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# Rhode Island Division of Taxation Determines That Online Searchable Database is Taxable

A recent Rhode Island Administrative Hearing Decision addressed whether an online database that incorporates searchable research is taxable as vendor-hosted prewritten computer software. [R.I. Div. of Tax'n, Administrative Hearing Decision No. 2026-01, 01/21/26]

The Rhode Island sales tax statutes were amended in 2018 to include “vendor-hosted prewritten computer software” within the definition of a “retail sale” or “sale at retail.”

Rhode Island’s definition of “vendor-hosted prewritten computer software” includes Software as a Service (SaaS) and specifically “means prewritten computer software that is accessed through the internet and/or a vendor-hosted server regardless of whether the access is permanent or temporary and regardless of whether any downloading occurs.” [R.I. Gen Laws § 44-18-7.1(g)(vii)]

The taxpayer in the decision maintained extensive databases of research materials, information, and content which customers accessed online. Their product also included an online subscription that provided access to various legal authorities, news publications, and other public records. The taxpayer made several arguments, including that their product is a nontaxable information service. They attempted to distinguish their product as tax-exempt information services (versus taxable prewritten software) by asserting a sale of software requires a user to use their own data and manipulate it.

The decision noted that software is a set of coded instructions designed to cause the computer to perform a task, and the statute does not differentiate about what task is being performed—nor does the statute require the software

to generate the content. In the case of the taxpayer's product, the decision held that the computer is performing the task to access, research, and retrieve the content by either inputting search terms or citations whereas the customer is buying a product that allows them to perform the search and retrieval tasks. The product searches the data as inputted by the customer, sorting through the database to match search terms, and retrieves the information. It is this functionality and not just the data that the customer wants, as the volume of materials being searched would be useless without the search and retrieval capabilities.

The taxpayer's "true object" test of a bundled transaction argument was also dismissed. The content, data, or information in the database is only part of what the customer is buying, and they would not purchase those databases without a way to search, retrieve, and research for relevant documents within the database. Thus, the decision held the functionality of the software is a part of what the customer is buying.

Accordingly, the product was deemed taxable as vendor-hosted prewritten computer software under the statute.

### **What this means to you**

The taxpayer has thirty days to appeal the decision to the District Court. Sellers of SaaS with customers in Rhode Island may be impacted and should review their product offerings in light of this decision. Depending on individual facts, there may be options to mitigate risks and/or exposure.

### **Contact us**

For further details or additional information, please contact Smitha Chintamaneni, Bill Schenkelberg, or a member of the Husch Blackwell State & Local Taxation team.