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MEMO

TO: Michael Pieciak, Commissioner
FROM: David Provost, Deputy Commissioner
DATE: February 9, 2017
RE: Vermont Affordable Housing Tax Credit

32 V.S.A. § 5930u provides a credit against a taxpayer's Vermont individual income tax, corporate income tax, franchise tax, or insurance premium tax, for taxpayers that provide funding for affordable housing projects. The program is more thoroughly described in the attached paper from Vermont Housing Finance Agency.

I am proposing that the credit be extended to specifically apply to captive insurance premium taxes as well.

The statute limits the credit to \$700,000 annually, so including captives in the program will not add cost or reduce revenue, it will simply provide another pool of potential participants. I discussed the issue with Janet Spitler, Vice President to Finance for Housing Vermont. She informed me that the major participants in the program are local insurance companies and banks. She expressed concern that the sale of Merchants Bank may affect their level of activity in the program, and that additional buyers for this market would be very welcome.

This proposal meets all of the Governor's criteria for change. By providing an investment option for captive insurers not available in the current market, it can help attract business to Vermont and keep existing captives here. It's one more way that Vermont can be a leader in the captive industry. It also helps make Vermont more affordable and aids the most vulnerable by expanding the affordable housing stock. This also has the support of the Vermont Captive Insurance Association.

I believe that effecting the change would be as simple as including specific reference to the captive tax in §§ 5930u (a)(5) and (c):

“(a)(5) "Credit certificate" means a certificate issued by the allocating agency to a taxpayer that specifies the amount of affordable housing tax credits that can be applied against the taxpayer's individual or corporate income tax or franchise or captive insurance premium or insurance premium tax liability as provided in this subchapter.



“(c) Amount of credit. A taxpayer who makes an eligible cash contribution shall be entitled to claim against the taxpayer's individual income, corporate, franchise, captive insurance premium or insurance premium tax liability a credit in an amount specified on the taxpayer's credit certificate. The first-year allocation of a credit amount to a taxpayer shall also be deemed an allocation of the same amount in each of the following four years.”

This would also necessitate some changes to the captive insurance premium tax form to accommodate the use of the credit.

This suggestion comes to us courtesy of Dave Tatlock, former Controller of The Co-Operative Insurance Companies, now a captive manager with Strategic Risk Solutions in Burlington.

VERMONT AFFORDABLE HOUSING TAX CREDIT

The State of Vermont has an annual allocation of \$700,000 of State Affordable Housing Tax Credits, which may be used for affordable housing projects. Four hundred thousand (\$400,000) is for rental housing projects and is available to projects which qualify for the federal Housing Credit. Three hundred thousand (\$300,000) is available for owner-occupied (homeownership) units. Vermont Housing Finance Agency (“VHFA”) is the State Allocating Agency for the Vermont Affordable Housing Tax Credit.

The credit is allocated to eligible affordable housing projects, and is a five year credit which based on a taxpayer’s eligible cash contribution may be claimed each year for five years against its Vermont individual income tax, corporate income tax, franchise tax, or insurance premium tax.

The State Affordable Housing Tax Credit is unique from the federal Housing Credit in that the purchaser is not required to have an ownership interest in the project. The State Affordable Housing Tax Credit is a low risk investment in affordable housing. While the individual’s or corporation’s investment is used to finance affordable housing, the investor’s return is not tied to the financial performance or regulatory compliance of the affordable housing project.

Upon receipt of an allocation of State Affordable Housing Tax Credits, the project sponsors can then sell these credits. When an eligible cash contribution is made by a taxpayer to the project, a tax credit certificate is issued when the project is placed in service. The taxpayer then files the tax credit certificate with its Vermont tax return for each of five years to receive the credit. Should taxpayers not be able to use the entire amount of annual credit available in any one year, they may carry the credit forward and apply it against tax liability for up to 10 years following the original five-year period.

VHFA publishes a Housing Credit Allocation Plan annually which governs the allocation priorities and process for Federal and State Affordable Housing Tax Credits. For more information, please contact VHFA staff members: Joe Erdelyi (802-652-3432) or Josh Slade (802-652-3414).