

TAX DEFERRALS DUE TO COVID-19: ISSUES FOR VERMONT

March 24, 2020

House Ways and Means Committee
Graham Campbell, Senior Fiscal Analyst
Vermont Legislative Joint Fiscal Office



Vermont Legislative
JOINT FISCAL OFFICE

Deferral of Income Tax Filing and Payments

- Department of Taxes has announced a change in filing and payment deadline from April 15 to July 15 for personal income taxes, corporate income taxes, fiduciary income tax, homestead declarations and household income forms.
- Considerations for the committee
 - **Revenue deferral:** Preliminary estimate of \$145 million from April 2020 to July 2020
 - Note: April 2020 is FY20, July 2020 is FY21. Creates a major cash flow issue in FY20
 - This would include deferral of tax return payments on April 15, but also estimated payments made April 15.
 - Delaying the **filing** deadline (in addition to the payment deadline) means that we probably cannot use accrual accounting for FY20 purposes to solve the cash flow issue
 - If it were just a delay of the payment deadline, it is possible we could use accrual accounting and use short-term borrowing to cover FY20.
 - Could we end the year in deficit?
 - We don't have a balanced budget requirement. Raise questions about where the borrowing would come from and the impact our bond rating.

Deferral of Income Tax Filing and Payments

- Additional considerations for the committee
 - Would a deferral extend to June 15 estimated payments?
 - Groups who will most likely benefit from delayed payments
 - Businesses who make estimated payments in April
 - Pass-through returns and higher income individuals because they are more likely to have payments due on their income tax returns.
 - Preparers who cannot meet with their clients face-to-face
 - Other implications of a filing delay:
 - Homestead Declarations and Household Income forms are also delayed. For property tax payments due in August, how will property tax credits work?

Deferral of Trust Taxes (Meals & Use and Sales & Use)

- Administration has announced the following Meals & Rooms and Sales Tax payments can be deferred with no penalties: March 25th and April 25th. These are taxes on sales made in February, March 2020.
- Considerations for this committee:
 - Unclear whether the Tax Department can waive tax remittance by the businesses (legal questions)
 - These taxes are **paid** by consumers. They are **remitted** by the businesses. Businesses essentially hold the money in an escrow account.
 - Not requiring businesses to remit these taxes is more akin to an interest free loan or grant from the State.
 - These deferrals will have different benefits depending on which taxes are deferred. It is not necessarily “targeted” relief.
 - M&R tax: local hotels and restaurants will benefit, which are usually smaller businesses
 - How would we handle OTAs who collect M&R on behalf of operators? Would we require OTAs to send the deferred taxes back to the operators?
 - Sales tax: much more diverse group of beneficiaries. Small retailers would benefit, but so would large online retailers which may not be as impacted by COVID-19.

Deferral of Trust Taxes

- Deferral of March and April payments (for February and March activity) means that businesses will need to make three payments on May 25th.
- Because all of these payments, in theory, would come in May 25th, FY20 total revenues would be unaffected. However, there is significant risk.
- In effect, this is the equivalent of a 3-month interest free loan.
- **Revenue shift implications (preliminary estimates):**
 - ***Meals and Rooms Taxes: \$27 to 35 million***
 - General Fund: \$20-25 million
 - Education Fund: \$6-8 million
 - Clean Water Fund: \$1.5 to \$2 million
 - ***Sales Tax: \$60-65 million, with the possibility of being as high as \$100+ million (all on the Education Fund)***
- Complete estimates are currently being generated by Tom Kavet and Jeff Carr

Deferral of Trust Taxes

- **This deferral could put significant risk on FY20 revenues:**
 - Unlike the deferral of income tax payments, the State is more likely to see businesses unable to pay these taxes in May:
 - If a business is using this cash for payroll or other expenses right now, it could be difficult for them to make the 3 payments in May.
 - What happens if the business still fails even after State defers revenue?
- **Additional considerations:**
 - The State does not have the same capacity as the Federal government when it comes to revenues
 - The Federal government can delay income tax filing and payments (or any other tax type) and self-finance (print money) to make up lost revenues.
 - Every deferral the State gives on tax revenue, the money will need to be made up elsewhere either by raising revenues or cutting programs.