



This Week in State Tax (TWIST)

February 16, 2026



Rhode Island: Division of Taxation finds broad scope for vendor hosted software

In a recent administrative hearing, the Rhode Island Division of Taxation addressed whether sales of online subscriptions to databases of various information and publications constituted taxable sales of vendor-hosted prewritten computer software. The taxpayer sells subscriptions to online databases of legal resources, news, business, published content, and other records. During an audit covering tax years 2017-2019, the Division classified the taxpayer's subscription receipts occurring after 2018 as emanating from taxable vendor-hosted prewritten computer software and assessed sales tax. The taxpayer attempted to distinguish between its "content" subscriptions (which it characterized as information services) and separately sold software-as-a-service (SaaS) products for which the taxpayer had charged sales tax beginning in October 2018.

The central question was whether website subscriptions that provide searchable access to content fall under Rhode Island's statutory definitions of computer software, prewritten computer software, and vendor-hosted prewritten computer software. In 2018, Rhode Island amended its law to explicitly include the retail sale of vendor-hosted prewritten computer software as taxable, defining it to include software accessed online or via a vendor-hosted server, regardless of whether customers download or permanently retain the software. The taxpayer argued that its content subscriptions should be exempt as information services or data processing services. The Division disagreed and treated all subscription receipts as taxable vendor-hosted prewritten computer software.

The hearing officer focused on the functionality of the taxpayer's websites and found that the search, retrieval, and interactive features met the statutory definitions of taxable software. Customers paid not only for access to data or information, but also for the software's functionality, which allowed them to search and save information from the database. The hearing officer emphasized that the vendor hosted the software and users accessed it online, rather than through custom-developed or locally installed software. The decision stated that the information service and data processing service exemptions cited by the taxpayer apply only in the context of telecommunications taxes and do not provide a general exemption for such products from Rhode Island sales tax. As a result, the hearing officer deemed the subscriptions taxable as payments for vendor-hosted prewritten computer software. For further questions regarding this [administrative hearing decision](#), please contact [Ryenne Tannenbaum](#).

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