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The AI Tax Arrived July 1: Microsoft 365 vs. Google Workspace, Priced to the Penny

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The contradiction: Twelve days ago, Microsoft raised prices on nearly every Microsoft 365 commercial plan — up to 43% on some SKUs — citing its AI investments. The full Copilot those investments built? Still a separate $30 per user per month. What the base suites actually gained is Copilot Chat, the lighter tier. Industry estimates put roughly 450 million commercial Microsoft 365 users against roughly 15 million paid Copilot seats — about 3%. The other 97% just got the bill for the party they were not invited to.

What changed on July 1

Microsoft's largest commercial pricing update in years took effect July 1, 2026 (announced December 4, 2025). New customers pay the new list immediately; existing customers move at their next renewal. Standalone Teams and standalone Copilot are excluded. The headline moves, per user per month, list:

Business Basic	$6.00	$7.00	+17%
Business Standard	$12.50	$14.00	+12%
Business Premium	$22.00	$22.00	0%
Microsoft 365 E3	$36.00	$39.00	+8%
Microsoft 365 E5	$57.00	$60.00	+5%
Office 365 E3	$23.00	$26.00	+13%
Office 365 E5	$38.00	$41.00	+8%
Frontline F1	$2.25	$3.00	+33%
Frontline F3	$8.00	$10.00	+25%

The no-Teams variants fare worse — F1 without Teams rises 43%, Business Basic without Teams 23% — quietly erasing much of the savings the Teams unbundling was supposed to deliver. Windows Enterprise per-device is up 31%, Microsoft 365 Apps per device up 17%. Business Premium and Office 365 E1 hold flat, a deliberate marker of where Microsoft sees its floor.

For large enterprises there is a compounding effect Unvarnished readers should not miss: Microsoft removed Enterprise Agreement volume discounts worth up to 12% in November 2025. Red River's licensing analysis puts the effective increase for some organizations closer to 20% than the stated 5–8%.

What you get for it: 50 GB more mailbox on Business tiers, Defender for Office 365 Plan 1 folded into E3 (previously ~$2/user/month standalone), Intune additions, and — the E5 headline — Security Copilot included, metered at 400 Security Compute Units per month per 1,000 licenses (capped at 10,000), with overage at $6 per SCU. Note the shape of that: The AI inclusion arrives with a usage meter and a pay-as-you-go tap behind it.

The Google side of the ledger

Google made its move eighteen months earlier and in the opposite order: In January 2025 it folded Gemini into Workspace and raised prices roughly $2 per seat, discontinuing the separate Gemini add-ons. The result, as of this month, is a pricing mirror with one crucial difference:

Entry	Business Basic $7	Business Starter $7	Gemini: Included / Copilot: +$30
Mid	Business Standard $14	Business Standard $14	Gemini: Included / Copilot: +$30
Upper	Business Premium $22	Business Plus $22	Gemini: Included / Copilot: +$30

At every business tier, the list prices are now identical to the dollar. The suites differ in exactly one structural way: Google's full AI assistant is in the number. Microsoft's is $30 on top.

The math: A 100-person company, three years

Scenario A — Microsoft 365 Business Standard, 20 power users on full Copilot:

Base: 100 × $14 × 12 = $16,800/yr. Copilot: 20 × $30 × 12 = $7,200/yr. Total: $24,000/yr → **$72,000 over three years.** (Before July 1 the same stack cost $22,200/yr — the increase alone is $5,400 over the term.)

Scenario B — Google Workspace Business Standard, Gemini for everyone:

100 × $14 × 12 = $16,800/yr → **$50,400 over three years.**

The gap is $21,600 — every dollar of it the Copilot line. Which brings us to the twist.

The twist: The escape route is priced too

If the mirror pricing tempts you to switch, price the move itself. Migration of mail, files, and calendars is the cheap part; the real costs are Excel-dependent workflows (macros, Power Query, financial models that do not survive Sheets), retraining, third-party integrations built on the Microsoft stack, and the parallel-running period. For a deeply integrated 100-person Microsoft shop, one-time migration commonly runs into tens of thousands of dollars and months of drag — against a $21,600 three-year software saving that only materializes if you needed the AI seats at all. If you were not buying Copilot, the three-year totals are identical, and the switch buys you nothing but the project.

That is the quiet genius of the July 1 structure: Microsoft raised the base, kept full Copilot separate, and priced the base exactly at Google's number — so the sticker comparison shows no reason to leave, and the AI comparison only matters to the 3%.

Who should do what

- **Renewing between now and December:** Model an early renewal. Existing customers keep old pricing until their first renewal after July 1 — locking the old rate for a full new term is the single highest-leverage move available, and it compounds across the term.
- **E3/E5 shops paying for Defender for Office P1, Intune Plan 2, or Security Copilot as add-ons:** Re-run the bundle math. The new inclusions may make the increase net-neutral or better; paying twice for newly bundled capabilities is the avoidable error.
- **Frontline-heavy organizations:** You absorbed the steepest percentages in the update. If Teams is not in use on the floor, note that the no-Teams variants no longer save what they used to.
- **Considering the switch to Workspace:** Do it because your workflows fit Google's model and your Copilot appetite is broad, not because of the sticker — the stickers are now the same by design. Price the migration before believing the savings.
- **E5 security teams:** Treat Security Copilot as a metered resource from day one. Build SCU consumption assumptions before adoption accelerates; the $6/SCU tap opens mid-fiscal-year for teams that do not.

The bottom line

July 1 was not a price increase with an AI justification; it was an AI pricing strategy executed as a price increase. Microsoft moved everyone's base cost up to fund an assistant most customers have not bought, kept that assistant a separate line, and parked its base pricing exactly on Google's numbers so the exit math never quite closes. It is commercially brilliant. Whether it is worth $39 per head for E3 depends entirely on whether the security and management inclusions replace things you were already paying for — check that before your renewal does.

Sources and verification notes

New SKU pricing table: Microsoft Licensing Resources (official announcement, effective July 1, 2026) with per-SKU old/new figures via On-Site Technology, Windows Latest, and Nexus ITC (all reporting Microsoft's published pricelist); increases confirmed across sources. EA discount removal and ~20% effective-increase analysis: Red River. Security Copilot SCU model (400/1,000 licenses, 10,000 cap, $6/SCU overage): US Cloud and Managed Solution. Copilot standalone remaining $30: Red River. Google Workspace pricing and Gemini inclusion (January 2025 change): As reported at the time of the change; business-tier list prices verified current in July 2026 research. The 450M users / 15M Copilot seats figures are industry estimates as reported, not Microsoft disclosures — attribute as estimates in final copy. Migration-cost discussion is directional by design; no invented dollar figures.