

## Parcel Fee Collection and Appeal Considerations

This memo provides a general overview of the Department of Taxes' administrative concerns for collecting and fielding appeals of a parcel fee at the State level. It is in response to a draft bill that the House Natural Resources, Fish, and Wildlife Committee is considering. The following information is based on the general concept of collecting and fielding appeals for this type of fee.

### Why it is cost-effective to collect and appeal at the local level:

1. The administrative capacity already essentially exists at the local level to collect and field appeals for property taxes, and – for some towns – water and sewer services. The same collections and appeals systems could be leveraged for a parcel and/or impervious surface fee. The State could assist with data organization, administrative oversight, and billing assistance, as it currently does with property taxes.
2. Creating a second property-based collection system at the State level would be costly, redundant, and inefficient because it parallels a system that already exists at the local level.
3. It is not cost-effective and can result in a net loss for the Tax Department to collect smaller bills, and the Department anticipates poor compliance with a property-based fee collected at the State level.

### State Compensation to Municipalities for Property-Based Collections

The State compensates municipalities for property tax-related administration, which can be leveraged to collect another property-based fee. The following table is a breakout of that compensation.

Description	Statute	Payment Calculation	FY 2016 Amount
Timely Remittance	32 V.S.A. § 5402.(c)	0.225% of total education tax collected	\$2,398,143
Reappraisal and Grand List Maintenance	32 V.S.A. § 4041a.(a)	\$8.50 per grand list parcel per year	\$2,837,000
Lister Education	32 V.S.A. § 4041a.(c)	A sum not to exceed \$100,000	\$99,000
Equalization Study Assistance			\$334,000
		<b>Total</b>	<b>\$5,668,143</b>

### To put the proposed parcel fees in perspective:

Currently, the largest tax type the Department administers is Personal Income, with 375,000 filers. The next largest tax is Sales and Use, with 30,000 filers. The State collects more than \$700M in Personal Income Tax revenues and roughly \$370M in Sales and Use Tax revenues. The vast majority of these taxes are remitted voluntarily without the generation of a bill.

The proposed parcel-based fees would require the State to bill out to roughly 333,000 parcels to collect roughly \$18M. The cost-effectiveness, or bang for the buck, of this proposal is extremely poor for the State of Vermont and its taxpayers.

This proposal would require a collections effort similar – and in some cases more onerous – than Personal Income Tax, to raise revenue similar to the Health Care Claims Tax, which has only 140 filers. The below table compares the average revenue per filer of these assessments.

Assessment	Revenues	Filers	Avg. Rev/Filer
Personal Income	\$747,000,000	375,000	\$1,992
Sales and Use	\$371,000,000	30,000	\$12,367
Health Care Claims	\$17,100,000	140	\$122,143
Proposed Parcel	\$18,000,000	333,000	\$54

Another element that would affect the cost of administration is the frequency of filing or billing. Roughly 30,000 Sales and Use filers submit 153,000 returns based on monthly, quarterly, and annual cycles. If a parcel fee were assessed on nearly 333,000 parcels quarterly, that would require more than 1.2M bills or returns.

### Cost Estimate of Collections and Appeals

This cost estimate is based solely on the State collecting and fielding appeals of the proposed parcel fees and does not consider other elements of this fee's administration, such as mapping, data organization, and other costs. It is based on draft proposals of the fee that are not fully developed. This value should not be considered a final estimate for administering a parcel fee. Once a more formulated proposal is on the table, the Department can better estimate the total cost of a proposal.

Estimated Collection & Appeals Costs	
VTAX Implementation	\$1.5M-\$2M
Ongoing Billing & Collections	\$2.8M
Ongoing Appeals	\$1.2M
Total First Year Costs	\$5.5M-\$6M
Total Ongoing Costs	\$4M

The cost to implement a parcel fee is based on the Department's experience with tax types of similar complexity and volume. The ongoing collections costs are based on the 25 FTEs the Department has previously estimated it would require to collect property taxes at the State level. The ongoing cost of appeals is based on property tax grievance data compiled by municipalities and the State. This appeals structure, and the additional

seven FTEs it would require, would combine the appeals responsibility with that of district advisors for property tax administration. It would put an appeals officer/advisor in each county.

### Cost-Effectiveness Comparison

The table below compares the Department-wide costs of collecting all revenues with the estimated cost to administer the proposed parcel fee. Administering the parcel fee would be 22 times more expensive than the average cost of administering all other tax types.

	FY16 Op Expenses	Revenues	Cost/\$1 of Rev
Department Wide	\$17,700,000	\$1,670,000,000	\$0.01
Parcel Fee - Ongoing	\$4,000,000	\$18,000,000	\$0.22