

Technical proposals from the Department of Taxes

1. Annual linkup to federal tax statutes

- Conforms Vermont income tax law for the 2022 tax year to federal income tax law in effect 12/31/22.

2. Correct appropriation language in 32 VSA 4041a

- In 2018 the Equalization and Reappraisal account was eliminated from the Education Fund (EF) along with other changes to the fund's composition (elimination of the General Fund (GF) transfer; addition of new EF revenue sources). The legislature has subsequently made this annual appropriation from the GF, but the language referencing the EF still remains in § 4041a.
- The inaccurate reference causes confusion for both AOA and Tax finance staff every year. The recommended change would bring statute in line with current legislative practice.

3. Update Meals and Rooms Tax (MRT) refund statute regarding refunds

- Add language clarifying the responsibility of sellers of meals/rooms subject to MRT (a.k.a. operators) who request a refund from the State for taxes incorrectly collected and remitted. This change would require operators who will receive a refund to substantiate that they will refund the customers who paid the tax.
- Under current law, an operator may have a case for retaining a refund from the state rather than returning it to their customers.
- This change aligns MRT statute (32 V.S.A. § 9245) with existing MRT regulations, and with current Sales and Use Tax (SUT) statute and regulations.

4. Update MRT law to reference the new definition of alcoholic beverages, including ready to drink (RTD) spirit beverages

- The definition of alcoholic beverages (7 V.S.A. § 2) was amended in 2022 to include a new category of RTD spirits beverages. The MRT definition of alcoholic beverages re-lists the beverage types included 7 V.S.A. § 2 but was not updated in 2022 to include the new addition.
- Edit the MRT definition of alcoholic beverages in 32 V.S.A. § 9202(11) to point directly to 7 V.S.A. § 2, thereby capturing all beverage types.

5. Clarify SUT and MRT treatment for alcohol sold on premises of a combination restaurant/retailer

- Our MRT law only contemplates on-site sales of alcohol for immediate consumption, however breweries with a bar or restaurant on site may also sell to-go grocery items (6 packs, etc.). It is not clear in our tax statute whether the MRT (10%) or SUT (6%) applies on to-go grocery alcoholic beverages.
- Tax recommends clarifying that sales of to-go grocery alcoholic beverages are subject to the SUT (6%) when sold at these establishments, just as they would be taxed at retail business with no bar.

- The outcome of this change would conform statute to current practice at these combination establishments and codify the lower SUT rate for sales of to-go grocery items. It would also resolve confusion for tax auditors.
- No revenue impact anticipated because this is understood to be current industry practice.

6. Remove obsolete statute for Computer Assisted Property Tax Administration Program (CAPTAP) fees

- The statutes regarding CAPTAP fees (32 V.S.A. § 3404 – 3410) which allow the Department to charge towns for using our software were put in place in 1995 and are no longer used or useful. The Department recommends repealing this fee and the law which allows it.
- Towns have asked whether this language pertains to our new VTPIE integrated property tax software, which is free. Repeal would eliminate potential confusion.

7. Update language in Current Use (CU) statute around enrollment notifications

- Update language around notification of enrollment decisions in 32 V.S.A. § 3756 and remove any requirements for certified mailings.
- These changes would improve and expedite the enrollment process for taxpayers. Certified mail slows and complicates delivery and has been phased out of many other Department processes.

8. Multiple technical corrections to reappraisal statutes

- Update 32 V.S.A. § 4052 to align with current administrative rules which require towns to use a qualified appraiser to conduct town-wide reappraisals; apply those requirements to assessors employed/contracted by a municipality in lieu of the board of listers (17 V.S.A. § 2651c). PVR certification is free and easily accessible online.
- Update 32 V.S.A. § 5406 to reflect PVR current process of providing an interim CLA to towns after any reappraisal.

9. Property transfer tax exemption for “controlling interest” property transfers for non-profits undergoing reorganization

- A few years ago, the Legislature extended the Property Transfer Tax (PTT) to situations where the controlling interest of an entity transfers from one owner to another. Formerly the tax only applied to deeded property transfers and would not apply to a sale of a corporation which included their real property. At the same time, the Legislature included a PTT exemption for private C-corporations that were simply undergoing a reorganization (i.e., no change in the “beneficial owner.”)
- It has come to the Department’s attention that this exemption would *not* apply to a non-profit undergoing a simple reorganization. The Department proposes creating a complementary PTT exemption for controlling interest property transfers for non-profits that are undergoing a reorganization without substantial change in ownership.

- The revenue impact is *de minimis* as these controlling interest transfers are not common for non-profits.

10. Clarify use of funds remitted to the State after erroneous collection of Local Option Taxes (LOT)

- In the case where LOT was collected on a transaction in a municipality not authorized to impose a local option tax, allow the Commissioner of Taxes to either refund the tax to the impacted customer, or deposit those funds as required for SUT or MRT.

11. Scale Vermont's three refundable tax credits (Earned Income Tax Credit, Child and Dependent Care Credit, Child Tax Credit) by the same apportionment factor for part-year residents

- Apply the Child Tax Credit's scaling (Vermont income as a share of total income) to the other two refundable credits. Currently each of these credits has a unique tax treatment for part-year residents who meet the income eligibility requirements for the programs.
- De minimis net revenue impact to the GF. Only a small share of tax filers would be impacted by the change and the dollar impacts per filer are small (averaging less than \$4 each).

Credit	Credit Scaling	Statute
EITC	"...multiplied by the percentage that the individual's earned income that is earned or received during the period of the individual's residency in this State bears to the individual's total earned income."	32 V.S.A. § 5828b
CTC	"...the amount of the credit shall be multiplied by the percentage that the individual's income that is earned or received during the period of the individual's residency in this State bears to the individual's total income."	Sec.1 of Act 138
CDCC	In-state care expenses only	Sec.3 of Act 138