

One person's opinion on "cloud" tax in Vermont

Hello, my name is Sergei Serdyuk. I am the managing partner of Red Leaf Software LLC based out of Colchester Vermont. We have developed and provided cloud solutions for the past 13 years.

Let me start by saying that I'm not opposed to taxes. In fact, I think that taxes are important, we need them to pay for the infrastructure that supports us all. We routinely paid our use tax whenever we had one.

I understand that Vermont receives less and less tax revenue from sales of software. It used to come on tangible media and be easily taxed at the point of sale, but that is changing more and more. Naturally, there is interest in recovering this lost revenue by applying a tax on "software as a service" offerings (SAAS). The problem with that is that the separation between taxable "software" SAAS, and non-taxable "platform" (PAAS) and "infrastructure" (IAAS) is just marketing speak. In reality, all of them blend into each other without any clear line where one ends and the other begins. One example would be our cloud solution that we offer to clubs around the country. They use it to keep track of their membership, and thus it seems to be the "software". But we also host databases and maintain backups with clients data, which now falls into the "infrastructure" category. Sometimes we file clients information with the IRS, which is clearly a "service". And all of that for a set monthly fee. It is somewhat similar to the buffet style lunch, where one day you eat this and the other day you eat that, but you are always paying the same flat fee. This simplicity is the core quality of all SAAS, PAAS and IAAS offerings.

Another part of the problem is that most of these solutions are developed and sold by companies out of the state. The few of the service providers located in Vermont often don't have customers here. My company would be an example. In this situation the majority of the responsibility of deciding what is taxable versus non-taxable would be on the consumers and businesses in the form of a use tax. As they are the least prepared to make this judgment call, the collections would be low, and the ambiguity would be an endless source of complaints and friction between the taxpayers and the Department of Taxes.

Without a clear solution in sight, we might want to look at the silver lining here. Keeping cloud services simple and non-taxed would be good press for the budding Vermont software industry, the attractor of educated employees and generator of high paying jobs. We could see it as a growth opportunity for the income tax revenue. Another positive would be the administrative burden kept low for Vermont's small businesses and the self-employed community that both rely heavily on cloud services.

Thank you for your attention to this complex and important issue.

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