

February 25, 2021

House Ways and Means Committee Members,

We write to express our concern with H.261, which would apply the sales tax to vendor-hosted prewritten software, commonly referred to as the “cloud tax”.

Vermont’s tech sector creates some of the state’s highest paying jobs and brings hundreds of millions of dollars in revenue into Vermont. The average wage for a Vermont tech job is \$76,000. STEM jobs (science, technology, engineering and math) make up a quarter of Vermont employment and 40 percent of all wages, totaling more than \$6 billion annually.

There are a growing number of Vermont businesses that sell software as a service, where the service offered, and the software used is closely interwoven. A few examples of those startup businesses include:

- Reconciled – online booking service
- EZ-Probate – online estate probate service
- Faraday – artificial intelligence marketing service
- Social Sentinel – Social media security monitoring service
- DealerPolicy – Online auto insurance service

Reconciled, for example, offers online accounting and bookkeeping services. It provides its customers with cloud-based applications and then you work online with a bookkeeper. Bookkeeping services in Vermont are not subject to the sales tax. However, a SaaS tax could go to the heart of what this business offers, because it is done online and not in person.

While the tech sector is a critical part of Vermont’s economy, the impact of the cloud tax would extend beyond the businesses that build and sell software as a service; it would reach those businesses that depend on software services to run their day-to-day operations. Most Vermont businesses – not just tech businesses – use and depend on software as a service to run their business. Sales, marketing, payroll, accounting, HR and other services are delivered online. Examples of online services include:

- Google GSuite
- Salesforce
- Square
- Shopify
- HubSpot
- MailChimp

Vermont businesses, whether small or large, using online services will bear the increased cost of the tax to their businesses. Some Vermont businesses pay thousands of dollars per month for online services.

While some economists have suggested that Vermont could consider broadening the sales and service tax bases, they have also advised against raising new taxes or making cuts to services during this unprecedented time of economic uncertainty. The new revenue that would be generated by this tax would come at a substantial cost to businesses reeling from the impact of a global pandemic and recession. We commend the legislature’s hard work to offer grants and other support to help businesses

survive and get back on their feet; this is not the time to add a new cost burden and would be counterproductive to relief efforts.

We respectfully request that the legislature not change the tax treatment of vendor-hosted prewritten software.

Vermont Technology Alliance  
Vermont Chamber of Commerce  
Lake Champlain Chamber  
Vermont Association of Realtors  
Vermont Bankers Association  
The Associated General Contractors of Vermont  
Vermont Vehicle and Automotive Distributors  
Association  
Cairn Cross, Fresh Tracks Capital  
Mike Lane, Founder and CEO, Fluency  
Robbie Adler, Faraday  
Ted Adler, Union Street Media  
Matt Dodds, Brandthropology  
Johnny Mendez, Hen House Media  
Matt Murray, Founder and CEO, Widewail  
Michael Ly, Reconciled  
Vijay Desai, Desai Management Consulting

David Bradbury, President, Vermont Technology  
Council  
Nathaniel White-Joyal, President, Scout Digital  
Emily McMahon, Scout Digital  
Roland Groeneveld, OnLogic  
John Canning, Physician's Computer Company  
Sergei Serdyuk, Redleaf Software  
Barry Finette, ThinkMD  
Stephen Waite, Care Management Solutions  
Michelle Shean, DXC Technology  
Ron Lawrence, Publishers' Assistant  
Steve Loyer, The Tech Group  
Carl Lorentson, Renaissance Information  
Systems  
Byron Batres, EZ-Probate  
Ezra Doty, Quorum Data, Inc.