

Sales Tax on Remotely Accessed Software

House Committee on Ways and Means

Patrick Titterton, Fiscal Analyst, JFO

01/25/2023



JFO

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://ljfo.vermont.gov>

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.



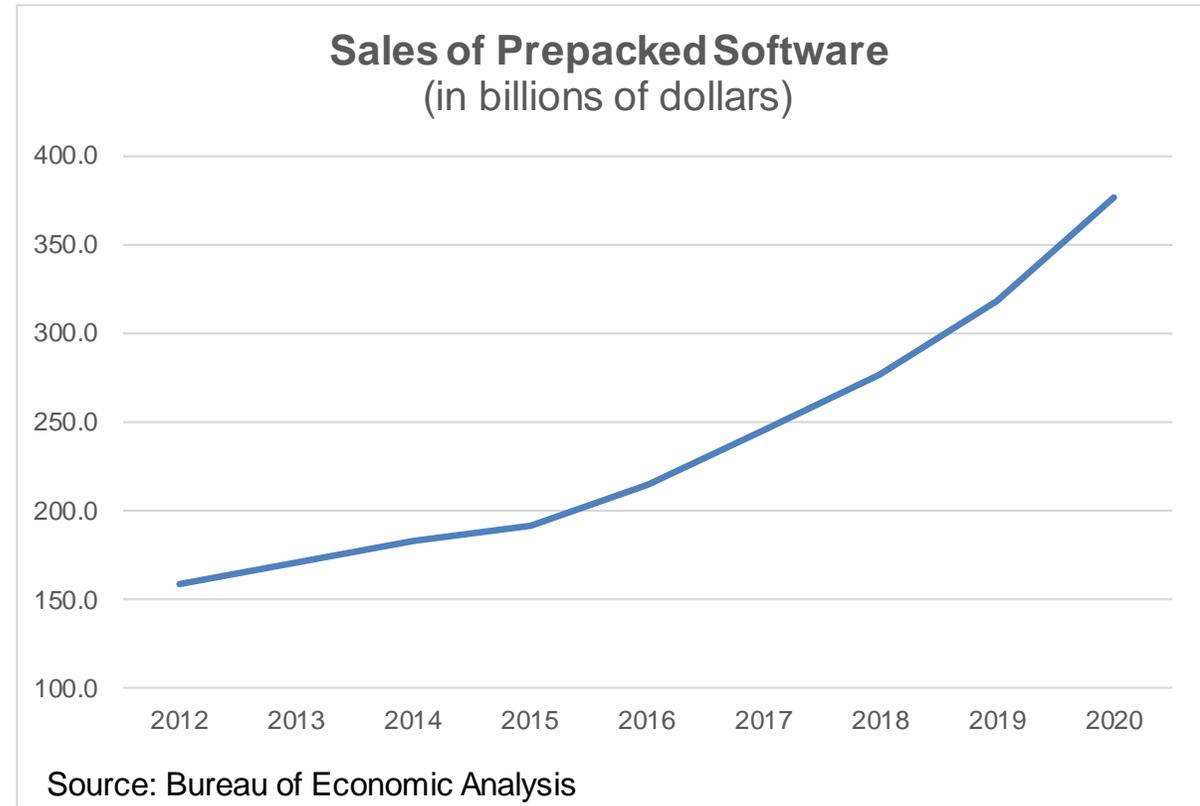
What would become taxable?

- **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



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: **\$18.4 million** for full year implementation
 - Was \$16.8 million in May 2022 but updated data shows significant growth in the industry

