Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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H.516 Miscellaneous Tax Bill

Committee of Conference Report

Summary: State revenue collections are increased by $4.975 million in FY 2018 using new and existing strategies to close the tax gap.

Secs. 1 – 11a: Administrative Provisions
These provisions which include requirements for towns to report new listers to the Division of Property Valuation and Review (PVR) electronically (not in writing); change the due dates for S-corp returns to mirror other filing dates; and clarifies the definition of net patient revenue for the ambulance assessment; and establishes a system to conduct background checks for employees and contractors who handle federal tax information, among other administrative provisions. The E-Board will also receive a consensus estimate on the impact of TIF districts on the Education Fund. **These do not have a state revenue impact.**

Secs. 12 and 13: Games of Chance – Moves Licensing from Tax to DLC
These sections move the licensing of break-open tickets from the Department of Taxes to the Department of Liquor Control in an attempt to align the oversight with the department that focuses on entities with a liquor license where many of the break-open tickets are sold. Both the fee and the licensing responsibility are transferred and therefore there is **no state revenue impact.** Additionally, nonprofit organizations benefitting from the sale of break-open tickets at a premises licensed to sell alcohol will be certified and must purchase the tickets directly from the distributor and report additional information to DLC.

Sec. 13a: Adopt federal AGI as the Vermont income tax starting point
The state income tax calculations will begin at federal adjusted gross income (AGI), rather than federal taxable income starting in tax year 2018. **This would not change any individual income taxpayer's state income tax liability.** Under current law, taxpayers add back deductions they are not allowed to claim. With this change, taxpayers will subtract deductions and exemptions they are allowed to take.

Secs. 14 and 15: Health Care Information Technology Fund
The first section extends the sunset on the Health Care Claims tax of 0.199% for the Health IT Fund for one year from July 1, 2017 to July 1, 2018. The second section requires a comprehensive review by the Secretary of Administration and the Secretary of Human Resources, including VITL's core mission, and report on the Health Care IT Fund by November 15, 2017.

Sec. 15a: Green Mountain Care Board Bill Back
This section changes the distribution of the GBCB bill backs among the nonprofit hospital and medical service corporations, health insurance companies, and health maintenance organizations.

Secs. 16 and 17: Employer Assessment moves from Labor to Tax
Responsibility for administration of the Health Care Fund Contribution Assessment ("Employer Assessment") is transferred from the Department of Labor to the Department of Taxes. This would take advantage of the new Tax Department revenue collections software – Phase 4 and remove this responsibility from Labor as they plan to update their software programs to implement the federal aspects of the programs using federal funds. **This is estimated to save $127K in FY18 and FY19, increasing to $254K in FY20.** The reporting of quarterly contribution assessment data to the Joint Fiscal Office will remain the same.

Sec. 18 – 18d: Home Health Care Provider Tax changes
These provisions change the methodology for calculating the home health agency provider taxes. The overall revenue is the same, although it shifts payment amounts between providers.

Sec.19 Sales and Use Tax Exemption – Aircraft
This section excludes drones from the definition of aircraft. The sunset for parts and equipment installed in private aircraft is repealed in Section 31 (it was schedule to end on July 1, 2018). **This does not change the existing estimated expenditure of under $100,000 annually**

Secs. 20 – 24 Strategies for Increased Collections
The next few sections include provisions that enable the Tax Department to increase collections with additional data and information to use with new and existing collections strategies to close the "tax gap." **Together these provisions are estimated to increase state revenue collections by $4.975 million in FY 2018.** These include:

- Secs. 20 and 21 Revised Use Tax Reporting on Individual Income Tax Returns: these provisions lower the "safe harbor" percentage from 0.20 to .10 of AGI and includes a $500 cap for use tax liability but retains the separate itemization of purchases of $1,000 or more. The Tax Department will also increase awareness through outreach and education of use tax responsibility. This change is anticipated to increase use tax collections by $1.8 million.

- Sec. 22 adds additional state-level reporting for third-party settlement organizations requiring information for transactions of greater than $600 annually rather than the federal $20,000 or more than 200 transaction threshold for 1099K reporting

- Sec. 23 requires noncollecting sales and use tax vendors to provide the Tax Department, in addition to the consumer, data on the amount of sales to resident taxpayers for which sales and use tax has not been collected at the vendor level. Failure to comply results in a penalty.

- Sec. 24 directs the Tax Department to use new and existing collections strategies, including the new data provided from third-party settlement organizations and noncollecting vendors, to increase state revenue collections to a targeted by $3.175 million.

- Sec. 24a requires the Tax Department to convene a small business compliance working group.

Sec. 25 and 26 Water Quality Revenue Bond and Clean Water Working Group
These two sections require to Treasurer to report on the viability of a revenue bond for clean water funding and convene a working group to make recommendations for clean water funding.

Secs. 27 – 29a: <u>Property Tax Appeals; Overpayments</u>
Removes the 1% limitation on current property tax appeal adjustments and replaces it with an annual cap of $100K for total reimbursements. Additionally creates a study group to report or municipal litigation assistance and requires the Tax Department to report back in three years on the costs of the new reimbursement system. The last section reimburses the Town of Georgia $56,791.80 to compensate for an overpayment.

Secs. 29b – c: <u>Merger Study Committee Reports and Calculation of Certain Rates</u>
These sections: b) clarify that merging districts may consider transferring assets and associated debt back to the town in which the asset sits; and c) If a new union district has a spending increase of more than 4%, its spending will be subject to a rate review to determine if the increase is warranted, based on several defined factors. If the increase is not warranted, towns within the merging district will have the 5% hold harmless rule adjusted, so that their tax rates reflect the spending increase above 4%.

Sec. 30 <u>Captive Insurance Premium Tax Credit</u>
This section changes the $7,500 captive insurance premium tax credit for newly domiciled captives in the first year to a $5,000 tax credit in the first two years. The result is a potential $62,500 reduction in tax revenue collected annually (FY19) if the typical number of new captives are formed. If additional captives are formed some of loss may be offset.

Sec. 31 <u>Repeals</u>

1. Repeals the Tax Department regulation of break open tickets – **no revenue change**

2. Repeals the requirement to set out the penalties in large type – **no fiscal impact**

3. & 4. Repeals the sunset on the exemption for the parts and equipment installed in commercial and private aircraft – **does not change the existing expenditure**

5. Repeals the Department of Labor administration of the Employer Assessment **- $127K savings in FY 2018**

Sec. 32 <u>Effective Dates</u>