

Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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H.82 An act relating to the taxation of timber harvesting equipment – As Introduced

<https://legislature.vermont.gov/Documents/2020/Docs/BILLS/H-0082/H-0082%20As%20Introduced.pdf>

Bill Summary

The proposal would exempt “parts or accessories” for timber harvesting machinery from the sales and use tax, effective on passage.

Fiscal Summary

The potential costs of this exemption could stem from two primary sources: 1) foregone sales tax revenue and 2) administrative costs for the Tax Department. According to the Vermont Forest Products Association website there are approximately 75 association members who are actively engaged in some sort of logging or forestry operations.¹ A brief survey of websites advertising traction devices and winches, two items within the proposed exemption, showed that the cost for these items could range anywhere from \$1,000 to \$14,000.² These items could have lifespans from five to ten years. If each association member spent an average of \$5,000 per year on parts and accessories covered by the exemption then the foregone revenue to the State Education Fund would be approximately \$22,000 annually. As there are likely a few other individuals/entities that may purchase parts and accessories over the course of a year, a reasonable estimate for the ongoing annual cost to the State from this exemption would be an amount up to \$25,000.

Cost: Up to \$25,000 from the Ed Fund in FY20 and in future years

There could be some additional administrative costs within the Tax Department because this proposal would add a potentially large universe of items to the existing sales tax exemption for machinery used for timber harvesting, removal and processing as well as repair parts for the machinery. Under existing Tax Department rules, purchasers of repair parts for timber machinery must either:

1. Fill out an exemption form (S-3W) and present it to the seller, or
2. Pay the sales tax and file for a refund to the Tax Department with form REF-620.

This process is necessary because many repair parts could be used for multiple types of equipment, some of which may not be exempt from the sales tax under current law. The addition of parts and accessories, exclusive of repair parts, to the existing exemption would likely create additional complication to the process outlined above, through the generation of additional

¹ <http://vtfpa.org/membership/current-members/>

² The Deputy Commissioner of Forests, Parks and Recreation provided input that informed the results of this survey.

paperwork (S-3W or REF-620) and the necessity for Tax Department staff to verify the applicability of the expanded exemption to a wider universe of multi-purpose items. This proposal also creates the potential for some illegal transactions, whereby a purchaser may buy an exempt item with the intent to use it on non-exempt machinery.