

# Sales Tax on Remotely Accessed Software

Senate Finance Committee

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# 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.

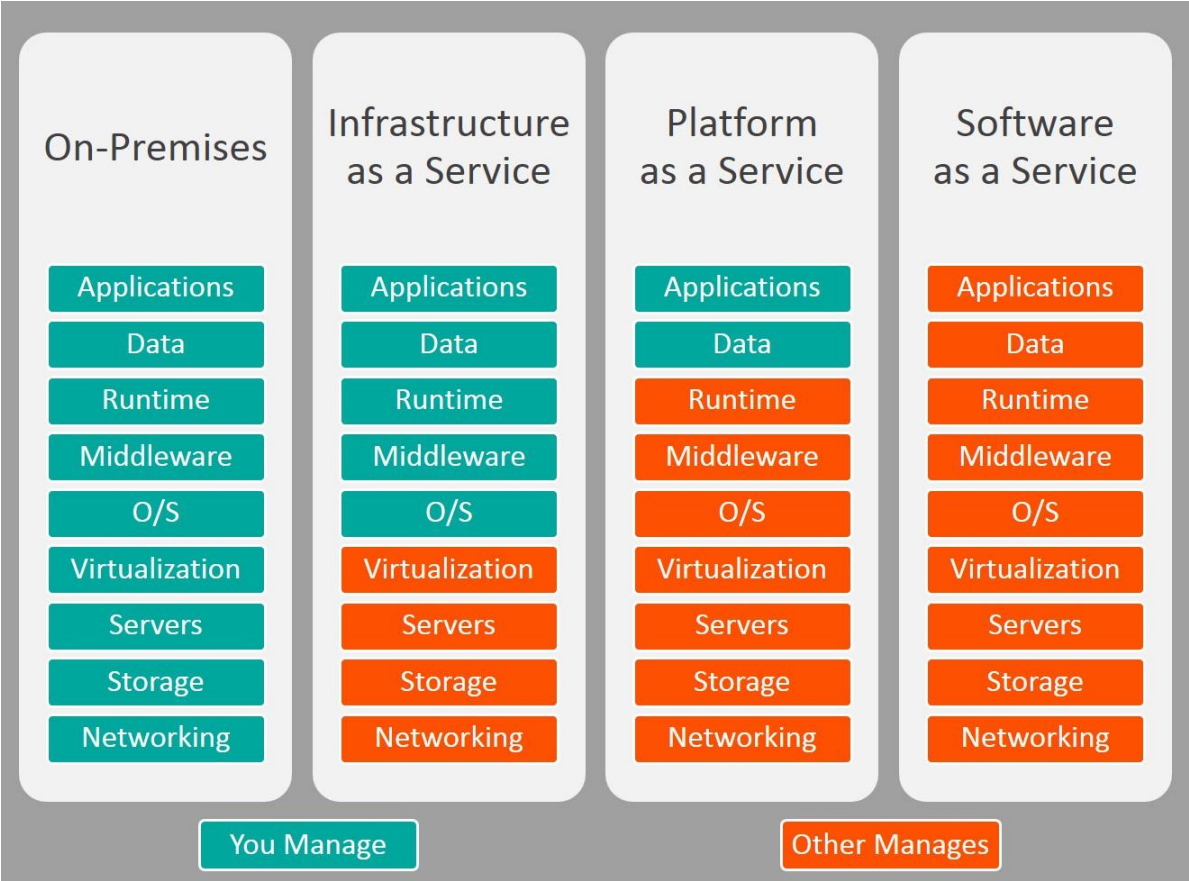


# What would become taxable?

- **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



# Differentiating Services

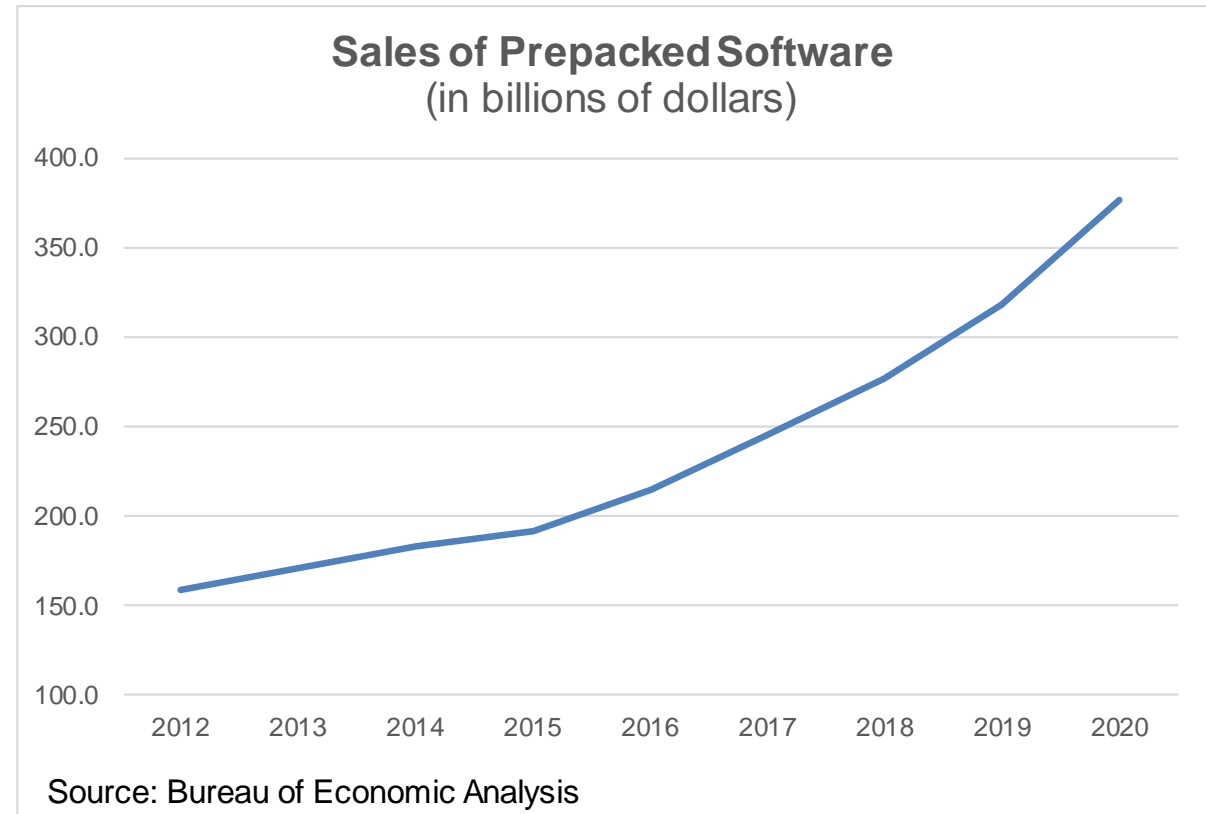


Source: BMC



# Industry Growth

- Cloud based software continues to grow into a major US and global industry
- Relevant statistics on growth in industry:
  - 83% of all company workload will be store on cloud (Forbes)
  - 67% of all enterprise software is estimated to be cloud-based
  - Global Public cloud revenue is estimated to be \$482 billion in 2022 (Gartner)
    - Was \$313 billion in 2020 and \$242 million in 2019



# What happens when...

- **Customized software:** if you hire someone to build you a customized software solution, the purchase price would stay nontaxable
- **Maintenance services:** these would still be considered services and would not be taxable
- **Bundled transactions:** Suppose you purchase prewritten software, and a maintenance contract is included in the price:
  - Firm would be responsible for itemizing the software portion, or if they keep the package bundled, the entire purchase price would be subject to 6% tax
- **Business to business:** If a software business is accessing software via the cloud to create more software or as part of their business expense, their purchase would be subject to tax.
  - Their purchase and the tax paid can be written off as a business expenses on their income taxes
- **Other states:** If a Vermont company that makes prewritten software sells to a customer in a state where this type of software is taxable, the Vermont company should be collecting and remitting to that state.



# Revenue Impact

- Updated estimate: **\$16.8 million** for full year implementation
  - Was \$11 million in May 2021 but updated data shows significant growth in the industry
  - Estimate also updated with new revenue data from city of Chicago
- Revenue increase reaches over \$20 million within 3 years

