

Sales Tax Exemption For Technology Services

Issue

Efforts have been ongoing for several years now to diversify the state's economy and entice the growth of the high-tech sector. However, West Virginia's Sales Tax law is a detriment to this. The state's antiquated Sales Tax law needs to be revamped to get in step with the Information Age. The West Virginia sales tax, as it relates to the taxation of technology companies, is an impediment to the future growth of the high-tech sector and the expansion of technology employment in this state.

Background

In conversations with technology companies and developers, the question inevitably arises why the state Tax Department exempts professional services performed by doctors, lawyers, accountants and engineers but does not exempt the services of technology system designers, software engineers and programmers. The answer is that the state only exempts professionals who are required to be licensed.

Absent a formal licensing system by the state, the alternative is to enact a specific state Sales Tax exemption for high-tech developers and service providers. The new exemption would specifically cover services provided by computer and software professionals, such as IT system engineers, application developers, network and security services, computer system support, Web site designers and e-commerce services.

The enactment of such an exemption would benefit both the technology firms and their potential customers. The entire sales tax exemption statute should be reviewed to conform it to the reality of the Information Age. For example, the sales tax exemption for the purchase of textbooks should be expanded to include the sales of educational software. The state could also benefit from "rural sourcing" of technology services by companies located across the U.S. Since this industry is relatively new to the state's economy, there is no estimate of the fiscal impact of this proposal. However, any initial reduction in Sales Tax revenues related to this could be recovered by making the state more attractive and competitive for technology companies that would like to locate or establish operations in West Virginia. Existing technology businesses also would be more competitive to compete for new contracts and projects. Finally, this tax exemption also would be an enticement to technology entrepreneurs who are finding the state's rural lifestyle and quality of life highly to be very attractive.

The Chamber's Position

The West Virginia Chamber of Commerce supports the enactment of a Sales Tax exemption that would cover technology services provided in West Virginia.