

**VERMONT EMPLOYMENT GROWTH INCENTIVE
BACKGROUND GROWTH CALCULATION**

The purpose of the VEGI program is to provide an incentive for economic activity that would not occur except for the incentive and which is above and beyond what would normally occur or would occur anyway. The [But For](#) approval criterion ensures the former, the incentive calculation, by measuring and accounting for “background” or “organic” growth ensures the latter. Even economic activity that is occurring because of an incentive may include some hiring that might have occurred as the natural business growth of a company. Of course, this is not the case with start-ups or companies new to Vermont. However, Vermont statute requires that all VEGI applications be treated uniformly, so background growth is calculated for *all* applications.

A background growth rate [schedule](#) is calculated annually using a statewide, 15-year average rate of change, by North American Industrial Classification System (NAICS) sector, at the 2- and 3- digit level. The rate schedule is published each January on the VEGI [website](#) and the rates are utilized by VEPC throughout the calendar year to calculate background growth for VEGI applications. The rate for each applicant is determined using the NAICS code for the economic activity the applicant intends to undertake in Vermont.

These sector-based background growth rates are applied against the company’s base full-time payroll to calculate the net level of new, qualifying payroll that will be used to calculate the incentive for each year. For example:

Year 1 (2017): Company has a Year 0 (2016) full-time payroll of \$500,000 and the background growth rate for the company sector is 4%. If the company will create \$200,000 in new qualifying payroll in Year 1 (2017), the amount of new qualifying payroll that is eligible to be used to calculate the incentive for Year 1 (2017) is \$180,000. [$\$500,000 \times 4\% = \$20,000$; $\$200,000 - \$20,000 = \$180,000$].

Year 2 (2018): The same calculation would occur for each year the company creates new qualifying payroll, using the new level of full-time payroll going forward. Using the same example, the Year 2 (2018) background growth would be based on the Year 1 full-time payroll of \$700,000. If the company would create \$300,000 in new qualifying payroll in Year 2, the calculation would be: $\$700,000 \times 4\% = \$28,000$; $\$300,000 - \$28,000 = \$272,000$.

4% Background Growth Rate	Year 0	Year 1	Year 2	Year 3
Base Payroll	\$500,000	\$700,000	\$1,000,000	\$1,300,000
New Qualifying Payroll		\$200,000	\$ 300,000	\$ 350,000
Background Growth		\$ 20,000	\$ 28,000	\$ 52,000
Eligible New Qualifying Payroll		\$180,000	\$ 272,000	\$ 298,000

If the applicant is certified as eligible for the “[Green VEGI](#)” incentive enhancement, one of the ways that enhancement is implemented is that the background growth is calculated at 20% of the normal background growth. If the example above were certified as eligible for Green VEGI, the background growth and the eligible new, qualifying payroll would be:

4% Background Growth Rate	Year 0	Year 1	Year 2	Year 3
Base Payroll	\$500,000	\$700,000	\$1,000,000	\$1,300,000
New Qualifying Payroll		\$200,000	\$ 300,000	\$ 350,000
Background Growth		\$ 4,000	\$ 5,600	\$ 10,400
Eligible New Qualifying Payroll		\$196,000	\$ 294,000	\$ 339,600

For an illustration of a full VEGI incentive calculation and payout, click [here](#).