable laws." Mich. Dept. of Treas., "[Sales and Use Tax Notice Regarding Federal Phase Out of the Penny](#)" (December 8, 2025).

New Jersey: The New Jersey Division of Taxation (NJ DOT) explained that the penny shortage caused by the U.S. Treasury's end of the penny production, is affecting how businesses provide exact change in a cash transaction. The New Jersey Division of Consumer Affairs said that businesses/sellers that choose to adopt a policy rounding the cash transaction up or down to the nearest nickel, must disclose the rounding "clearly and conspicuously prior to the consumer incurring any charge for the goods or services purchased." The NJ DOT further explained that rounding applies to the final transaction total after all taxes and/or fees have been added and payment is made in cash. Further, sales tax is collected "based on the purchase price, *regardless of whether the consumer or seller provided exact change.*" N.J. Div. of Taxn., "[Cash Transaction Rounding Guidance Due to Penny Supply Changes](#)" (January 9, 2026); N.J. Div. of Consumer Aff., "[Consumer Alert "Pennies and Cash Transactions"](#)" (January 9, 2026).

North Carolina: The North Carolina Department of Revenue (NC DOR) provided guidance to retailers on rounding cash transaction due to the penny shortage caused by the federal government's end of the penny production. The NC DOR said that retailers must calculate sales and use tax on the sales price of, or gross receipts derived from, taxable sales. Thus, after-tax rounding does not impact the calculation of sales and use tax due. Rounding the cash transaction down or up to the nearest five-cent increment after calculating tax does not reduce the tax due or increase the sales price or gross receipts from the sale. The NC DOR said that this guidance does not impact non-cash transactions (e.g., electronic payments, checks, or credit, debit or gift cards) or transaction in which the retailer accepts exact change. The NC DOR said retailers who round cash transactions must keep records documenting such rounding. The NC DOR's guidance includes examples. N.C. Dept. of Rev., "[Sales and Use Tax Directive 26-1](#)" (January 22, 2026).

South Carolina: The South Carolina Department of Revenue (SC DOR) provided guidance to retailers on rounding cash transaction due to the penny shortage caused by the federal government's end of the penny production. The SC DOR explained that the amount of sales and use tax due and payable by the retailer is based on the sales price of the tangible personal property, and that the amount of sales tax due should not be recalculated based on the rounded amount. Lastly, the SC DOR said it was not endorsing a particular rounding method (e.g., rounding up or down or to the nearest nickel). The guidance includes an example. S.C. Dept. of Rev., "[SC Information Letter #26-6](#)" (January 22, 2026).

Tennessee: The Tennessee Department of Revenue (TN DOR) issued guidance to retailers that are rounding cash transactions to the nearest nickel due to the penny shortage caused by the U.S. Treasury's end of the penny production. The TN DOR explained that under Tennessee law, retailers are required to calculate sales tax to the exact cent, regardless of the payment method used by the customer. The TN DOR said this "includes remitting the exact amount of sales tax shown on the receipt or invoice." For cash transactions, the retailer may choose its own rounding procedures - e.g., round up or down to the nearest nickel, round all transactions up to the nearest nickel, round all transactions down to the nearest nickel. Sales tax is due on the sales price before rounding is applied. Thus, the amount of sales tax due is the same for cash transactions and other payments, such as credit card transactions. The TN DOR noted that this guidance is for Tennessee sales and use tax purposes only and does not address other state or federal laws related to rounding. Tenn. Dept. of Rev., [Notice #26-01 "End of Penny Production"](#) (January 2026).

Texas: The Texas Comptroller of Public Accounts (Comptroller) issued guidance on rounding cash transactions due to the penny shortage caused by the federal government's ending of the production of the penny. The Comptroller explained that taxpayers remit the amount of sales tax calculated on the sales price of the taxable item, regardless of the method of payment used by the taxpayer's customers. In regard to cash transactions, if the amount of the sales price and tax due is an amount that cannot be collected without pennies, the Comptroller said retailers may round the transaction to "the next lowest or next highest nickel, as they see fit, and the [Comptroller] will not adjust the sales price or recalculate tax due." If, however, the retailer rounds past the next lowest or highest nickel, the Comptroller said it would adjust the sales price and recalculate the tax due. The Comptroller made clear that this guidance only applies to cash transactions and that there should be no change to the tax calculation for the transaction using other payment methods, e.g., credit card or check. The Comptroller also noted that taxpayers collecting and remitting tax must keep sufficient records to substantiate any rounding. Tex. Comp. of Pub. Accts., [Star No. 202512001M](#) (December 1, 2025).

Texas: The Texas Comptroller of Public Accounts determined that for purposes of the optional single local use tax rate for remote sellers, the estimated average rate of local sales and use taxes imposed in Texas during the preceding state fiscal year ending August 2025 is 1.75%. This rate will be in effect for the period from January 1, 2026, to December 31, 2026. Tex. Comp. of Pub. Accts., [Texas Register "In Addition"](#) (50 TexReg No. 52 December 26, 2025).

Washington: The Washington Department of Revenue (WA DOR) announced the following changes to the reusable bag fees: (1) the requirement for thicker plastic bag from 2.25 mils to 4 mils thick is delayed to January 1, 2028 (from January 1, 2026); and (2) for calendar years 2026 and 2027, retailers selling reusable plastic carryout bags that are at least 4 mils thick must collect both the existing 12-cent pass-through charge and the new 4-cent state penalty. The WA DOR noted that the fee for compliant paper bags remains unchanged at 8-cents. Wash. Dept. of Rev., [Special Notice "Changes to reusable bag fees"](#) (December 11, 2025).

Contacts

For more information about any of the developments discussed in this Newsletter, please contact any of the following EY Sales and Use Tax Practice professionals:

National Resources:

Natalie Haynes

*National Sales and Use Tax Leader
St. Louis, MO
314 290 1782*

Scott Norton

*Sales and Use Tax Compliance Leader
Irvine, CA
805 778 7056*

Karl Nicolas

*Washington, DC
202 327 6585*

Michael Wasser

*Boston, MA
802 272 4969*

Area and Industry Resources:

Anne Duffy

*San Francisco, CA
415 894 8527*

Megan Mahony (Telecom)

*Boston, MA
617 585 1822*

Doug Gregory

*Nashville, TN
615 252 8186*

Rachel Quintana

*Denver, CO
720 931 4660*

Joe Imbarlina

*Philadelphia, PA
412 644 0482*

Brad Ressler

*Minneapolis, MN
612 371 8558*

Lazar Kajtazi

*New York, NY - Financial Services
212 773 2016*

Mark Stefan

*San Jose, CA
408 947 5592*

Grace Kyne

*Boston, MA
617 375 2359*

Mike Woznyk

*New York, NY
212 773 3008*

©2022 Ernst & Young LLP. The information contained herein is general in nature and is not intended, and should not be construed, as legal, accounting or tax advice or opinion provided by Ernst & Young LLP to the reader. The reader also is cautioned that this material may not be applicable to, or suitable for, the reader's specific circumstances or needs, and may require consideration of non-tax and other tax factors if any action is to be contemplated. The reader should contact his or her Ernst & Young LLP or other tax professional prior to taking any action based upon this information. Ernst & Young LLP assumes no obligation to inform the reader of any changes in tax laws or other factors that could affect the information contained herein.