

Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

April 8, 2015

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S. 97 Prewritten Software that is Accessed Remotely

This estimate is based on national information from the Bureau of Economic Analysis (BEA) data on Prices and Output for Information and Communication Technologies. Vermont sales are estimated at \$206.0 million based on GSP with 25% estimated to be remotely accessed.

The initial estimate of sales and use tax revenue from prewritten software that is accessed remotely is \$3.1 million for FY 2016 with the following fund impact: General Fund (-\$2.0 million) and Education Fund (-\$1.1 million).

This estimate was revised downward by 25% after discussions with Tom Kavet about the lack of enforcement by the Vermont Tax Department including the failure to promulgate rules. The revised FY 2016 impact is revenue loss of \$2.5 million with the following fund impact: General Fund (-\$1.5 million) and Education Fund (-\$825,000 thousand).

Discussion and estimate revision:

The Tax Department has testified that they are unable to complete rules and therefore adequately educate taxpayers and collect the sales and use tax on prewritten software that is accessed remotely. The Tax Department estimates a minimal amount of tax compliance and therefore a smaller loss of revenue with repeal of the statute because they assume few voluntary payments.

The revenue loss is not just about current collections as this type of sales is likely to grow exponentially. The article below illustrates the potential future loss from this change:

- Bloomberg business indicated the national market was \$40.7 billion in 2011, projected to grow to \$241 billion in 2020. <http://www.bloomberg.com/news/articles/2011-08-22/states-pursue-sales-tax-revenue-vanishing-into-computing-cloud>

The impact of eliminating this tax could also drive behavior toward increased use of remotely accessed services and having a further downward revenue impact.