

October 25, 2011

Chairman Jud Gilbert  
Tax Policy Committee  
Michigan House of Representatives  
124 North Capitol Avenue  
PO Box 30014  
Lansing, MI 48909-7514

Re: SB 0335 and SB 0336

Dear Chairman Gilbert:

On behalf of Compuware Corporation, I am writing in support of two bills pending in your committee, SB 0335 and SB 0336. This legislation clarifies that remote access to computer software via Internet-based Software as a Service (SaaS) transactions, is a service not subject to Michigan's sales and use tax.

I urge you to favorably report these bills out of committee at the earliest opportunity. As a significant provider and consumer of SaaS, Compuware faces uncertainty regarding the proper Michigan sales and use tax treatment of these transactions.

In SaaS transactions, the customer does not enter into an agreement to license the software, they merely subscribe to a service. SaaS customers never download, have possession of or control the software that drives the services. The provider at all times maintains full possession and control of the software and uses the software to provide a service to its customer via the cloud. As such, these transactions are clearly outside the Michigan sales and use tax statutes.

Michigan currently does not apply sales tax to services; however, it appears that the Michigan Department of Treasury has extrapolated the current tax law to a technology that did not exist when the software sales and use tax statutes were written.

Compuware's business model is constantly transforming in response to the rapid growth in cloud computing. Two of our fastest growing business units, Covisint and Gomez SaaS, have a bright future as SaaS offerings, as they meet growing demand from customers for the flexibility and agility offered by the cloud across industries.

As such, we are concerned about the negative impact on these growing business units should the legislature not adequately address this issue. Senate Bills 0335 and 0336 would establish a clear, pro-business tax environment that will encourage all companies – and especially high-paying, highly profitable technology companies engaged in one of today's hottest technologies – to continue to invest in Michigan as SaaS offerings grow.

Compuware strongly believes Senate Bills 0335 and 0336 will positively impact Michigan's business climate and urges your support of this much needed legislation. Please contact me at 313-227-7869 if you have any questions about these issues.

Respectfully submitted,



Michael D. Lax  
Vice President - Taxes

CC: Tax Policy Committee - Representatives Walsh, Horn, Farrington, Foster, Posthumus-Lyons, Nesbitt, O'Brien, Olson, Ouimet, Constan, Barnett, Kandrevas, Meadows, Townsend, Cavanagh, Hobbs