

Non-Property Education Fund Revenue

Senate Committee on Finance

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February 27, 2024



Overview

- In addition to property taxes the Education Fund receives revenue from several other sources that include:
 - Sales and Use Tax
 - 1/3 of Purchase and Use Tax
 - 1/4 of Meals and Rooms Tax
 - Profits from the State lotteries
 - Certain school service-based Medicaid reimbursement funds
 - Other miscellaneous revenue sources



Sugar sweetened beverages



Excise tax of sugar sweetened beverages

- JFO used past proposed legislation as a model for the estimate (H.234 from 2013 is an example)
- \$0.01 or \$0.02 tax per ounce
 - 12 ounce can of soda would generate \$0.12 to \$0.24
- Sugar sweetened beverages defined as any nonalcoholic beverage, carbonated or noncarbonated, that is intended for human consumption and contains any added sweetener
- Also applies to powders or syrups meant to be mixed with water



Sugar sweetened beverages

- What is included:
 - Soft drinks,
 - Fruit beverages,
 - Sports drinks,
 - Ready-to-drink tea,
 - Energy drinks, and
 - Ready-to-drink coffee.
- What is not included:
 - Beverages with 100% natural fruit or vegetable juice,
 - Infant formula,
 - Milk or milk alternatives (i.e. soy milk, almond milk, etc.),
 - Diet soft drinks,
 - Ready-to-drink diet tea, and
 - Flavored water.



Sugar sweetened beverages

- Currently no other states have a specific tax on sugar sweetened beverages, but there are 10 localities that do.

City	Tax Rate	Eligible Drinks	Paid By
Albany, CA	\$0.01 per ounce	Sugar sweetened beverages	Distributors
Berkley, CA	\$0.01 per ounce	Sugar sweetened beverages	Distributors
Boulder, CO	\$0.02 per ounce	Sugar sweetened beverages	Distributors
Oakland, CA	\$0.01 per ounce	Sugar sweetened beverages	Distributors
Philadelphia, PA	\$0.015 per ounce	Sweetened Beverages (including diet drinks)	Distributors
San Francisco, CA	\$0.01 per ounce	Sugar sweetened beverages	Distributors
Seattle, WA	\$0.0175 per ounce	Sugar sweetened beverages	Distributors
Washington, D.C.	8% sales tax	Sweetened Beverages (including diet drinks)	Consumers



Sugar sweetened beverages estimate

- JFO estimates that a \$0.01 per ounce tax on sugar sweetened beverages would result in \$15.2 million in tax revenue in FY 2025.
- A \$0.02 per ounce tax would result in \$29.8 million in tax revenue in FY 2025.



Applying the sales tax to prewritten software accessed remotely



Applying the sales tax to prewritten software accessed remotely

- Vermont sales tax applies to the retail sale of tangible personal property, unless an exemption applies. 32 V.S.A. §9771(1).
- Tangible personal property includes prewritten software:
 - “Tangible personal property” means personal property which may be seen, weighed, measured, felt, touched, or in any other manner perceived by the senses. “Tangible personal property” includes electricity, water, gas, steam, and prewritten computer software. 32 V.S.A. § 9701(7).
- Unlike tangible personal property, charges for a service are generally not taxable, unless specifically enumerated. 32 V.S.A. § 9771.



Why is prewritten software accessed remotely not currently taxed?

- Session law:
 - 2015 Acts and Resolves, No. 51, Sec. G.8 created a sales tax exemption for prewritten computer software when it is accessed remotely.
- Sec. G.8 states that charges for the right to access remotely prewritten software shall not be considered charges for tangible personal property under 32 V.S.A. § 9701(7).



What would become taxable?

“Software as a Service” (“SaaS”), **“Platform as a Service”** (“PaaS”), and **“Infrastructure as a Service”** (“IaaS”) are all currently exempt in Vermont.

- The terms are not uniformly defined in law (or in the computing industry):
 - **SaaS** is when a service provider hosts software applications over the internet for a customer. It is also known as “cloud application services”.
 - **PaaS** is a service containing elements of both IaaS and SaaS. PaaS provides a framework for developers to build on and use to create customized applications.
 - **IaaS** is when a service provider owns, maintains, operates, and houses equipment (such as hardware, servers, network components, etc.) used to support a customer's operations. Customer accesses equipment over the internet and has complete control over the infrastructure.



What would become taxable? Examples

- **Software as a Service (SaaS)**
 - TurboTax and Quickbooks
 - Microsoft Office Online
 - Dropbox
 - Mail Chimp
 - Google Apps (like Docs, Sheets, etc)
 - Toast and Square
- **Platform as a Service (PaaS)**
 - Squarespace web design
 - Force.com (as part of Salesforce)
- **Infrastructure as a Service (IaaS)**
 - Amazon Web Services
 - Google Compute Engine



What is not changed?

- **Streaming Services**

- Services like Netflix or Spotify currently subject to the Sales Tax

- **Software installed on a computer**

- Purchases of a computer game off a platform like Steam and downloaded on a computer already subject to Sales Tax

- **Custom Software**

- Would stay nontaxable

- **Maintenance/Technical Support**

- Would stay nontaxable



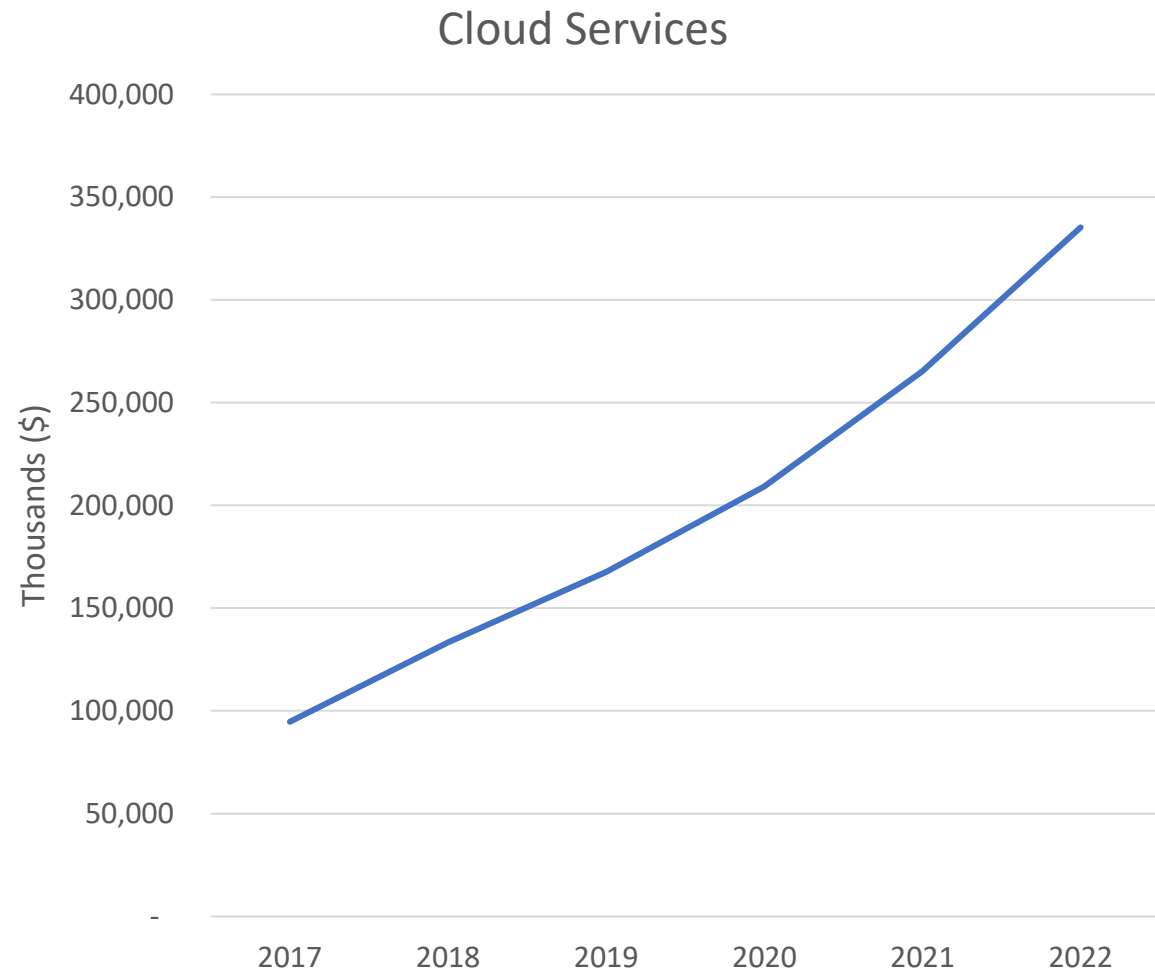
Revenue impact of applying the sales tax to prewritten software accessed remotely

- Estimate: **\$20.4 million** in FY 2025
 - Was estimated to be \$18.4 million in 2024 but updated data shows continued growth in the industry
 - This market is rapidly growing



Industry growth

- Cloud based software continues to grow into a major US and global industry
- Relevant statistics on growth in industry:
 - BEA Digital Economy Data shows “Cloud Services” increasing by over 23% per year
 - Global Public cloud revenue is estimated to be \$679 billion in 2024 (Gartner)
 - Was \$313 billion in 2020 and \$242 million in 2019



Source: BEA Digital Economy Data



Questions?



Resources

- 2023 Report on Possible Revenue Sources for Universal School Meals, Joint Fiscal Office
 - [https://ljfo.vermont.gov/assets/Subjects/2023-Session-Documents/b1e815752c/GENERAL-366503-v1-USM Revenue Report v2.pdf](https://ljfo.vermont.gov/assets/Subjects/2023-Session-Documents/b1e815752c/GENERAL-366503-v1-USM_Revenue_Report_v2.pdf)
- 2023 Vermont Tax Expenditures Biennial Report, Joint Fiscal Office
 - <https://ljfo.vermont.gov/assets/Subjects/Tax-Expenditure-Reports/3f5011dba8/2023-Tax-Expenditure-Report-v2.pdf>

