Tax Expenditure Review Report

Vermont Legislative Joint Fiscal Office
January 15, 2016

Report Contents

1. Executive Summary

As required by 2015 Act No. 33,[1] this report outlines a plan to review certain state tax expenditures in order to evaluate their effectiveness and improve tax policy for Vermont. Tax expenditures with similar goals would be reviewed concurrently. The responsibility for evaluating tax expenditures would be divided among three offices, and each tax expenditure would undergo one of three levels of review. A trial set of full tax expenditure evaluations would be conducted, and expedited reviews would be incorporated into the biennial Tax Expenditure Report. After receipt of the first set of tax expenditure evaluations, the legislature would determine how to continue with a cycle of reviews, perhaps under a revised schedule, or could request more targeted evaluations for certain tax expenditures.

Recommendations

- Assign each tax expenditure to a level of review
- Place tax expenditures into groups based on their goals; review one or two tax expenditures, and then assess the results and determine whether and how to continue
- Incorporate expedited reviews into the Tax Expenditure Report over 3 biennia
- Rewrite the language of some statutory purposes to make them more specific and measureable
- Assign responsibility for tax expenditure evaluations

The Tax Expenditure Report project was the first stage in the State's efforts to provide basic information and a similar level of review for tax preferences as for direct expenditures. For each tax expenditure, that biennial report provides a brief history, references, description, estimated value and number of beneficiaries, when possible, for each of the state's tax expenditures arranged by tax type. It does not evaluate whether those tax expenditures succeed in achieving their goals. To expand that effort, the legislature added a statutory purpose to each of the tax preferences in the 2014 legislative session in addition to the existing catalog of every Vermont tax expenditure included in the biennial Tax Expenditure Report. Tax expenditure evaluations are a logical next phase in the Legislature's effort to transparently identify how well incentives are working and how they can be improved. Vermont has evaluated select tax expenditures such as the tax incidence financing (TIF) and the Vermont economic growth incentive (VEGI) programs. This report charts a plan for how to accomplish tax expenditure evaluations more regularly in Vermont.

2. Type of Evaluation: Three Levels of Review

Evaluating Vermont's tax expenditures will help ensure that the provisions achieve their specific policy goals and that the State has an efficient and fair tax system. In evaluating tax expenditures, states have utilized different methods to prioritize the level of review each tax preference receives. Depending on the legislative goals and fiscal cost, certain tax expenditures

[1] See Appendix A

may merit more thorough evaluations than others. The idea is to spend the most time and resources studying the programs for which evaluations can make the biggest difference.

This report recommends a three-tiered approach for the level of evaluation. All of the State's tax preferences would be divided into three categories for review: full evaluation, expedited review or exempt from review. Each of the levels of review is described below.

Three Levels of Review:

- **Full evaluation**: These reviews involve the most detail and usually include quantitative analysis. They often estimate the fiscal impact, direct and indirect economic or social benefits, and administrative costs of the tax expenditure and compare the effectiveness of the tax expenditure to alternative policies. These reviews often require data over many years (often 10 or more) and can take substantial resources and expertise to complete successfully.

- **Expedited review**: These evaluations may analyze the program's purpose, delineate perceived costs and benefits, and verify whether the tax expenditure is still addressing a relevant policy goal. However, these reviews typically do not include a thorough economic impact analysis. These should be included in the current Tax Expenditure Report.

- **Exempt from review**: For a variety of reasons, certain tax expenditures may not require a review. Often these are not tax expenditures at all, are very small, or are extremely unlikely to be considered for significant change or elimination.

3. Organization of Review: Grouping and Schedule

Each of the 110 Vermont tax expenditures were divided into 7 major groupings based on their purpose. The groups are:

- Enhance Community Development including Housing and Historic Revitalization
- Encourage Economic Growth and Investment
- Promote Income Security and Encourage Work
- Incentivize a Specific Desirable Activity including Agriculture
- Exclude Charitable and Public Service Organizations from Taxation
- Exempt the Necessities of Life, including Health Care, from Taxation
- Implement State Tax Policy Decisions and Other

After evaluating each tax expenditure using the guidelines discussed earlier, this report calls for 16 to have a full review (15%); 28 to have expedited review (25%); and 66 to have no review (60%). The majority of the tax expenditures that will have a full review are those that were designed to promote a specific economic objective or specific activity. Some of the items designated exempt from review are not tax expenditures at all (e.g., agricultural inputs); unlikely to be changed (e.g., libraries); or just very small (e.g., U.S. flags sold by veterans' organizations). One of the tax expenditures, the Machinery and Equipment Tax Credit, was targeted at a single taxpayer; the confidentiality rules at the Tax Department could prevent any analysis of this particular credit. In order to proceed with reviews of tax expenditures with very few beneficiaries, the legislature may want to consider requiring a specific waiver of some of the confidentiality protections as a condition of receiving the tax incentive. The tax increment financing (TIF) program is excluded from review because performance audits by the State Auditor are already required.[2]

The thematic groups can be consolidated into a shorter review cycle, particularly because some of the groups contain very few tax expenditures that call for a full or partial review. Rather than structuring the evaluations by tax type (income tax, sales tax, etc.), tax expenditures with similar purposes would be reviewed concurrently. The Legislature should determine whether these studies are a priority over the time horizon of the next two or three legislative biennia when determining a hypothetical cycle for review. Appendix B shows the cycle for each of the states that currently have enacted these types of evaluations; they range from 3 years to 10 years. Whatever review time period is set should include enough time for policy makers to offer feedback on the types of information that are valuable, enact any changes, and allow time for a thorough public process. New tax expenditures enacted during the cycle could be added to the evaluation cycle in later years after they have matured and enough data are available. Some of the reviews may require more data, and it could be necessary to mandate the collection of additional information from tax expenditure recipients or change the way data are collected. These studies may also help inform the structure of newly created tax expenditures.

The scope of this report is limited to tax expenditures as defined by the legislature in 2014.[3] Four categories of items are not considered tax expenditures:

- revenues outside the taxing power of the state
- provisions outside the structure of a particular tax
- revenues foregone because collecting them would be unduly burdensome
- revenues excluded for the purposes of avoiding government taxing itself

The second exclusion, for provisions outside the structure of a particular tax, requires some additional explanation. Vermont taxes are applied to a tax base defined by the State, and explicit exclusions or deductions from that base are tax expenditures. The State tax base for sales and use taxes is defined as tangible personal property (TPP) following the federal definition. Sales that are not TPP do not require explicit exemption and are outside the structure of the tax. For that reason, exempting services from sales and use taxes is not considered a tax expenditure. Likewise, the tax base for the Vermont income tax is federal taxable income. Some large federal tax expenditures included in the tax base are not explicitly recognized in the report on tax expenditures. Two prominent examples of federal tax expenditures that are excluded from taxable income in Vermont are employer contributions for health care, and contributions to and earnings from retirement plans.[4]

Those two tax expenditures have significant policy and financial implications for Vermont and are excluded from the evaluation cycle for now. If the initial tax expenditure reviews are successful, some targeted expenditures that were not initially reviewed could be included at the end of the review cycle.

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[2] 32 V.S.A. § 5404a(l)

[3] 2015 Act No. 200 An Act Relating to Providing Statutory Purposes for Tax Expenditures

[4] For an analysis of those federal tax expenditures and eight others, see Congressional Budget Office, *The Distribution of Major Tax Expenditures in the Individual Income Tax System*. May 29, 2013.

4. Prioritizing Evaluations: Criteria

Four criteria were developed to help set the priority ranking for each tax expenditure and what level of review it should undergo. A tax expenditure should receive more scrutiny if the provision:

- Is designed to target a specific activity and response
- Has a large annual revenue impact or possibly a high annual rate of growth
- Has a measurable statutory purpose that clearly indicates how to evaluate the expenditure
- Has been the subject of recent proposals for modification, repeal, or other significant change

Is the tax expenditure designed to incentivize a specific activity?
When tax expenditures are meant to encourage people or businesses to conduct a specific, measurable activity, their success or failure is an empirical question. That makes a full evaluation of such types of programs valuable. They generally ought to be evaluated to determine whether they are accomplishing the desired goal in a cost-effective manner.

For example, a full evaluation of the Vermont Economic Growth Incentive (VEGI) program can help policymakers understand whether it is driving job growth or if an alternative use of state funds would have greater economic impact. It is not enough to determine whether companies receiving VEGI are hiring workers—those companies might have hired additional workers in the absence of the VEGI program. Some states have outlined questions to ask of incentive programs such as the extent to which the incentive changes business behavior or how the incentive affects the economy of the state as a whole. Statewide effects include positive direct and indirect impacts, any negative effects on other businesses, and a comparison to the results of other incentives or other economic development strategies with similar goals.

Does the tax expenditure have a large fiscal impact or a high rate of growth?
It generally makes sense to prioritize the state's analytic resources on programs with a higher cost or a high rate of growth. Identifying ways to improve or better target a large tax expenditure might yield larger savings and make government programs more efficient. Tax expenditures that are growing rapidly might also benefit from review if the growth is unanticipated or is the result of a change in the way that the expenditure is utilized that was not originally considered. However, lawmakers may want some flexibility in assigning the level of review as they periodically review whether specific policy goals remain relevant, whether the design needs to be modified to encourage its use, and whether the administrative costs are worth the impact. For that reason, three levels of review are proposed.

Less intensive reviews of less expensive programs may raise interesting questions about why the program doesn't cost more. Additionally, less intensive reviews could help states identify emerging trends that could influence a program's cost. Without pinpointing a cutoff, the value of the tax expenditure was one of the criteria used to determine whether to assign a particular tax expenditure to a full review. It is important to maintain flexibility, however, to balance resource constraints with the potential benefits of full reviews.

Does the statutory purpose clearly indicate how to evaluate the tax expenditure?
The success of some tax expenditures isn't measureable against defined metrics. Instead, their value depends more on policymakers' values and priorities than on data and analysis. For

example, the goal of Vermont's public, pious, and charitable property exemption, as outlined in the latest tax expenditure report, "is to allow these organizations to dedicate more of their financial resources to furthering their public service missions." Given that goal, how policymakers think about the tax expenditure likely depends primarily on how highly they value the public service missions of the institutions. Therefore, even though those tax expenditures have a large fiscal impact, they may merit only an expedited review rather than a full evaluation. Policymakers would benefit from receiving descriptive information on the tax expenditure—such as how the state determines which organizations qualify—or an audit to determine whether the tax expenditure is going to the intended audience, but it likely would not need a full evaluation.

To a large extent, the type of evaluation that is warranted depends on the stated goal of a program. For example, if the goal of exempting food from the sales tax is to avoid taxing the necessities of life, an evaluation is not necessary to determine whether the goal is met. If the goal is to boost the standard of living of lower-income families, an expedited review might consider whether a more targeted approach could be more effective. If the goal is to incentivize the purchase of groceries rather than restaurant meals, a full evaluation would be warranted to determine if behavior was changed.

Has the tax expenditure been the subject of recent proposals for modification, repeal, or other significant change?
The reason to evaluate tax expenditures is to provide lawmakers with the information they need to improve policy. Expenditures that have been the subject of recent proposals for change clearly indicate legislative interest in considering reform. They may benefit from a thorough review to help inform the conversation, orient the discussion around the objective of the expenditure, or focus the expenditure on a more narrow group of beneficiaries.

5. Statutory Purposes

Each Vermont tax expenditure has a statutory purpose to both convey the public policy rationale of a particular tax preference and provide information to legislators, stakeholders, analysts, and the public to evaluate whether the policy purposes have been achieved (see Appendix C). A report from Washington State[5] outlines how to draft performance statements that follow a logic chain. Some of the Vermont statutory purposes assigned to a full evaluation may need to be revised to provide clearer direction on which metrics would be the most appropriate to use when evaluating their effectiveness. A performance statement that provides the public policy objective of the tax preference as well as a description of how the Legislature expects the preference to bring about that objective is most useful.

For example, the statutory purpose of VEGI is "to provide a cash incentive to encourage quality job growth in Vermont" (32 V.S.A. § 5813(u)). That purpose might be improved, using the Washington report's guidelines, to be more specific and measurable. Some options for potential alternatives are:

> *Option 1* - To provide an incentive that encourages growth in jobs that provide wage and benefit packages (including health care) that are 20% above the average for the particular industry.

[5] Washington State Joint Legislative Audit and Review Committee (JLARC), Legislative Auditor's Report on Guidance for Tax Preference Performance Statements, January 2, 2014

Option 2 - To provide an incentive that increases the number of full-time jobs created by the companies benefitting from the preference at a 25% higher rate than the industry average.

Option 3 - To provide an incentive that is not linked to a company's profitability for income tax purposes in order to offer the benefit immediately to new or start-up businesses and expand opportunities outside of the traditional economic centers in Vermont.

Option 4 - To provide a cash incentive to encourage quality job growth in Vermont as measured by at least 50 new jobs that pay at least $15 per hour with full benefits each year that would not have occurred without the VEGI program.

That level of detail will help evaluators of a tax incentive's effectiveness examine specific indicators. A list of the tax expenditures targeted for a full review, their statutory purposes, and possible improvements to those purposes is included in Appendix D.

6. Resources and Data Required for Review: Budget Considerations

A full review and thorough analysis of any expenditure requires staff with the necessary skills and tools. Often those skills and tools will take some time to develop and will require:

- strong research capabilities
- sorting and matching of existing data in new ways and often combining data sets from difference sources
- utilizing database programs, economic or mapping software that could cost a substantial amount to purchase, develop, or contract out to consultants
- collecting additional data from recipients of tax expenditures

These evaluations will generate new responsibilities for any of the three relatively small offices that have been identified as potentially capable of conducting tax expenditure evaluations. They may require the use of consultants, new economic models, mapping software, or potentially hiring of additional staff. An assignment of this magnitude would certainly realign the priorities of any of the offices.

Maryland and Indiana are two states that recently began tax expenditure evaluations. Maryland released its first reports in 2014 and additional reports in 2015. While Maryland does not have a specific budget for these reports, they consume a significant amount of staff time in the Legislative Office of Fiscal and Policy Analysis during the off-session. A draft report published in 2015 on the Sustainable Communities Tax Credit required an estimated 188 staff days for analysis and production--between 7 and 9 staff worked on the project with a few dedicated to the evaluations--plus additional time for managerial reviews. The Indiana Office of Fiscal and Management Analysis also published a report evaluating 14 tax incentives in 2015 and assigned 6 staff members from an office of 20 to work on the report. While every state structures the reports and staffing differently, on average they require between 1.0 and 2.5 FTEs to produce annually.

7. Tax Expenditure Evaluations: Assigning Responsibility for Analysis

Selecting the right state office or agency to lead tax expenditure evaluations is crucial to ensuring the reports provide independent, well-informed analysis to policymakers. The characteristics of successful evaluation offices and options for Vermont are described below. Based on these characteristics, three existing offices could conduct the evaluations: the Legislative Joint Fiscal Office, the Department of Taxes, or the Office of the State Auditor. Each of the offices has some, but not all, areas of expertise that make them a viable candidate for tax expenditure evaluations. Ideally, an office selected to evaluate tax expenditures would have several key traits:

- **Experience at program evaluation.** Analyzing the results of tax expenditures requires many of the same skills needed to evaluate any government program. Evaluators frequently synthesize interviews with stakeholders, research national best practices, and study the details of how tax expenditures are administered to help determine whether they could work more efficiently.

- **Experience measuring economic impact.** Economic development tax incentives are a subset of tax expenditures. For these programs, evaluations need to generate an accurate picture of the economic impact. Evaluation offices should have the expertise to answer key questions, such as to what extent business incentives influenced people's choices, how those decisions affected the state's economy, and what it cost to achieve the results. Vermont is fortunate to have several existing options to produce high-quality tax expenditure evaluations.

- **Expertise in tax policy.** Understanding the nuances of tax policy and the rationales behind various tax expenditures can help an office draw informed conclusions.

- **An impartial perspective.** Evaluations should base their findings on the evidence at hand, free to the extent possible from preexisting biases.

- **A willingness to make policy recommendations.** The primary reason to evaluate tax expenditures is to help lawmakers identify how to make state tax policy as effective as possible. To serve this purpose, evaluators need to be willing to describe what is working well, what isn't, and how tax expenditures can be improved.

- **Sufficient resources** such as access to data, staff levels, and budget flexibility to accomplish the evaluations within existing resources or provide additional appropriations to hire consultants.

The **Legislative Joint Fiscal Office (JFO)** has analytical staff (approximately 1.5 to 2.0 FTE positions) dedicated to tax policy development, analysis, and knowledge of Vermont's tax code as well as the issues surrounding tax expenditures generally. The JFO and the Tax Department collaborate to produce the biennial tax expenditure report, which estimates the fiscal impact of each of Vermont's tax credits, exemptions, and deductions. The JFO also authored a report in January 2014 that identified goals (statutory purposes) for each Vermont tax expenditure. JFO has access through consultants to economic models, but it has less experience with audits or program evaluation and little or no access to confidential tax data. The JFO must allocate its time and analytical focus during the off-session on timely issues of interest to the legislature as a whole and completes very few multi-year, time-intensive studies. Moreover, the JFO has traditionally declined to make policy recommendations because it is non-partisan and typically provides analysis that can be used by all political affiliations. As a result, even if the JFO were to produce high-quality evaluations, there is a risk that policymakers would not receive clear guidance on how to translate the findings into policy improvements.

The **Department of Taxes' POLA (Policy Outreach and Legislative Affairs) Division** has seven full time staff, though not all are dedicated to tax policy analysis. POLA has access to confidential tax data at the company and individual level and the ability to access and match data from other agencies and departments of state government. Like JFO, POLA has little experience with audits or program evaluation. The department's staff could find it difficult to provide independent policy recommendations, especially if they are contrary to the goals of executive branch leadership. Prioritizing tax expenditure evaluations over other work goals and priorities of the Tax Department could be difficult as well.

The **Office of the State Auditor (Auditor)** has a slightly different skill set–the staff regularly evaluates the effectiveness of government programs and makes detailed policy recommendations. In many states, an audit office might lack expertise in tax policy, but the Vermont Auditor has some background in that area. The Office produced several reports on tax increment financing districts in 2011 and 2012. The Auditor has also studied multiple economic development incentives including the program that was the precursor to VEGI.

Having audit offices evaluate tax incentives and other tax expenditures is a common approach used in states such as Maine, Minnesota, Missouri, Nebraska, and Washington. Like Vermont, Missouri's state auditor is an independent statewide elected official. For more than a decade, the staff of the Missouri auditor's office has been producing high-quality evaluations of tax credits—through the tenures of both Democratic and Republican auditors.

Comparison of Each Office

	JFO	POLA	Auditor
Program Evaluation			X
Economic Impact	X	X	
Tax Policy	X	X	X
Impartial Perspective	X		
Policy Recommendations			X
Confidential Data Access		X	X
Sufficient Staff/Resources		X	

Finally, another option is to take a **hybrid approach** in which evaluation responsibilities are divided among multiple offices. This approach could help avoid putting too large a workload on any one office or agency. If Vermont adopted a similar system, one option would be to make one office responsible for full evaluations and another responsible for expedited reviews.

Full reviews of tax expenditures usually include quantitative analysis. They often estimate the fiscal impact, direct and indirect economic or social benefits, and administrative costs of the tax expenditure, and compare the effectiveness of the tax expenditure to alternative policies. Conducting this type of analysis is valuable for tax expenditures that are intended to change taxpayer behavior such as economic development incentives. In those cases, a key purpose of the evaluation is to determine whether the intended changes took place.

In contrast, expedited reviews do not usually involve detailed quantitative analysis. Instead, they may analyze the program's purpose, delineate perceived costs and benefits, and verify whether the tax expenditure continues to address a relevant policy goal. Expedited reviews are most appropriate for tax expenditures that are designed to achieve broad tax policy objectives such as conforming to the IRS code or avoiding double taxation—ones where the value of the tax expenditure is not necessarily an empirical question.

One possibility is that all three offices would work on different components of the tax expenditure evaluations. The Auditor could be responsible for full evaluations with the support of the Tax Department. The Department of Taxes in coordination with the JFO could be responsible for incorporating expedited reviews into the biennial Tax Expenditure Report. That division of labor would allow the Auditor to focus on the detailed program evaluations that are its expertise. Because expedited reviews often primarily involve analyzing the tax policy rationales for tax expenditures, the JFO and the Department of Taxes might be able to offer guidance to lawmakers despite their general reluctance to make policy recommendations.

Because these are significant mandates, it makes sense to start small and reassess after the first year to determine if the cycle and schedule are realistic and the results are valuable for the Legislature. If the Auditor conducted a full review of one or two of the first set of expenditures -- either the housing-related tax credits or the downtown program credits, from the group Enhance Community Development including Housing and Historic Revitalization--and the Tax Department and JFO included the expedited reviews for this group and those that do not undergo a full review in the Tax Expenditure Report due next January, the Legislature would receive enough information to determine how to move forward with tax expenditure evaluations that would benefit the State.

8. Example: Clothing and Footwear Sales Tax Exemption – Expedited Review

Tax Expenditure	Statutory Purpose	Estimated Revenue Impact	Recommendations
Exempts clothing and footwear purchases from the 6% sales and use tax.	To limit the tax burden on the purchase of goods that are necessary for the health and welfare of all people in Vermont.	$35.7 million in FY 2017* *Note: eliminating this exemption would not result in the full amount of additional state tax revenue because remote sales would likely reduce the revenue impact by 20-30%.	Review and clarify: Consider limiting the exemption to necessary clothing and footwear items or amounts. This may require reimplementation of a threshold or another method of providing a benefit.

<u>Public Policy Objectives</u>
The Legislature stated that the public policy objective of the exemption for clothing and footwear is to exempt "necessities" from sales tax for people in Vermont.

A blanket exemption of an item is not targeted and therefore can have a larger revenue reduction than is necessary to achieve the public policy goal. Certainly not all clothing purchases are necessities.

- This exemption is not directed at any particular group of people in Vermont, for example state residents or low-income taxpayers.
- The stated public policy objective does not consider economic competitiveness or the difficulty of collecting state sales taxes on remote sales.

Estimates and Analysis

The Vermont Tax Department does not collect any data on sales and use tax exemptions. All of the estimates are based on national surveys of spending on consumer goods, including clothing and footwear.

The Chainbridge Sales and Use Tax Model was used to estimate the fiscal impact of this tax expenditure and its distribution among resident households in Vermont (Table 1). On average, each household realizes a benefit equal to $127 per year. Approximately 49% of resident households have adjusted gross income of $50,000 or less which is close to the median family income in 2013 estimated to be $53,046. Households with income below $51,000 receive about one third of the tax savings value from excluding clothing and footwear from the sales and use tax.

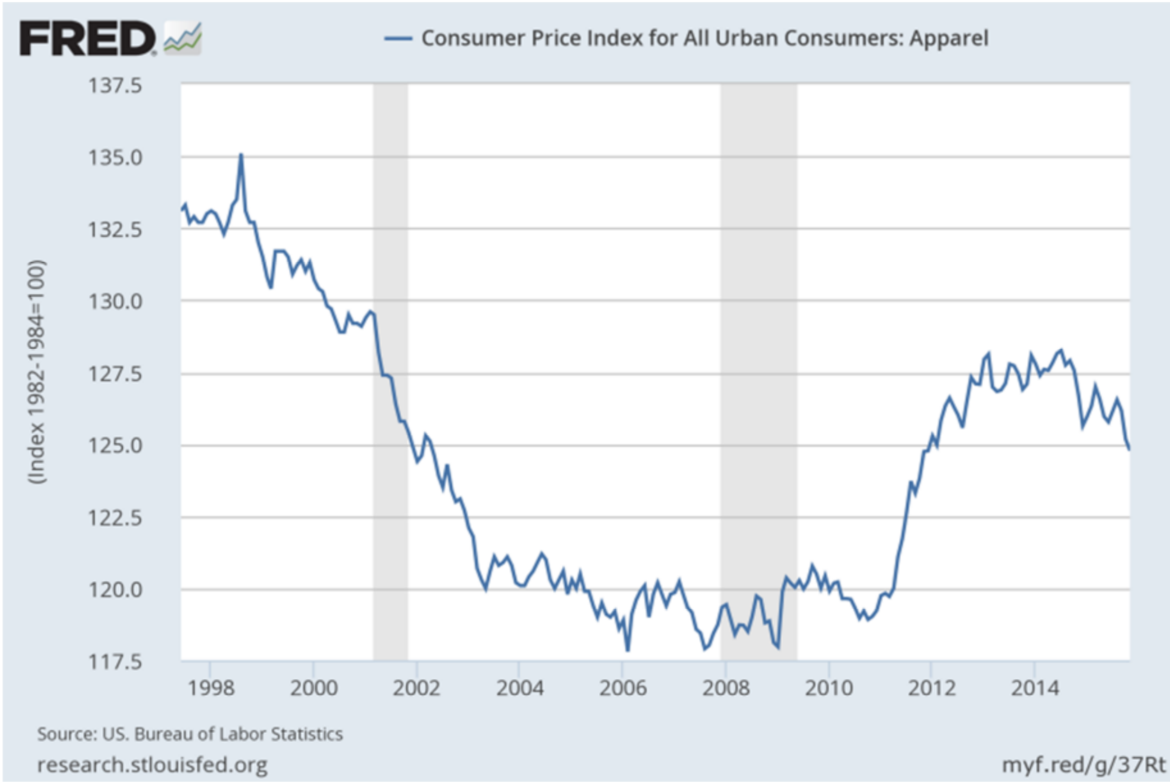
Each year the IRS sets a national standard amount for monthly purchases of necessary apparel and services by family size.[6] For a two-person household as of March 2015, this amount is $162 per month (and includes items in addition to clothing and footwear). Using the 6 percent tax rate, $162 per month or $1,944 per year yields $120 in foregone sales tax per household. On average, the Chainbridge model suggests that Vermont households are receiving a slightly larger benefit per household than the average benefit on what is considered "necessary purchases" by the IRS measure for clothing and footwear purchases, although many households likely receive far less than this benefit and a few are receiving much more.

One piece of information for future consideration may be how the price of apparel has changed over the history of the Vermont exemption. The value of the tax expenditure has increased since 1999 when clothing items priced at less than $110 became exempt from the sales tax. But prices of apparel over this time period have declined, indicating greater buying power for consumers. For a comparison of prices for apparel in 1999 and today, the Consumer Price Index for All Urban Consumers: Apparel is useful. That Index has not surpassed its June 1994 value of 134.00 in the last 21 years. The Index was 131.30 in December 1999, and the November 2015 value was 124.78 (see graph on the following page).

Internet sales and remote tax issues have grown over the time of this exemption along with the erosion of the sales tax base. Remote sales now account for a large part of clothing and footwear purchases nationally--18.2% of sales from e-shopping and mail order businesses[7] in 2013 excluding brick and mortar retailers with an online presence. As a result, even if Vermont were to apply the tax to clothing and footwear, a large number of remote sales would avoid the tax because of low compliance levels with the use tax.

[6] www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/National-Standards-Food-Clothing-and-Other-Items

[7] www.census.gov/econ/estats/2013/all2013tables.html - Table 5 U.S. Electronic Shopping and Mail-Order Houses (NAICS 4541) - Total and E-commerce Sales by Merchandise Line1: 2013 and 2012



Source: https://research.stlouisfed.org/fred2/series/CPIAPPSL#

<u>Legal History</u>

1999	Clothing items less than $110 exempt on December 1, 1999
2001	Footwear exempt on July 1, 2001
2007	The $110 clothing threshold eliminated when Vermont joined the Streamlined Sales and Use Tax Agreement on January 1, 2007

<u>State Comparisons</u>

Of the 45 states with a sales and use tax, 7 states partially or fully exempt clothing and/or footwear: Massachusetts if $175 per item or less; Minnesota; New Jersey; New York if $110 per item or less; Pennsylvania; Rhode Island; and Vermont.

Connecticut recently eliminated its sales tax exemption for clothing and footwear costing less than $50. Now the general sales tax rate of 6.35% applies to most sales, and a rate of 7% applies to sales for more than $1,000 for an article of clothing or footwear intended to be worn on or about the human body, a handbag, luggage, umbrella, wallet or watch. Every year, clothing and footwear costing less than $100 per item are excluded from the sales tax for one week.[8]

[8] http://askdrs.ct.gov/Scripts/drsrightnow.cfg/php.exe/enduser/std_adp.php?p_faqid=401&p_topview=1

Table 1: Clothing and Footwear Sales Tax Exemption - Chainbridge Model Results FY17 Estimates

Household AGI		# Households	Household Distribution	Total VT AGI	6% Sales Tax Value	Tax Expenditure Distribution	Tax Savings Per Household	Average Spending Per Household	2014 CEX (Tables 1110 & 2301)
($ Dollars)			(%)	($ Millions)	($ Millions)	(%)	($ Dollars)	($ Dollars)	($ Dollars)
-infinity	25,000	64,310	23%	928.9	4.4	12%	68	1,140	791
25,001	50,000	72,850	26%	2,681.3	6.6	18%	90	1,508	1,429
50,001	75,000	52,140	19%	3,227.6	6.8	19%	129	2,158	1,607
75,001	100,000	34,330	12%	2,977.2	4.1	11%	119	1,986	2,110
100,001	125,000	21,530	8%	2,391.1	3.5	10%	163	2,725	2,838
125,001	150,000	13,180	5%	1,792.6	2.1	6%	159	2,656	3,222
150,001	175,000	7,230	3%	1,172.4	1.7	5%	235	3,919	N/A
175,001	200,000	4,370	2%	811.2	0.9	2%	197	3,280	N/A
200,001	250,000	4,470	2%	986.3	1.1	3%	244	4,064	4,412
250,001	500,000	5,140	2%	1,701.3	1.5	4%	284	4,734	4,718
500,001	1,000,000	1,220	0%	816.2	1.6	5%	1,328	22,131	N/A
1,000,001	infinity	460	0%	1,448.5	1.5	4%	3,283	54,710	N/A
	Totals	**281,240**	**100%**	**20,934.4**	**35.7**	**100%**	**127**	**2,115**	**1,786**

2013 Median Vermont Household Income (3-year average) = $53,046
NOTE: Census says median household income in Vermont, 2009-2013, was $53,046 in 2013 dollars. See http://quickfacts.census.gov/qfd/states/50000.html. Assuming real growth of 1 percent per year and inflation at 2 percent per year, the median household income would be closer to $57,407 in 2015.

9. Appendices

Appendix A

S.41 An act relating to developing a strategy for evaluating the effectiveness of individual tax expenditures

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. EVALUATION OF TAX EXPENDITURES

(a) The Joint Fiscal Office shall, in consultation with an organization or organizations with experience in the evaluation of tax expenditures, develop a strategy to evaluate the effectiveness of each Vermont tax expenditure in the report required by 32 V.S.A. § 312. The Joint Fiscal Office shall consider the experiences of other states and shall propose a strategy that identifies but is not limited to:

(1) an appropriate schedule and approach for evaluating tax expenditures;
(2) specific metrics for different tax expenditures based on the statutory purposes;
(3) sources of data and economic models, if any, that are matched to the identified metrics; and
(4) the composition and mandate of an appropriate body, if other than the General Assembly, to consider the effectiveness of tax expenditures.

(b) The Joint Fiscal Office shall present its findings and recommendations as well as an example of a Vermont tax expenditure evaluation to the Senate Committee on Finance and the House Committee on Ways and Means by January 15, 2016. The Joint Fiscal Office shall, in addition to consulting with outside organizations, have the assistance of the Department of Taxes and the Office of Legislative Council.

Sec. 2. EFFECTIVE DATE

This act shall take effect on passage.

Appendix B

State	Scope	Cycle length indicated	Who Evaluates?
Alaska	Tax expenditures	6 years	Legislative staff: Division of Legislative Finance
Arizona	Tax expenditures	5 years	Legislative staff: Staff of the Joint Legislative Budget Committee
Connecticut	Tax incentives	3 years	Executive branch agency: Department of Economic and Community Development
Florida	Tax and cash incentives	3 years	Legislative staff: Office of Economic and Demographic Research and the Office of Program Policy Analysis and Government Accountability
Indiana	Tax incentives	5 years	Legislative staff: Office of Fiscal and Management Analysis within the Legislative Services Agency
Iowa	Tax expenditures	5 years	Executive branch agency: Department of Revenue and other agencies that administer incentives
Louisiana	Tax expenditures	1 year	Executive branch agency: Various agencies that administer incentives
Maine	Tax expenditures	None specified	Legislative staff: Office of Program Evaluation and Government Accountability
Maryland	Tax expenditures	5 years	Legislative staff: Office of Policy Analysis within the Department of Legislative Services
Minnesota	Tax and cash incentives	At least one a year	Legislative staff: Office of the Legislative Auditor
Mississippi	Tax and cash incentives	4 years (5 for newly created ones)	Outside experts: The University Research Center
Missouri	Tax and cash incentives	4 years	Independent agency: Office of the State Auditor
Nebraska	Tax incentives	3 years	Legislative staff: Legislative Audit Office
New Hampshire	Tax expenditures	5 years	Legislators themselves: Joint Committee on Tax Expenditure Review
North Dakota	Tax incentives	6 years	Legislators themselves: A legislative management interim committee that is assigned by legislative leadership
Oklahoma	Tax and cash incentives	4 years	Outside experts: Incentive Evaluation Commission, potentially with the assistance of a contract economist
Oregon	Tax expenditures	6 years	Legislative staff: Legislative Revenue Office
Rhode Island	Tax incentives	3 years (5 for newly created ones)	Executive branch agency: Office of Revenue Analysis within the Department of Revenue
Tennessee	Tax incentives	4 years	Executive branch agency: Department of Economic and Community Development
Texas	Tax and cash incentives	No formal schedule adopted yet	Outside experts: Economic Incentive Oversight Board
Washington	Tax expenditures	10 years	Legislative staff: Staff of the Joint Legislative Audit & Review Committee
Washington, D.C.	Tax expenditures	5 years	Independent agency: Office of the Chief Financial Officer

Source: Pew Charitable Trusts

Appendix C

PROPOSED EXPENDITURE EVALUATION REVIEW GROUPING, PRIORITY, AND CYCLE

YEAR 1

Enhance Community Development including Housing and Historic Revitalization

Tax Expenditure	Type of Review	Statutory Purpose
Charitable Housing Credit	Full	to enable lower capital cost to certain affordable housing charities by restoring some of the forgone investment income through a tax credit to the investor.
Affordable Housing Tax Credit	Full	to increase the capital available to certain affordable housing projects for construction or rehabilitation by attracting up-front private investment.
Historic Rehabilitation Tax Credit	Full	to improve and rehabilitate historic properties in designated downtowns and village centers
Façade Improvement Tax Credit	Full	to improve facades and rehabilitate historic properties in designated downtowns and village centers
Code Improvement Tax Credit	Full	to improve and rehabilitate historic properties in designated downtowns and village centers
Qualified Sale of Mobile Home Park Credit	Expedited	to encourage sales of mobile home parks to a group composed of a majority of the mobile home park leaseholders, or to a nonprofit organization that represents such a group, and, in doing so, to provide stability to the inhabitants of such mobile home parks.
Sales of building materials	Expedited	to provide incentives to restore and revitalize downtown districts
Reallocation of receipts from construction materials	Expedited	to provide incentives to restore and revitalize certain properties in designated downtown districts.
Vermont Housing Finance Agency (VHFA)	Expedited	to provide and promote affordable housing
Housing Authorities	Expedited	to promote, provide, and preserve affordable housing
Qualified Housing	Expedited	to ensure that taxes on this rent restricted housing provided to low- and moderate-income Vermonters are more equivalent to property taxed using the State homestead rate and to adjust the costs of investment in rent restricted housing to reflect more accurately the revenue potential of such property

YEARS 2 and 3

Encourage Economic Growth and Investment

Tax Expenditure	Type of Review	Statutory Purpose
Investment Tax Credit	Full	to encourage Vermont business investments by lowering the effective costs of certain activities
Research and Development Tax Credit	Full	to encourage business investment in research and development within Vermont and to attract and retain intellectual-property-based companies.
Vermont Employment Growth Incentive	Full	to provide a cash incentive to encourage quality job growth in Vermont
Machinery and Equipment Tax Credit	Full (confidentiality issue)	to provide an incentive to make a major, long-term capital investment in Vermont-based plants and property to ensure the continuation of in-state employment
Property used in research (commercial, industrial or agricultural)	Expedited	to reduce financial barriers to research and innovation in the commercial, industrial, and agricultural industries
Aircraft and depreciable parts	Expedited	to promote the growth of the aircraft maintenance industry in Vermont by lowering the cost of parts and equipment relative to other states with private airplane maintenance facilities.
Tracked vehicles	Expedited	to lessen the cost of capital investments
Local Development Corporations	Expedited	to promote economic development
VEPC Approved Stabilization Agreements	Expedited	to provide exemptions on a case-by-case basis in conjunction with other economic development efforts in order to facilitate economic development that would not otherwise occur.
Whey processing fixtures	None	to support industries using whey processing facilities to convert waste into value-added products
Entrepreneurs' Seed Capital Fund Credit	None until utilized	to provide incentives for investment in the Seed Capital Fund, ensuring it has sufficient capital to make equity investments in Vermont businesses
Tax Increment Financing Districts	Auditor 32 V.S.A. §5404a(l)	to allow communities to encourage investment and improvements that would not otherwise occur and to use locally the additional property tax revenue attributable to those investments to pay off the debt incurred to construct the improvements.

YEAR 4

Incentivize a Specific Desirable Activity, including Agriculture

Tax Expenditure	Type of Review	Statutory Purpose
Capital Gains Exclusion	Full	to increase savings and investment by making the effective tax rate on capital gains income lower than the effective tax rate on earned income while exempting a portion of the gain that may represent inflation. The 40 percent business capital gains exclusion mitigates the impact of one-time realizations in a progressive tax structure.
Vermont Higher Education Investment Credit	Full	to encourage contributions to Vermont 529 plans that would not otherwise occur and to lower the cost of higher education for Vermont students and the Vermont taxpayers who financially support them
Vermont Farm Income Averaging Credit	Expedited	to mitigate the adverse tax consequences of fluctuating farm incomes under a progressive tax structure and to provide stability to farm operations.
Veterinary supplies	Expedited	to lessen the cost of veterinary services in order to support the health and welfare of Vermont animals
Owned by agricultural societies	Expedited	to lower the cost of public access to agricultural events
Vermont Municipal Bond Income Exemption	Expedited	to lower the cost of borrowing in order to finance State and municipal projects
Qualified Bond Interest Income Exemption	Expedited	to lower the cost of borrowing in order to finance education loan programs. … to lower the cost of borrowing in order to finance the expansion of broadband access across the State.
Railroad rolling stock and depreciable parts	Expedited	to increase the use of rail for transport
Ferryboats and depreciable parts	Expedited	to increase the use of ferries for transport
Property incorporated in railroad line	Expedited	to increase the use of rail for transport by lowering the costs of materials
Property incorporated into a net metering system	Expedited	to increase the deployment of solar technologies until the price of solar materials and installation decreases to the point it does not need State subsidization.
Water pollution abatement property	Expedited	to encourage real property improvements that abate water pollution by nonpublic entities that would not qualify for an exemption as a government entity
Scrap construction materials by a third party	None	to promote the reuse and recycling of scrap construction materials
Agricultural inputs	None	to promote Vermont's agricultural economy
Agricultural machinery and equipment	None	to promote Vermont's agricultural economy
Energy purchases for farming	None	to promote Vermont's agricultural economy

YEAR 4 continued

Exclude Charitable and Public Services Organizations from Taxation

Tax Expenditure	Type of Review	Statutory Purpose
Public, pious, and charitable	Expedited	to lower the operating costs of pious and charitable organizations considered exempt under subdivision 3802(4) of this title to allow them to dedicate more of their financial resources to furthering their public-service missions
Fraternal Societies	Expedited	to support benevolent societies that provide benefits to members and to the community
University of Vermont	None	to allow institutions providing higher education to deploy more of their financial resources to their educational missions.
Served on the premises of a school	None	to reduce the overall cost of education in Vermont
Vermont State Colleges	None	to allow institutions providing higher education to deploy more of their financial resources to their educational missions
VSAC	None	All real and personal property of VSAC is exempt from taxation
Summer camp for children	None	to reduce the cost of summer education and outdoor activities for youth.
Summer camp for children	None	to reduce the cost of summer education and outdoor activities for youth.
Student housing	None	reduce the overall costs of education in Vermont
Admission fees to nonprofit museums	None	to support the missions of certain nonprofit facilities and encourage higher visitation
Credit Unions	None	to affirm the nonprofit, cooperative structure of credit unions
Sales to credit unions	None	to affirm the nonprofit, cooperative structure of credit unions
YMCA and YWCAs	None	to allow these organizations to dedicate more of their financial resources to furthering their public-service missions
Congressionally Chartered Organizations	None	to support certain organizations with a patriotic, charitable, historical, or educational purpose
Purchases by and limited purchases from 501(c)(3)s	None	to reduce costs for certain nonprofit organizations in order to allow them to dedicate more of their financial resources to furthering the public-service missions of the organizations.
Amusement charges by nonprofit and political orgs	None	to reduce the costs for and encourage participation in a limited number of events organized by certain nonprofit organizations in order to allow these organizations to dedicate more financial resources to their public-service missions
Served on the premises of a non-profit	None	to allow more of the revenues generated by certain activities to be dedicated to furthering the public-service missions of the organizations

YEAR 4 continued

Tax Expenditure	Type of Review	Statutory Purpose
Sold by nonprofits at fairs etc but limited to 4 days	None	to allow more of the revenues generated by certain activities to be dedicated to furthering the public-service missions of the organizations
Sold by nonprofits at fairs etc but limited to 4 days	None	to allow more of the revenues generated by certain activities to be dedicated to furthering the public-service missions of the organizations
Premises of a nonprofit	None	to allow more of the revenues generated by certain activities to be dedicated to furthering the public-service missions of the organizations
Religious, charitable or volunteer fire	None	to lower the operating costs of pious and charitable organizations considered exempt under subdivision 3802(4) of this title to allow them to dedicate more of their financial resources to furthering their public-service missions
Building materials for government, 501(c)(3)s or development corporations	None	to reduce the costs of construction for certain nonprofit organizations in order to allow them to dedicate more financial resources to the public-serving missions
Items sold to fire, ambulance and rescue squads	None	to limit the tax on organizations charged with protecting the safety of the public
U.S. flag sold to or by exempt veterans' organizations	None	support veterans' organizations in performing their traditional functions
Libraries	None	to aid libraries in offering free and public access to information and research resources
Humane societies	None	lower operating costs for organizations that protect animals to allow them to dedicate more of their financial resources to furthering their public-service missions
College fraternities and societies	Repealed 1/1/17	to provide a tax benefit to college fraternities and societies.

YEARS 5 and 6

Promote Income Security and Encourage Work

Tax Expenditure	Type of Review	Statutory Purpose
Credit for Child and Dependent Care	Full	to provide financial assistance to employees who must incur dependent care expenses to stay in the workforce in the absence of prekindergarten programming.
Credit for Elderly or Disabled	Full	to provide financial assistance to seniors and persons who are disabled with little tax-exempt retirement or disability income
Low Income Child and Dependent Care Credit	Full	to provide cash relief to lower-income employees who incur dependent care expenses in certified centers to enable them to remain in the workforce
Earned Income Tax Credit	Full	to provide incentives for low-income working families and individuals and to offset the effect on these Vermonters of conventionally regressive taxes.
Military Pay Exemption	Expedited	to provide additional compensation for military personnel in recognition of their service to Vermont and to the country
$10,000 for veterans	Expedited	to recognize disabled veterans' service to Vermont and to the country
Handicap	Expedited	to lessen the cost of purchasing a vehicle that has been modified to meet the physical needs of a qualifying Vermonter
Veterans	None	to remove every cost to a qualifying veteran receiving a vehicle granted by the Veterans' Administration

Exempt the Necessities of Life, including Health Care, from Taxation

Tax Expenditure	Type of Review	Statutory Purpose
Clothing and footwear	Full	to limit the tax burden on the purchase of goods that are necessary for the health and welfare of all people in Vermont.
Medical products	Expedited	to lower the cost of medical products in order to support the health and welfare of Vermont residents
Sales of food	None	to limit the cost of goods that are necessary for the health and welfare of all people in Vermont
Served at a continuing care retirement facility	None	exclude meals prepared in a person's home from taxation
on the premises of a continuing care retirement facility	None	exclude meals prepared in a person's home from taxation
Grocery-type items furnished for take-out	None	to limit the cost of goods that are necessary for the health and welfare of all people in Vermont.
Energy purchases for a residence	None	to limit the cost of goods that are necessary for the health and welfare of Vermonters

YEARS 5 and 6 continued

Exempt the Necessities of Life, including Health Care, from Taxation

Tax Expenditure	Type of Review	Statutory Purpose
Newspapers	None	to reduce the cost of access to news and community information for people in Vermont
Funeral charges	None	to lessen the costs accumulated by the bereaved
Cemeteries	None	to lower the cost of establishing and maintaining cemeteries
Nonprofit Hospital and Medical Service Organizations	None	to lower the cost of health services to Vermonters
Nonprofit Hospital and Medical Service Organizations	None	to lower the cost of health services to Vermonters
Served in hospitals, convalescent and nursing homes	None	to reduce the overall costs of health care and senior care in Vermont
FQHC and RHCs	None	to support health centers that serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, and have an ongoing quality assurance program
Non-Profit Medical and Hospital Service Corporations	None	to lower the cost of health services to Vermonters
Sales to nonprofit hospital service corporations	None	to lower the cost of health services to Vermonters
Sales to nonprofit medical service corporations	None	to lower the cost of health services to Vermonters.

Implement State Tax Policy Decisions and Other

Tax Expenditures	Type of Review	Statutory Purpose
Rentals of coin-operated washing facilities	Expedited	to exclude from taxation facilities that are still operated with coins
Sales of films to movie theaters	None	to avoid double taxation
Trade-In Allowance	None	to ensure the use value of a vehicle is taxed only once
Advertising materials	None	to forgo taxation when the cost of compliance exceeds the revenues.
Gifts	None	to avoid the intrusion of a tax into sharing transactions that are common within families
Sales by licensed auctioneers	None	to extend the “casual sale” exemption to sales involving an auctioneer selling on behalf of a third party
Property transferred as part of personal service	None	forgo taxation when the cost of compliance exceeds the revenues
Off-road diesel fuel	None	to relieve off-road uses and farm truck uses from the user fee for the state highway system

YEARS 5 and 6 continued

Implement State Tax Policy Decisions and Other

Tax Expenditures	Type of Review	Statutory Purpose
Fuels for railroads and boats	None	to avoid the taxation of fuels for the types of transportation for which public expenditure on infrastructure is unnecessary
Non-registered vehicles	None	to exclude from the tax vehicles that are not entitled to use the State highway system
Sales of mobile homes and modular housing	None	to create equity between mobile and modular housing and traditional residential construction by providing an exemption for the estimated portion of the cost attributable to labor (versus materials)
Furnished to an employee of a hotel or restaurant	None	to avoid the taxation of in-kind benefits
Furnished to an employee of a hotel or restaurant	None	to avoid the taxation of in-kind benefits
Rooms at a continuing care retirement facility	None	to exclude from taxation rooms that are a person's residence.
Annuity considerations	None	to avoid reciprocity from other states
Documents that record a professional service	None	to exclude tangible personal property from taxation if it is incidental to a service package
Permanent Session Law Exemptions	None	to provide relief to specific properties that have demonstrated an individual purpose to the General Assembly.
Municipalities hosting large power plants	Phased out by 2018	to compensate businesses and residents of the community hosting a nuclear power facility

Appendix D
Revised Statutory Purposes

(All quantitative amounts in the Alternatives are purely hypothetical.)

Charitable Housing Credit

Statutory Purpose
To enable lower capital cost to certain affordable housing charities by restoring some of the forgone investment income through a tax credit to the investor.

Alternative
To reduce the cost of capital by at least 10% for certain affordable housing charities by restoring some the forgone investment income through a tax credit to the investor.

Affordable Housing Credit

Statutory Purpose
To increase the capital available to certain affordable housing projects for construction or rehabilitation by attracting up-front private investment.

Alternative
To increase the capital available to certain affordable housing projects for construction or rehabilitation by at least 10% by attracting up-front private investment.

Historic Rehabilitation Tax Credit

Statutory Purpose
To improve and rehabilitate historic properties in designated downtowns and village centers.

Alternative
To improve and rehabilitate at least 10% more historic properties each year in designated downtowns and village centers than would be the case without the tax credit.

Façade Improvement Tax Credit

Statutory Purpose
To improve facades and rehabilitate historic properties in designated downtowns and village centers.

Alternative
To improve at least 10% more facades and rehabilitate historic properties in designated downtowns and village centers than would be the case without the tax credit.

Code Improvement Tax Credit

Statutory Purpose
To improve and rehabilitate historic properties in designated downtowns and village centers.

Alternative
To improve and rehabilitate at least 10% more historic properties in designated downtowns and village centers than would be the case without the tax credit.

Investment Tax Credit

Statutory Purpose
To encourage Vermont business investments by lowering the effective costs of certain activities.

Alternative
To encourage Vermont business investments by lowering the effective costs of certain activities; at least 10 Vermont businesses with gross revenues of $1 million or more in aggregate will engage in higher levels of investment each year than would have occurred without the investment tax credit

Research and Development Tax Credit

Statutory Purpose
To encourage business investment in research and development within Vermont and to attract and retain intellectual-property-based companies.

Alternative
To encourage new business investment in research and development within Vermont of at least $1 million each year that would not have occurred without the R&D tax credit and to attract and retain at least 2 intellectual-property-based companies every 4 years that would not have occurred without the R&D tax credit.

Vermont Employment Growth Incentive (VEGI)

Statutory Purpose

To provide a cash incentive to encourage quality job growth in Vermont.

Alternatives

Option 1 - To provide an incentive that encourages growth in jobs that provide wage and benefit packages (including health care) that are 20% above the average for the particular industry.

Option 2 - To provide an incentive that increases the number of full-time jobs created by the companies benefitting from the preference at a 25% higher rate than the industry average.

Option 3 - To provide an incentive that is not linked to a company's profitability for income tax purposes in order to offer the benefit immediately to new or start-up businesses and expand opportunities outside of the traditional economic centers in Vermont.

Option 4 - To provide a cash incentive to encourage quality job growth in Vermont as measured by at least 50 new jobs that pay at least $15 per hour with full benefits each year that would not have occurred without the VEGI program.

Machinery and Equipment Tax Credit

Statutory Purpose

To provide an incentive to make a major, long-term capital investment in Vermont-based plants and property to ensure the continuation of in-state employment.

Alternative

To provide an incentive to make a major, long-term capital investment in Vermont-based plants and property that would not have occurred in the absence of the machinery and equipment tax credit to ensure the continuation of in-state employment.

Capital Gains Exclusion

Statutory Purpose

To increase savings and investment by making the effective tax rate on capital gains income lower than the effective tax rate on earned income while exempting a portion of the gain that may represent inflation. The 40 percent business capital gains exclusion mitigates the impact of one-time realizations in a progressive tax structure.

Alternative

To increase savings and investment by making the effective tax rate on capital gains income lower than the effective tax rate on earned income by at least 10% while also exempting a portion of the gain that may represent inflation. The 40 percent business capital gains exclusion mitigates the impact of one-time realizations; these gains should be taxed at a rate that is similar to the marginal rate at which earned income is taxed.

Vermont Higher Education Investment Tax Credit

Statutory Purpose

To encourage contributions to Vermont 529 plans that would not otherwise occur and to lower the cost of higher education for Vermont students and the Vermont taxpayers who financially support them

Alternative

To encourage at least 10% more enrollees with incomes less than $50,000 to contribute regularly to higher education savings plans and to increase the amount invested by middle-income taxpayers by 5% more than they would have contributed otherwise to Vermont 529 plans

Child and Dependent Care Tax Credit

Statutory Purpose
To provide financial assistance to employees who must incur dependent care expenses to stay in the workforce in the absence of prekindergarten programming.

Alternative
To decrease the cost of dependent care expenses for children ages 0 to 3 by at least 3 percent relative to costs without the credit for child and dependent care.

Credit for the Elderly or Disabled

Statutory Purpose
To provide financial assistance to seniors and persons who are disabled with little tax-exempt retirement or disability income.

Alternative
For low-income elderly or disabled people, to reduce the state tax liability as measured by the effective income tax rate by 0.5% or increase the tax credit $500 per capita relative to no tax credit for low-income elderly or disabled.

Low Income Child and Dependent Care Tax Credit

Statutory Purpose
To provide cash relief to lower-income employees who incur dependent care expenses in certified centers to enable them to remain in the workforce.

Alternative
To make the cost for star-rated child care equal to the cost of other child care choices for low-income families choosing child and dependent care

Earned Income Tax Credit

Statutory Purpose
To provide incentives for low-income working families and individuals and to offset the effect on these Vermonters of conventionally regressive taxes.

Alternative
To provide incentives worth at least $500 per capita for low-income working families and individuals and to offset the effect on these Vermonters of conventionally regressive taxes.

Clothing and Footwear Exemption

Statutory Purpose
To limit the tax burden on the purchase of goods that are necessary for the health and welfare of all people in Vermont

Alternative
To target at least 50% of the tax expenditure goes to households with incomes below the State median household income