

Investing in Community Resilience: The Role of Vermont's Compost Sales Tax Policy

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History of Issue

During the 2013 Legislative Session the House Agriculture and Forest Products Cmte (Hse AFP) took testimony from the Dept. of Taxes, Agency of Agriculture Farms and Markets (VAAFAM) and commercial/agricultural compost facility owners regarding sales tax on compost products. Hearing that testimony the Cmte drafted H.542, An Act Relating to the Taxation of Soil Amendments. Since there is no definition for soil amendments in statute, the VAAFAM drafted one, now under consideration by Hse AFP.

The Composting Association of Vermont supports H.542 as introduced.

The compost tax issue emerged when it became apparent that changes to the tax code in 2007 inadvertently left compost off the list of products exempt from sales tax when used in farming. Testimony from the Tax Department further highlighted inconsistencies and 'grey areas' with regard to the application of tax code.

Example 1: Currently, a farmer is taxed on the compost she/he buys to make bedding plant mixes and is obliged to charge sales tax on non edible plants - in essence creating a double tax or value added tax.

Example 2: If a consumer buys a tomato, they do not pay sales tax on it, if they buy a tomato plant they do not pay sales tax on it, but if they buy compost to grow their own tomato, they pay tax on the compost.

Example 3: A farmer can purchase chemical fertilizer tax free. A farmer must pay tax on compost purchases.

These examples also reveal inconsistencies between tax policy and other existing state policy.

Production and use of compost contributes to achieving five priority state policy goals:

- Act 148 – ban on landfilling organics – need composting facilities and robust markets for compost
- Farm 2 Plate – grow more food in Vermont for Vermonters; composting connects to 11 F2P goals
- Genuine Progress Indicators – the health of our environment is a measure of our state's well being
- Local sources of energy – fertility; extracting heat during the composting process
- Jobs creation – for every one (1) in landfilling there are two (2) in composting.

Production and use of compost is part of the solution to well established, and some would argue – urgent – state and community priorities:

- Climate change adaptation (moisture extremes, pests, carbon sequestration)
- Greenhouse gas emissions reduction (landfill methane, commercial fertilizer manufacture)
- Food justice, food security, farm viability
- Water quality and conservation
- Stormwater management, use of Low Impact Development/Green Infrastructure practices.

Economic Value in Avoided Costs from Use of Compost

Compost-based products for erosion control and stormwater management have the ability to filter and remove up to 99% of bacteria, 73% of heavy metals, 92% of nutrients, and 99% of hydrocarbons from stormwater.

Compost, when added to soil, can reduce contamination from urban pollutants by 60 to 95%.

- fr. ILSR report *Pay Dirt*, Executive Summary

<http://www.ilsr.org/wp-content/uploads/2013/05/ILSR-Pay-Dirt-Report-05-11-13.pdf>

Remove Barriers to Access & Use

With Act 148, Vermont is poised for a paradigm shift from waste disposal to resource management for compostable materials. This shift has created new business opportunities by guaranteeing a stream of organic material.

One could make the case that taxing compost products represents a new source of tax revenue for the state. It might, but not by taxing compost. In states where Low Impact Development practices are widely used the largest users of compost products are state agencies – most notably, Agency of Transportation – and municipalities. Neither pays sales tax. Instead, new revenue would come from job creation and increased income tax.

The Institute for Local Self Reliance recently released a study on the economic and environmental value of developing composting infrastructure and using compost in Maryland. Based on the study's findings, and adjusting for Vermont's population and economy, we can expect to create 140 FTE jobs that pay \$13 - \$16/hr from composting and the use of compost. *These are place-based jobs that cannot be outsourced.*

Except for “designer composts” that provide specific disease suppression, compost is usually a low margin product. If we want high quality compost then we need to remove barriers wherever possible.

Vermont spends millions of dollars to reduce erosion and environmental pollutants in waterways. Access to quality compost products will provide a cost saving response to water borne contaminants, toxins and weather extremes – both drought and rain events.

The availability of compost is a clear food justice and food security issue, too. The purchasing power of the average American wage earner is expected to continue to shrink¹, the worldwide supply of mined fertilizers is dwindling, and we have a policy commitment to provide access to more fresh, local food for Vermonters.

Since 2007 four stakeholder processes² have come to the same conclusion for building Vermont's composting infrastructure. Support is overwhelming for smaller distributed facilities, and locating these facilities on farms wherever feasible. ‘Low tech’ composting, and the benefits of co-location on farms, will hold down infrastructure costs, providing direct savings to Vermonters. Removing barriers to the use of compost will further reduce societal costs to improve and maintain water quality, reduce erosion and stormwater flows, extend remaining landfill capacity, and provide locally produced fertility.

Submitted to Vermont House Agriculture and Forest Products Committee 01/07/13

To access H.542:

<http://www.leg.state.vt.us/database/status/textonly.cfm?Bill=H.0542&Session=2014>

¹ <http://www.forbes.com/sites/charleskadlec/2012/02/06/the-federal-reserves-explicit-goal-devalue-the-dollar-33/>

² ANR Solid Waste Working Group, CAV Legal Compost Project, legislated Compost Study Committee, Farm to Plate