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Major Trends in State & Local Sales and Use Taxation

ALVAREZ & MARSAL



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Macro Factors Influencing SUT

- **Inflation, tariffs, and supply chain disruption impact tax policy**
- **As costs for governments increase, the inflation of the tax base may not move in the same way. For example, cost increases for gasoline, groceries, medical care, and household utilities are how many consumers feel the inflationary pinch, but many of those items are not subject to sales tax.**
- **Other tax types (property, income) have a delayed impact, but sales taxes can generate revenue quickly.**

Trend One - Base Expansion Into Services and Digital Goods

States continue to broaden their sales tax bases to capture modern consumption patterns.

Key directions:

- **Digital goods & digital services (software, SaaS, streaming, cloud computing)**
- **Advertising and data-driven services, as seen in Maryland and Washington's digital advertising tax efforts (though heavily litigated)**
- **Digital assets like NFTs, which several states (e.g., Maine, Michigan, Vermont) have recently addressed or clarified**

States are trying to stabilize revenue as traditional goods-based sales taxes erode.

Trend Two - Rapid Growth in New Local Taxing Jurisdictions

2025 saw record numbers of new state and local taxes, including many new taxing cities.

Examples:

- **New local sales taxes coming online at a 10-year high**
- **Cities adjusting rates for infrastructure, street maintenance, and transit funding (e.g., Texas local rate changes)**

This reflects a broader trend of local governments asserting more taxing authority to fill budget gaps.

Trend Three - Increased Complexity and Compliance Requirements

States are tightening compliance rules and increasing audit activity.

Examples:

- **Illinois now requires annual compliance reviews for Direct Pay Permit holders, signaling a shift toward more rigorous oversight.**
- **More states are issuing expanded guidance on software, cloud services, and digital transactions.**
- **Audit timelines are getting stretched and audits are taking longer to complete.**

Businesses face higher administrative burdens, especially those operating across multiple states.

Trend Four - Expanded Exemptions and Incentives for Targeted Industries

While bases are expanding, states are also using exemptions to stimulate economic activity.

Examples:

- **New Jersey, Tennessee, Texas, and Washington have expanded exemptions to support construction, technology, energy, and investment sectors.**

This creates a dual trend - broader base and more targeted carve-outs, often for economic development.

Trend Five - Continued Movement Toward Taxing Remote Sellers & Marketplaces

Post-Wayfair, states are refining:

- **Marketplace facilitator rules**
- **Economic nexus thresholds**
- **Sourcing rules for digital transactions**

This is now a mature trend, but states continue to tweak definitions and enforcement.

Trend Six - Structural Shifts Driven by Economic Volatility

Tax policy is responding to what analysts call “compound volatility”—global trade disruptions, tech shifts, and regulatory changes.

2025 saw more new taxes enacted than any year in the past decade.

Implications:

- **States are experimenting with new revenue models**
- **Policymaking is more reactive and less predictable**
- **Businesses must monitor frequent rule changes**

Trend Seven - Renewed Debate Over Taxing Business Inputs

Tax foundations and policy groups continue to warn against tax pyramiding, especially as states expand taxes on services used by businesses (e.g., cloud computing, digital advertising).

This tension is shaping legislative debates in many states.

Questions?

Thank You!



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