

Fiscal Impact of Sales Tax Exemption for Advanced Wood Heat Boilers January 11, 2018

House Bill 357 proposes to exempt the sale of advanced wood heat boilers from the Vermont Sales and Use Tax. The result of its passage will be a reduction in the sales tax receipts for the State of Vermont.

Advanced wood heat boilers are available for incentive payments from both Efficiency Vermont and the Clean Energy Development Fund. As a result, we have a very good estimate of the number of these units that are sold in Vermont. There are two categories of boilers for consideration in this analysis; boilers for single unit homes and larger boilers for commercial or multi unit living quarters. In 2016, the Clean Energy Development Fund provided incentive payments for 31 units and 36 units in 2017 (this data does not differentiate between smaller single unit systems and larger systems). Efficiency Vermont provided incentive payments for 20 residential and 4 commercial units. Installations are eligible for both incentives so the total number of installations is not the sum of these numbers.

The average cost for a residential unit is \$15,000 and the average cost for a commercial unit is \$100,000. If we assume for our years that the sales tax exemption is applied to 50 residential units and 5 commercial units, The sales tax on these purchases amounts to \$75,000. Therefore, an estimate of the **reduced sales tax paid to the State of Vermont is \$75,000.**

Advanced wood heat boilers reflect a decision by building owners to eliminate the use of fuel oil, propane or natural gas. Therefore, the result of an advanced wood heat boiler is to stop the purchase of out of state fuels and commit to long term purchases of more locally produced wood pellet fuels. **The economic activity to produce and distribute wood pellet fuels provides an economic benefit to the region that compensates for a portion of the lost revenue to the State of Vermont.** The specific benefit is based on the proportion of wood pellet fuels that are produced in Vermont. The 50 residential and 5 commercial wood pellet boilers will require approximately 350 tons of wood pellets per year costing approximately \$80-100,000 per year. A 15 year life expectancy for each boiler results in life cycle purchases from each year's boiler purchases of \$1.2 - \$1.5 million of wood pellets.

Building a market for wood pellets is a critical factor that will sustain and grow Vermont's wood pellet manufacturing sector and the related forestry sector that is under stress due to recent closures of pulp mills.

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