



VERMONT TECHNOLOGY ALLIANCE

## **Vermont Technology Alliance Testimony on H.887 and the Cloud Tax**

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The Vermont Technology Alliance is a business association with a mission to support, promote, and grow technology jobs and technology businesses in Vermont. We are the voice for tech-focused businesses and organizations in the state. We have 200 members from throughout the state representing a range of successful and growing businesses. These businesses create some of Vermont's highest-paying jobs and taxpayers, bringing millions of dollars of revenue into Vermont.

We understand the pressures the state is facing with trying to address projected increases in property taxes. However, we do not support the tax on prewritten software accessed remotely, also known as the Cloud Tax, because of the increased costs it will levy on Vermont businesses, and particularly tech businesses. Here are some of our key concerns:

### **Cost Impact**

Adding the 6% sales tax to all online services and subscriptions will impact nearly all Vermont business, as well as self-employed Vermonters, remote workers, and consumers who use cloud-based applications. It will make doing business and working in Vermont more expensive.

### **Pervasiveness of the Tax**

The Cloud Tax initially focused on collecting the sales tax on products that were sold only in a box, but came to include all software-as-a-service applications. The latest version has expanded to cover *all online services*: Software-as-a-service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS). Essentially this will tax everything done via the Internet. If passed, Vermont would be one of only eight states that taxes all of these services.

The tax impact will range from small businesses using online accounting, payroll, bookkeeping and ecommerce services, to large businesses whose computer infrastructure and data processing is managed and hosted in the cloud. This will impact Vermont's key growth opportunity – it's tech and digital economy.

### **Impact on Tech-based businesses**

Tech-based businesses would feel the impact even more, because they tend to rely on these online applications as essential inputs to the development of their products and the services they provide. After labor and health care costs, the purchase of cloud-based services often represents the largest expense category for many Vermont tech firms.

Some small Vermont tech businesses have estimated sales tax payment increases ranging from \$20,000 to \$100,000 annually if this tax is passed. For larger businesses, the costs would be much more, particularly those that depend on cloud-based servers to handle their data processing. Those costs will be higher in areas that also levy an additional 1% local option tax.

The tax could impact their profitability, hiring, or ability to adopt new technology solutions. The impact could be greater for tech startups.

As a comparison point, the Vermont Agency of Digital Services spends more than 8 million dollars on Cloud Services. If the state had to pay the tax the expense would be nearly half-a-million dollars.

### **Viewed as a Tax on Services**

Vermont does not generally tax services, but this is a significant expansion of the sales tax to online services. From the perspective of many tech businesses the tax targets the tech sector, since it focuses on services that they depend on. If the intention is to expand the sales tax to services, then let's look at all services and not just single out this service and the tech sector.

### **Broader Tax than in Other States**

While there are 20 or more states that have some form of Software-as a Service tax, some of these states do not tax businesses, or tax them at a lower rate. Some of these states also have lower overall tax rates, or offer other benefits or business incentives that outweigh the cost. Only eight states have been identified as taxing all online services as is proposed for Vermont. And of those, New Mexico taxes all services and Massachusetts has a business input exemption.

### **If adding the Tax: Create a Business-to-Business exemption**

If the decision is to go ahead with a Cloud Tax, we request that a business-to-business exemption be adopted, or at least that software used as an essential business input be exempt, as we do now for similar inputs to manufacturing and agriculture.

The Vermont Tax Structure Commission in 2021 recommended that Vermont exclude all business inputs and not tax cloud services provided to businesses.

### **In Summary: Avoid a new Tax on Vermont's Tech and Other Businesses**

The goal of raising more tax revenue to address rising education costs is understandable. However, against the total of more than \$2 billion in annual education spending, this tax on online services will make a minor contribution.

We should avoid adding an additional tax on Vermont businesses, in particular Vermont's tech businesses that represent Vermont's future. We should have tax policies that boost and attract tech-enabled businesses and the high-wage jobs they create. The absence of a cloud tax could be a small advantage for doing business in Vermont.