

S.276 Initial fiscal estimates for Sec. 4-9 (Senate Natural Resources proposal of amendment)

Joint Fiscal Office, March 14, 2018

Sec. 4

This section would exempt certain motor vehicles used in the forestry industry and registered in Vermont from the purchase and use (P&U) tax. A sales tax exemption was established for forestry equipment in 2017 with an estimated tax expenditure of \$100,000 annually. The data used for that analysis did not differentiate between equipment that would normally be subject to the sales tax and equipment subject to the P&U tax. The current cap on P&U taxes for a single vehicle is \$2,075 (taxation of first \$23,000 of purchase price). Based on the definition of “motor vehicle”¹ there are some types of forestry equipment that could be subject to P&U or sales & use, based on whether the equipment is wheeled or is tracked, or upon whether the equipment in question is an attachment or is a part of a wheeled, motorized assembly. This provision would likely create a tax expenditure of up to \$75,000 annually or the equivalent of approximately up to 37 vehicles subject to the P&U cap.

Costs: up to \$75,000 annually

Sec. 5-9

These sections would establish an exemption from the sales and use tax for “advanced wood boilers” and would also create an income tax credit for advanced wood boilers equaling 50% of the purchase price, which could be carried forward up to 10 years. Incentives are currently provided for these systems from Efficiency Vermont and from the VT Clean Energy Development Fund (CEDF). Incentive payments were made from the CEDF for 31 installations in 2016 and 36 installations in 2017, and payments were made from Efficiency Vermont in 2017 for 20 residential units and 5 commercial installations. An installation is eligible for both incentives. The average cost for a residential unit is approximately \$15,000, while the average cost of a commercial unit is \$100,000. It would be reasonable to expect some growth in the numbers of advanced wood boiler installations in future years if this bill is passed into law, and so for this analysis it is assumed that 50-60 residential units and 5-7 commercial units would be installed in FY2019 if this bill passes.

There are a few variables that could result in much higher costs than are given below:

- Does the definition for advanced wood boiler only include the boiler itself or does it include the implements that would be required for eligibility under 32 VSA Sec. 9701(55)(C)?
- Would these incentives, paired with the existing rebates, make advanced wood boilers cheaper than most if not all other heating improvements? If so, participation could be much higher.
- Because there is no cap on the tax credit, higher participation could lead to much higher costs to the state than shown below.

¹ "Motor vehicle" shall include all vehicles propelled or drawn by power other than muscular power, except farm tractors, vehicles running only upon stationary rails or tracks, motorized highway building equipment, road making appliances, snowmobiles, or tracked vehicles or electric personal assistive mobility devices.

Sales Tax: Exempting 50-60 residential boiler units and 5-7 commercial boiler units from the sales tax per year would create a tax expenditure of approximately ***\$75,000 to \$116,000 per year***.

Income Tax: A tax credit totaling 50% of the purchase price of an advanced wood boiler against the cost of 50-60 residential units and 5-7 commercial units would create a cumulative tax expenditure of \$625,000 up to \$800,000. How much of this range might be deductible in year one of a purchase and in subsequent years would depend on an individual's or company's overall income tax liability, but it is likely that for most taxpayers the credit would be taken over 3 years. As credits accrue, or more efficient units are released with higher costs, the costs of the tax expenditure could be greater over time. ***The cost of this provision in the first year would be approximately \$220,000 to \$280,000 and grow to approximately \$625,000 to \$800,000 per year in future years.***