

Overview: FY18 Proposed LOT Fee Adjustment

Proposal: Adjust Department of Taxes' fee for administering LOT from \$5.96 per return to \$2.83.

Reason: The proposed reduction in the fee for the Department's administration of Local Option Taxes is a palpable example of the efficiencies realized by the Department's new VTax IT system. It is also an example of using those efficiencies to leverage greater economies of scale. The result is more revenues to municipalities and the PILOT (Payments in Lieu of Taxes) fund to the tune of an estimated \$365K. The efficiencies the department is realizing in the first full fiscal year of the new IT system, paired with the prior administrative fee, will help the department with this budget transition.

Pertinent Statute:

24 VSA §138:

(c) Any tax imposed under the authority of this section shall be collected and administered by the department of taxes, in accordance with state law governing such state tax or taxes; provided however, that a sales tax imposed under this section shall be collected on each sale that is subject to the Vermont sales tax using a destination basis for taxation. A per-return fee of **\$5.96** shall be assessed to compensate the department for the costs of administration and collection, 70 percent of which shall be borne by the municipality, and 30 percent of which shall be borne by the state to be paid from the pilot special fund. The fee shall be subject to the provisions of 32 V.S.A. § 605.

(d) Of the taxes collected under this section, 70 percent of the taxes shall be paid on a quarterly basis to the municipality in which they were collected, after reduction for the costs of administration and collection under subsection (c) of this section. Revenues received by a municipality may be expended for municipal services only, and not for education expenditures. Any remaining revenue shall be deposited into the PILOT special fund established by 32 V.S.A. § 3709.

Annual Estimated Revenues and Savings: This adjustment will return an estimated \$255K to municipalities and save the PILOT fund an estimated \$110K each year over the next three years, compared to the current fee.

Overview of Fee Calculation: *See Page 2.*

FY18-20 Fee Bill Calculation - Methodology

| Division | Division VISION ID | # of Hours Worked on LOT | 1-Time VTax Hours | Salaries & Benefits (FY16) | Total Hours in Division | Hourly Cost | Ongoing Hourly Cost to Admin | 1-Time VTax Dept. Cost |
|-------------------|--------------------|--------------------------|-------------------|----------------------------|-------------------------|-------------|------------------------------|------------------------|
| POLA | 1140018200 | 127 | | 641,546.50 | 16,142.88 | 39.74 | 5,047.20 | - |
| Admin Services | 1140018101 | 65 | 120 | 1,392,510.13 | 35,233.44 | 39.52 | 2,568.96 | 4,742.69 |
| Taxpayer Services | 1140018300-304 | 1791 | 310 | 2,860,157.65 | 81,952.52 | 34.90 | 62,506.22 | 10,819.06 |
| IT | 1140018800 | 85 | 326 | 1,206,228.84 | 25,205.90 | 47.86 | 4,067.68 | 15,600.74 |
| Finance (RAARP) | 1140018102 | 11 | 3 | 548,086.49 | 23,295.21 | 23.53 | 258.81 | 70.58 |
| Field Audit | 1140018603 | 192 | | 666,481.56 | 16,888.62 | 39.46 | 7,576.96 | - |
| Office Audit | 1140018601 | 429 | | 224,818.50 | 7,344.00 | 30.61 | 13,132.78 | - |
| Compliance | 1140018600 | 395 | 60 | 457,902.91 | 11,635.66 | 39.35 | 15,544.60 | 2,361.20 |
| Totals | | 3,095 | 819 | 7,997,733 | 217,698 | 295 | 110,703 | 33,594 |

| Hourly Proration Factor | |
|-------------------------|---------|
| Total Hours on LOT | 3,914 |
| Total Hours | 343,634 |
| Proration Factor | 1.1% |

| 1-Time VTax Costs | |
|-------------------|----------------|
| Dept. Labor | 33,594 |
| VTax Dev | 411,982.86 |
| Total | 445,577 |

**Spread out over three years*

| Operating Expenses (OE) related to LOT | |
|--|------------------|
| General Expenses | 3,448,636 |
| Prorated Expenses | 39,280 |
| Avalara Contract | 23,500 |
| Total OEs for LOT | 62,780.08 |

| 3-Year Projections | | | |
|---------------------------|-------------------|-------------------|-------------------|
| FY | FY18 | FY19 | FY20 |
| Projected OE | 64,286.80 | 65,829.68 | 67,409.59 |
| Projected Staff Costs | 113,470.79 | 116,307.56 | 119,215.24 |
| VTax Spread over 3 | 148,525.71 | 148,525.71 | 148,525.71 |
| Totals | 326,283.29 | 330,662.94 | 335,150.55 |
| Returns | 116,764.00 | 116,764.00 | 116,764.00 |
| Annual Cost/Return | 2.79 | 2.83 | 2.87 |

For OE, Projected Annual Inflation Avg. = 2.4%

For Staff, 2.5% COL Increase Assumed

| Fee and Funding Breakdown | |
|---------------------------|---------|
| Fee Amount | 2.83 |
| 3-Year Avg Admin Cost | 330,699 |
| 70% Borne by Muni | 231,489 |
| 30% Borne by PILOT | 99,210 |