

Vermont's Use Tax "Hold Harmless" Table: Re-basing

This is a proposal to re-base the lookup table considering Amazon's announcement to collect sales tax on internet purchases in Vermont. Looking at the last complete tax year TY2015, we estimate that use tax revenue reported on the IN111 would be about \$2.2M (rather than \$3.1M) if Amazon had been collecting. **\$2.2M is the revenue target for re-basing the Use Tax hold harmless table.**

- Methodology: project total revenue if all residents paid their 2015 Use Tax based on the 2015 table (\$28M), subtract the expected revenue from Amazon (\$8M), then scale down our own use tax revenue by a factor of $20/28 = 71\%$. TY2015 Use tax revenue (from the IN111), which was around \$3.1M, would instead be about \$2.2M.

The re-based table below would generate revenue that exceeds the new target and is more consistent with the hold harmless tables of other states. This table would raise about \$2.5M at current reporting rates.

AGI (thousands)	Use Tax	Rate
Less than \$10	\$5	flat \$5
\$10-\$20	\$10	0.10%
\$20-\$30	\$20	0.10%
\$30-\$40	\$30	0.10%
\$40-\$50	\$40	0.10%
\$50-\$60	\$50	0.10%
\$60-\$70	\$60	0.10%
\$70-\$80	\$70	0.10%
\$80-\$90	\$80	0.10%
\$90-\$100	\$90	0.10%
Over \$100	Lesser of .10% of AGI or \$500	

<u>Compliance Rate</u>	<u>Total Revenue</u>	<u>Revenue Lift</u>
9.6% (TY15 Actual)	\$2.5M	\$0.3M
10.6% (TY 13 Actual)	\$2.75M	\$0.55M
11.6%	\$3.0M	\$0.8M
12.6%	\$3.25M	\$1.05M
13.6%	\$3.5M	\$1.3M

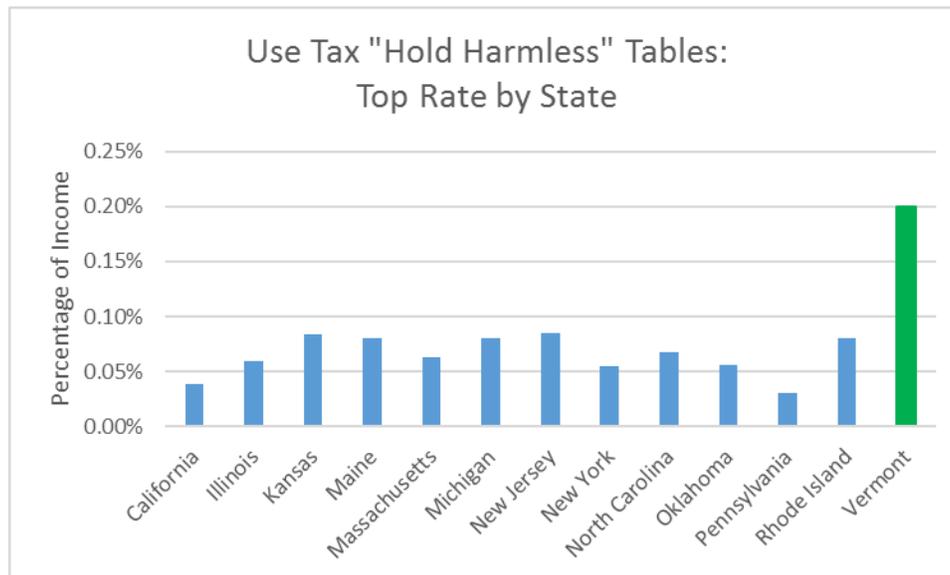
Summary of Use Tax Reporting on the IN-111

32 V.S.A. § 5870 directs the Commissioner of Taxes to provide a way for individuals to report use tax on their State individual income tax returns (Line 27, IN-111). Act 57 of 2015 increased the percentage used to provide a table for ease of complying with use tax reporting from 0.10 percent to 0.15 percent for tax year 2015 and then from 0.15 percent to 0.20 percent for tax year 2016. Beginning next year, the amount will be increased by twice the CPI for each subsequent tax year. Sec. 96 of Act 57 of 2015.

27 states currently provide for use tax reporting on the state income tax return. Of those 27 states, 13 states provide a lookup table for reporting estimated use tax liability. Consistent with Vermont's approach, 11 of those 13 states limit the lookup table to purchases less than \$1,000.00. For purchases over \$1,000.00, taxpayers must calculate the precise tax due.

Three states have a cap on use tax due for filers in the highest AGI bracket: New Jersey (\$494), New York (\$250), and Pennsylvania (\$100).

Vermont does not currently have a cap on use tax for filers in the highest AGI bracket. This implies that the table assumes someone with \$3M in AGI is making \$100,000 worth of taxable purchases under \$1,000.



Vermont's current rate of 0.20 percent of AGI is more than twice as much as any other state's lookup or "hold harmless" table percentage. Nine states, including Vermont, use a flat rate structure. While one state (Kansas) has an increasing rate structure and three states have a decreasing rate structure.

History of the Rate

	VT Hold Harmless rate	% Reporting
TY2013:	0.08% of AGI	10.6%
TY2014:	0.10% of AGI	10.4%
TY2015:	0.15% of AGI	9.6%
TY2016:	0.20% of AGI	
TY2017:	projected to be 0.25% of AGI	