Tax Expenditures: Expedited Reviews

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What is an Expedited Review?

- Created in Act 134 of 2016
- Analyzes the purpose of a tax expenditure
- Delineates the costs and potential benefits
- Brief consideration of whether it is meeting it's policy goal

Which ones do we review?

- Laid out in Act 134 of 2016
  - January 2017 report: tax expenditures related to encouraging economic growth and investment
  - January 2019 report: Tax expenditures related to incentivizing a specific outcome, including agriculture and charitable organizations
  - January 2021 report: Tax expenditures related to enhancing community development, including housing and historic revitalization
  - January 2023 report: Tax expenditures related to promoting income security and encouraging work, and those exempting the necessities of life
- JFO and Tax attempted to put tax expenditures in these buckets in 2016.

This Year's Expedited Reviews

- Sales Tax Exemptions:
  - Veterinary Supplies
  - Railroad Rolling Stock and Depreciable Parts
  - Ferryboats and Depreciable Parts
  - Tangible Personal Property Incorporated into a Rail Line
  - Property Incorporated into a Net Metering System
- Property Tax Exemptions:
  - Public, Pious and Charitable Organizations
  - Property Owned by Agricultural Societies
  - Property Owned by Water Pollution Abatement Properties
- Income tax expenditures
  - Farm Income Averaging Credit
  - Vermont Municipal Bond Income Exemption
  - Qualified Bond Interest Exemption

Sales Tax Exemption for Vet Supplies

- <u>Statutory purpose</u>: To support the health and welfare of animals in Vermont by lowering the cost of medication and supplies.
- Located in 32 V.S.A. § 9741(3)
  - Also the language for agricultural inputs
- Does this extend to both agricultural and non-agricultural vets?
  - Non-agricultural vets have not been paying sales tax
- $4.2 million sales tax expenditure
  - Estimate updated from previous reports to include agricultural vet supplies

Nonagricultural Vet Supplies

- $1.9 million of total $4.2 million in tax expenditure
- Americans (and Vermonters) love their pets!
  - 2017: $15 billion nationwide ($32 million scaled to VT)
  - 68% of households own a domestic pet
    - 175,000 of VT's 257,000 households
  - Vermonters spend roughly $182 per year on veterinary supplies
    - Data from U.S. Census says $155 per year

Nonagricultural Vet Supplies

- If vets are passing savings onto Vermonters: $10.89 in savings per year
- Would Vermonters spend less if the exemption were lifted?
  - Price elasticity of veterinary supplies: -0.12
    - For every 1% increase in price, demand decreases by 0.12%
  - Sales tax exemption is 6% reduction in cost of vet supplies
  - If average Vermonter spends $182 on vet supplies, if the exemption were removed, price elasticity says they would spend $1.31 less per year.

Agricultural Vets

- 45% of total Vet income comes from small-animal vets
- Remainder comes from vets who serve large animals, equine, or are mixed small/large animal
- $2.3 million tax expenditure in FY2018
- Who might benefit?
  - 30 vets in Vermont that exclusively services large animals
  - 7,338 farms in Vermont as of 2012 Census

State Comparisons

- Vermont is one of 8 states that does not charge sales taxes on veterinarians or their products
- 49 states, including Vermont, exemption sales of prescription drugs, vaccines, and medications

Legislative Considerations

- Clarify the statutory purpose
  - Promoting health and welfare for animals could include pet feed and other items

- Clarify whether the exemption is intended to cover nonagricultural veterinarians

Property Tax Exemption for PPCs

- PPC: Public, Pious and Charitable Organizations
  - Total Tax Expenditure: $56.1 million in FY2018

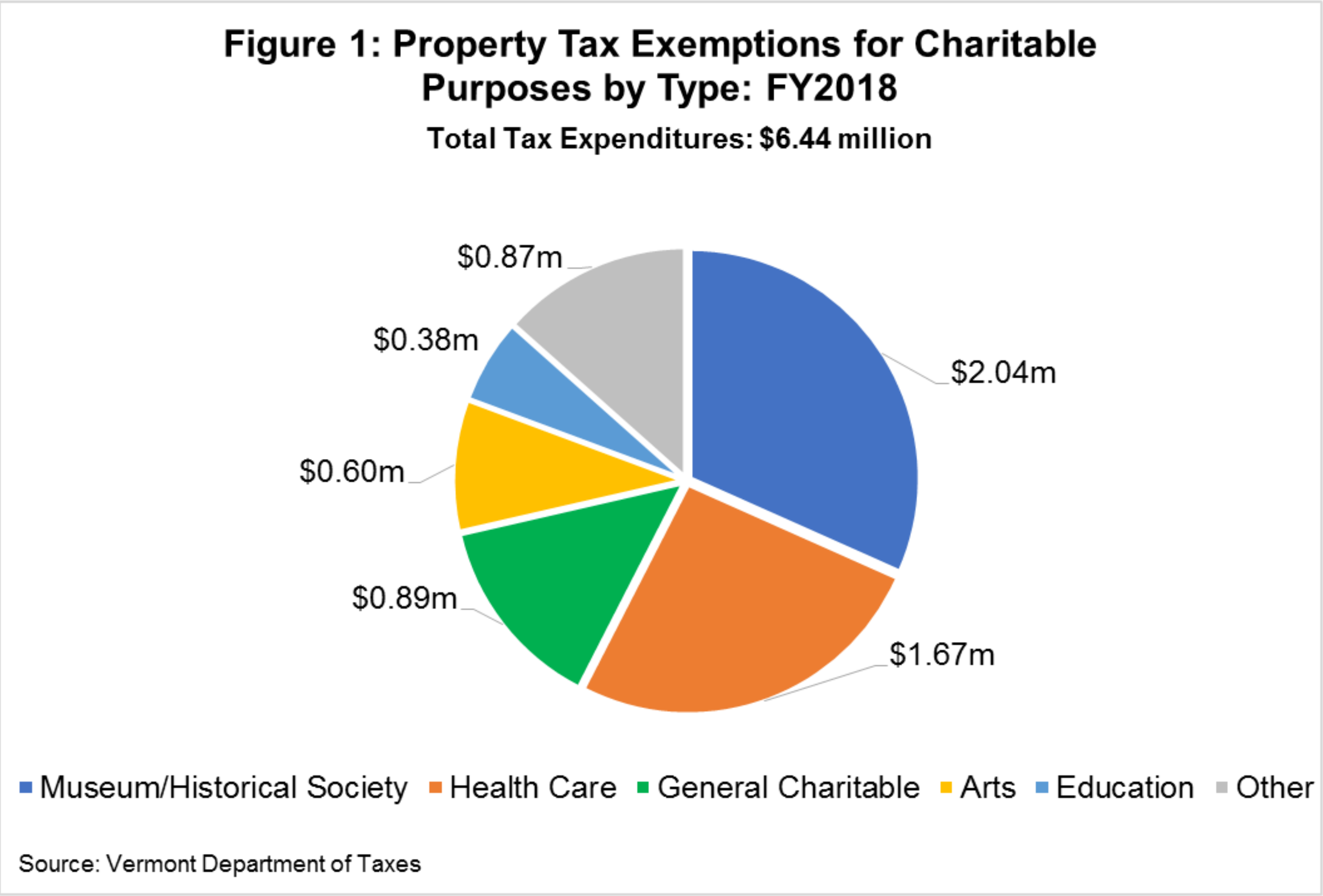
- Tax Expenditures by type
  - **Charitable**: $6.4 million; 519 parcels
  - **College**: $17.3 million; 142 parcels
  - **Pious**: $12.8 million; 1,162 parcels
  - **Schools**: $5.6 million; 190 parcels
  - **Hospitals**: $14.0 million; 132 parcels

Charitable Organizations

- $6.4 million tax expenditure; 519 parcels
- What types of Charitable Organizations?

Table 1: Charitable Organization Parcel Exclusions by Type: FY2018	
General Charitable	125
Museum/Historical Society	117
Health Care	62
Lodge/Grange	57
Arts	29
Education	29
Religion	24
Miscellaneous	20
Environmental	19
Recreation	17
Community Center	14
Transportation	6
Total	**519**

Charitable Organizations



Colleges

- 142 parcels, $17.3 million tax expenditure
- 77% of expenditure is from two colleges: Middlebury and Norwich

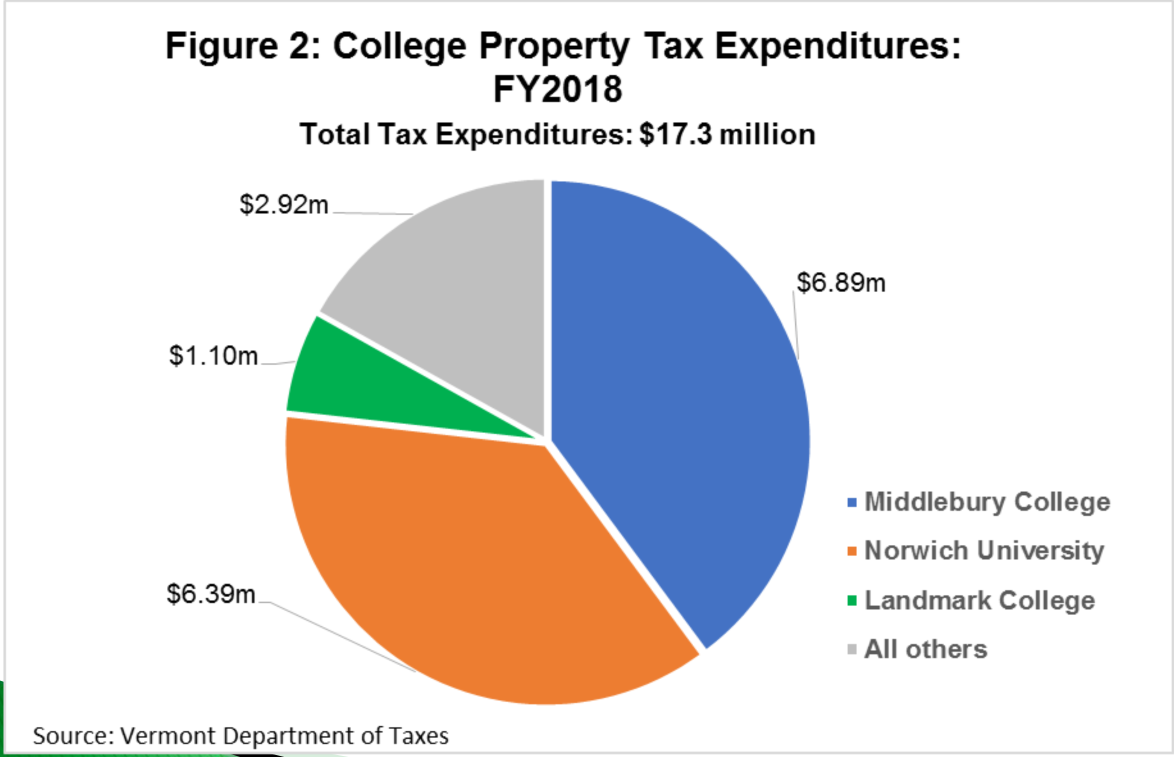
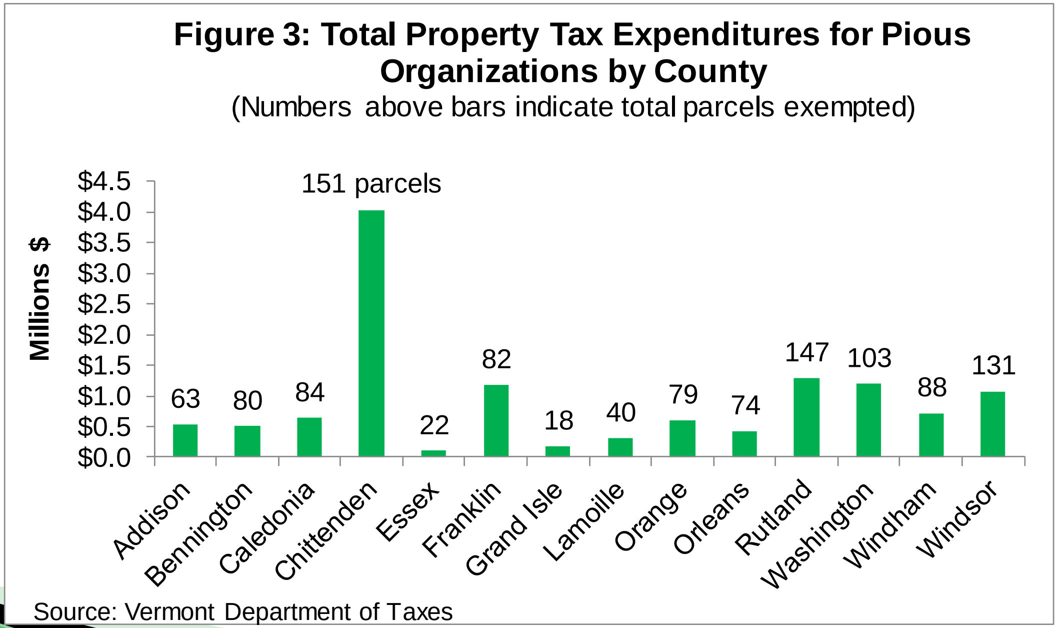


Table 2: College Property Tax Exemptions by Parcel: FY2018	
Middlebury College	53
Norwich University	42
Landmark College	2
All others	45
Total	**142**

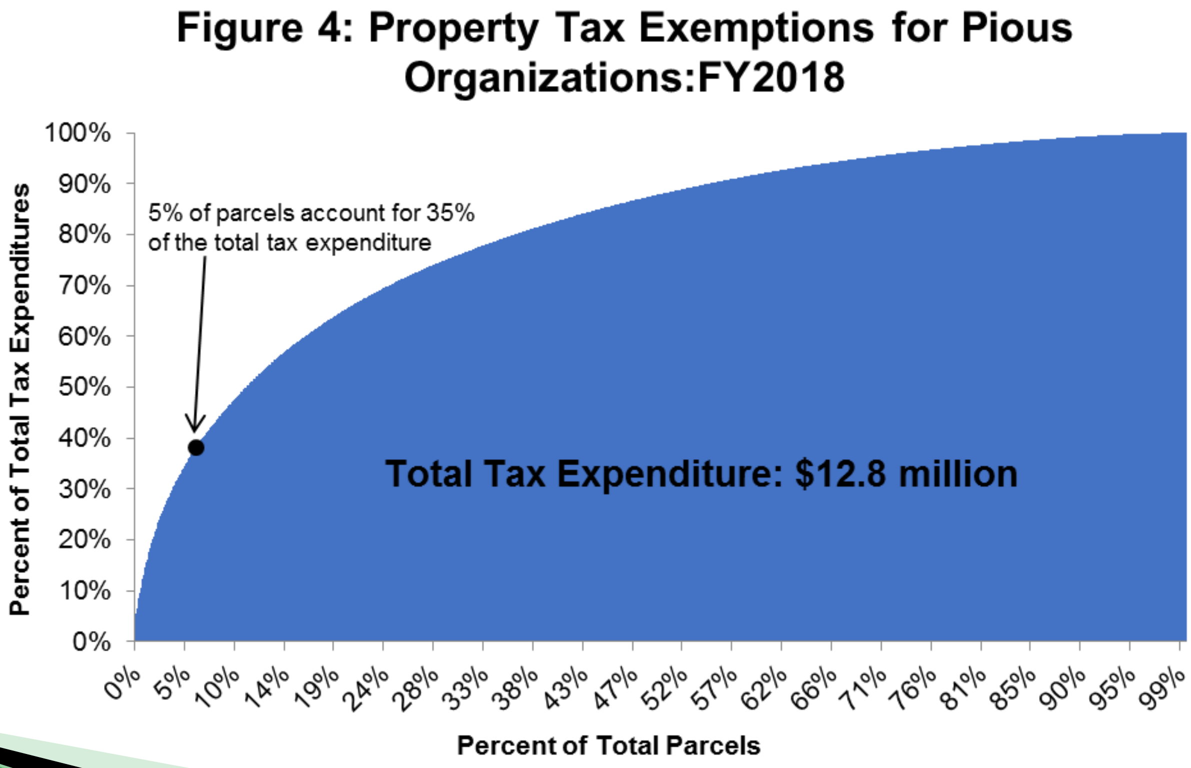
Pious Organizations

- 1,162 parcels, $12.8 million tax expenditure
- Where is the money?
  - Chittenden County: 24 of top 50 largest exemptions are in Chittenden County



Pious Organizations

- The tax expenditure is heavily skewed towards a small number of properties

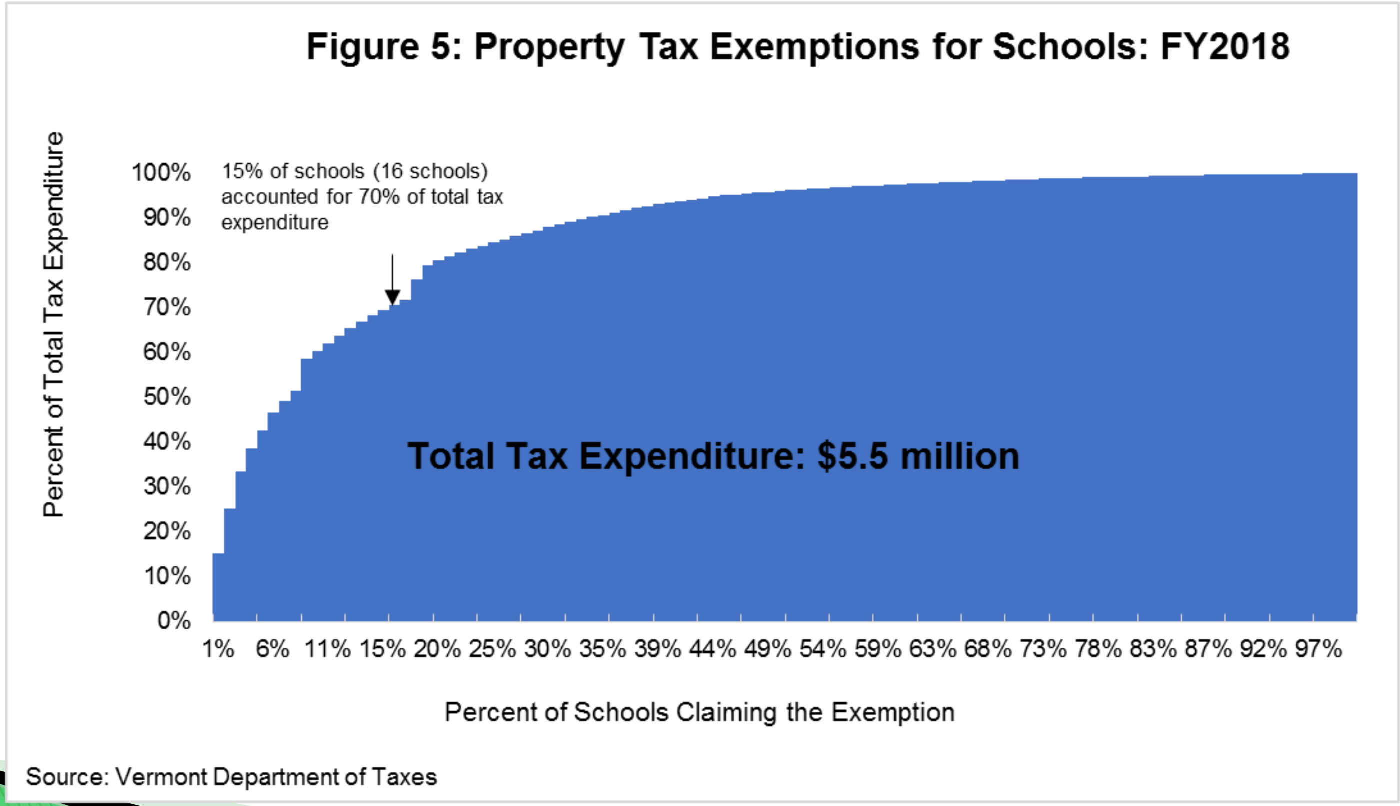


Schools

- 190 parcels, $5.5 million tax expenditure
- Mostly affects private primary and secondary schools
  - Some public schools use this exemption if the parcel is owned by the school district and not the municipality
  - Most public schools are exempt under 32 V.S.A. § 5401(10)(F).

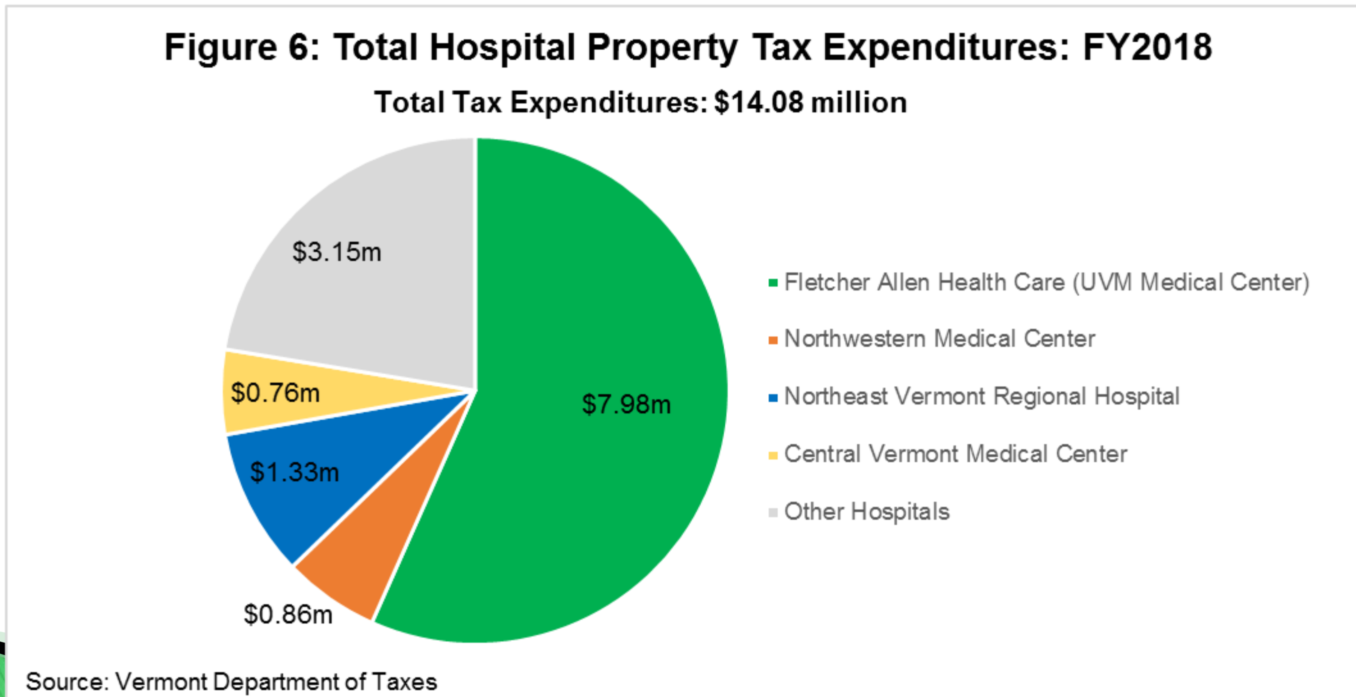
Schools

- Tax expenditure heavily skewed towards 15-20 large private schools



Hospitals

- 132 parcels, $14.08 million tax expenditure
- Parcels associated with UVM Medical Center account for over half of expenditure



State Comparisons

- Almost all states have property tax exemptions for charitable organizations.
  - Many have it written in their constitutions
- Nearly all exempt pious organizations and hospitals
- Some jurisdictions (Boston) have PILOT programs for non-profits

Farm Income Averaging Credit

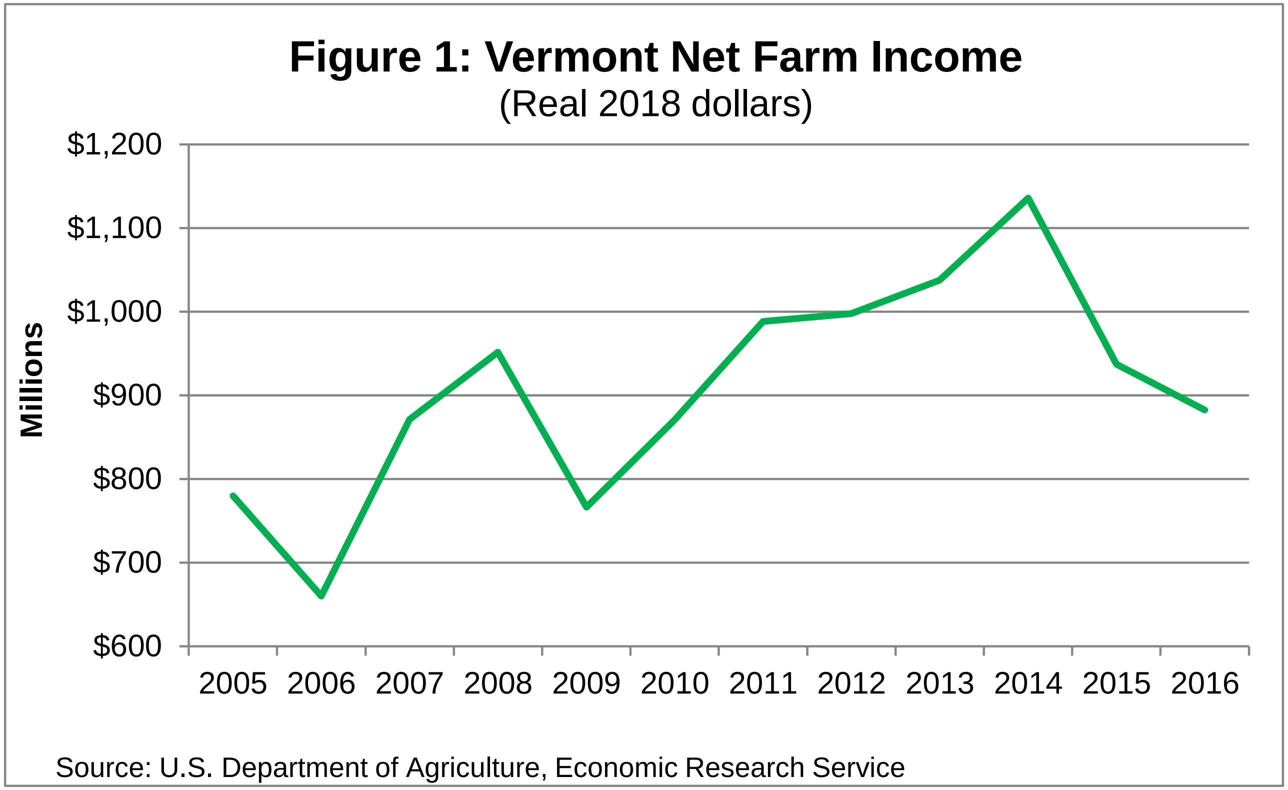
- Linked to Federal Farm Income Averaging
  - Allows taxpayers to use the average of their past three years of farm income as their income for the particular tax year
  - Averaging only available to farm-type income
  - Farmers, ranchers, nursery operations, fishermen

- Vermont allows 24% of the Federal reduction in tax liability to reduce Vermont tax liability

Quick Facts

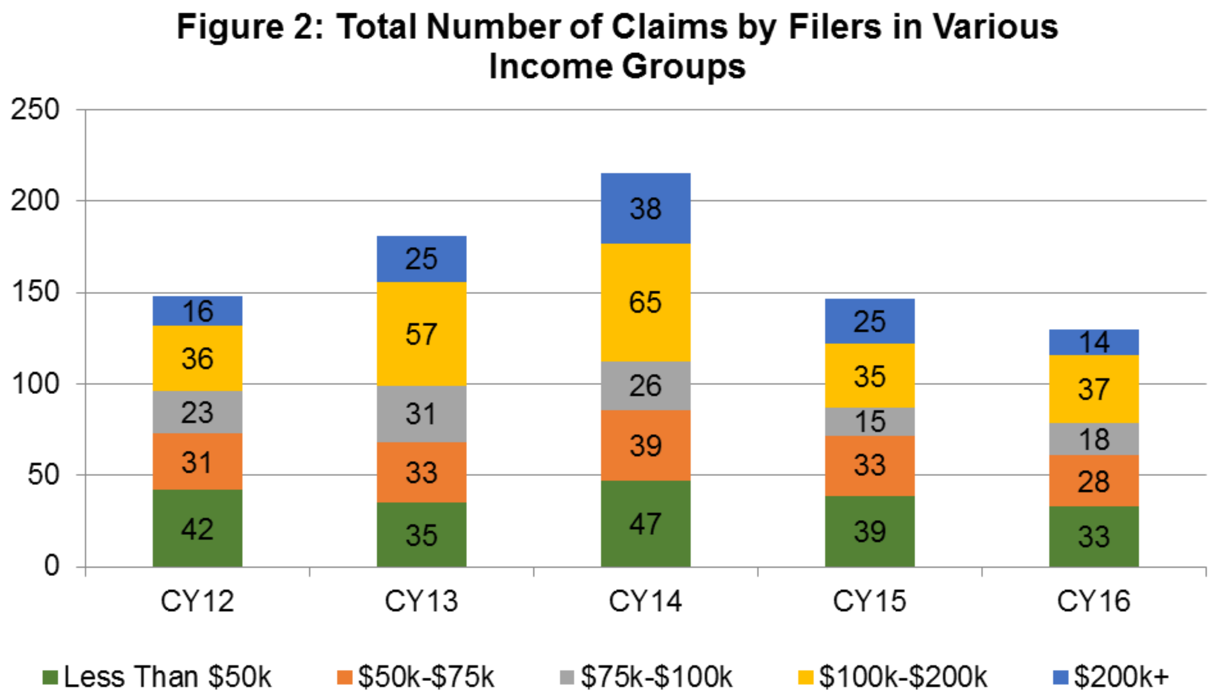
- CY 2016, 130 taxpayers took the credit
- $76,000 income tax expenditure
- Lowest amount of claimants since CY 2012
  - In CY 2014
    - 215 taxpayers claimed the credit
    - Tax expenditure was $170,000

Vermont Farm Income



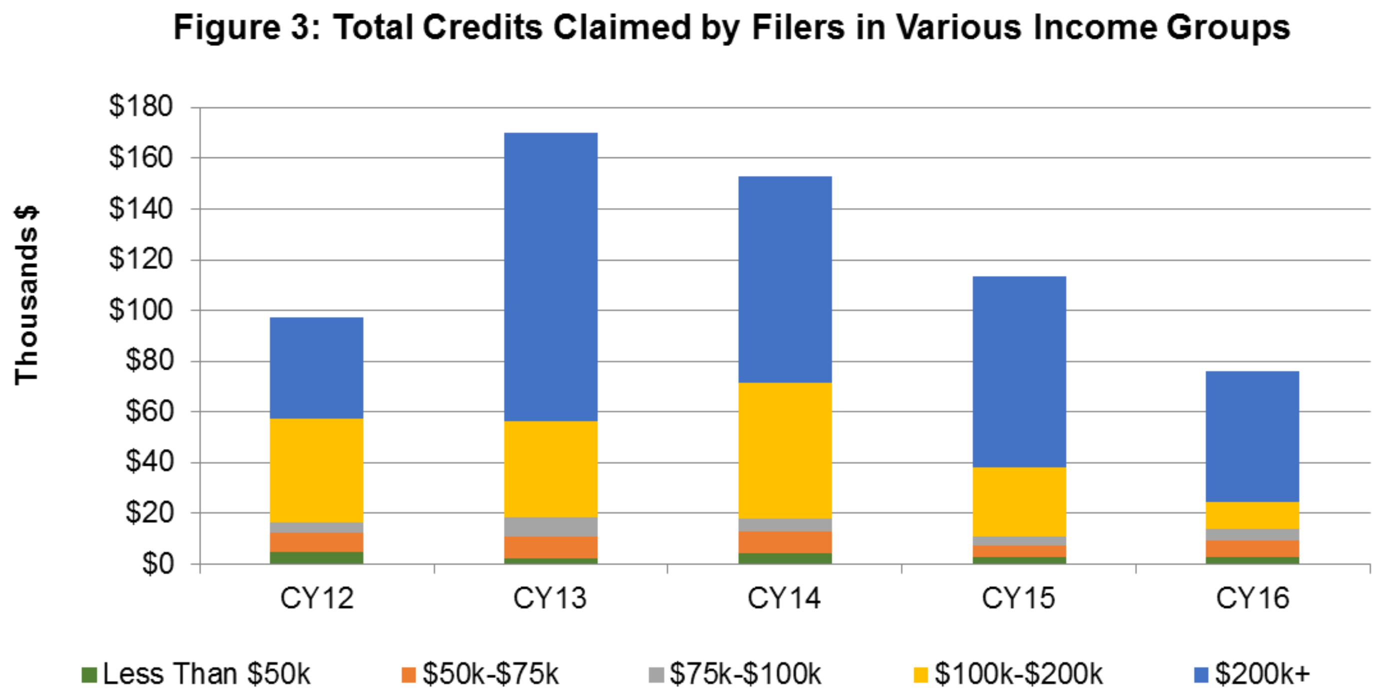
Who takes the credit?

Higher-income farmers tend to take the credit as much as lower income farmers



Where is the money?

Higher income farmers account for the vast majority of the credit



How often is this credit used?

- Is this credit used for one-time spikes in income?
  - Of the 130 claimants from CY2016:
    - 48 of them had never take the credit between CY12 and CY15
    - 32 of them had taken it once between CY12 and CY15
    - 50 of them had taken it at least twice between CY12 and CY15
    - 24 of them had taken it 3 or more times

State comparisons

- At least 6 other states have some form of farm income averaging.