

Tax Expenditures: Expedited Reviews

Graham Campbell
Joint Fiscal Office
January 25, 2018

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 its 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

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

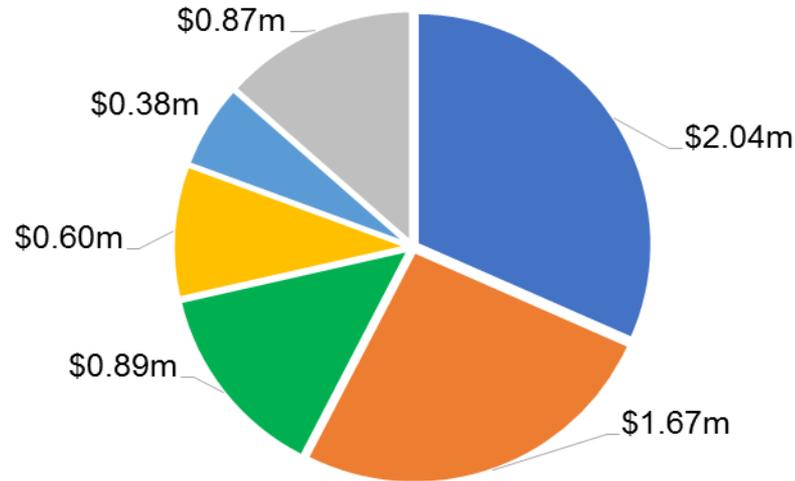
- ▶ \$6.4 million tax expenditure; 519 parcels
- ▶ What types of Charitable Organizations?

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

Figure 1: Property Tax Exemptions for Charitable Purposes by Type: FY2018

Total Tax Expenditures: \$6.44 million



■ Museum/Historical Society ■ Health Care ■ General Charitable ■ Arts ■ Education ■ Other

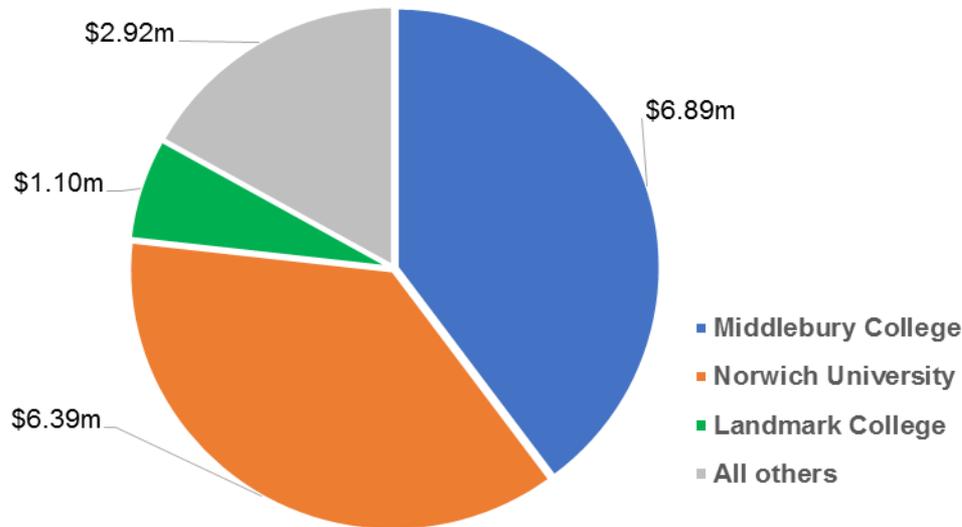
Source: Vermont Department of Taxes

Colleges

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

**Figure 2: College Property Tax Expenditures:
FY2018**

Total Tax Expenditures: \$17.3 million



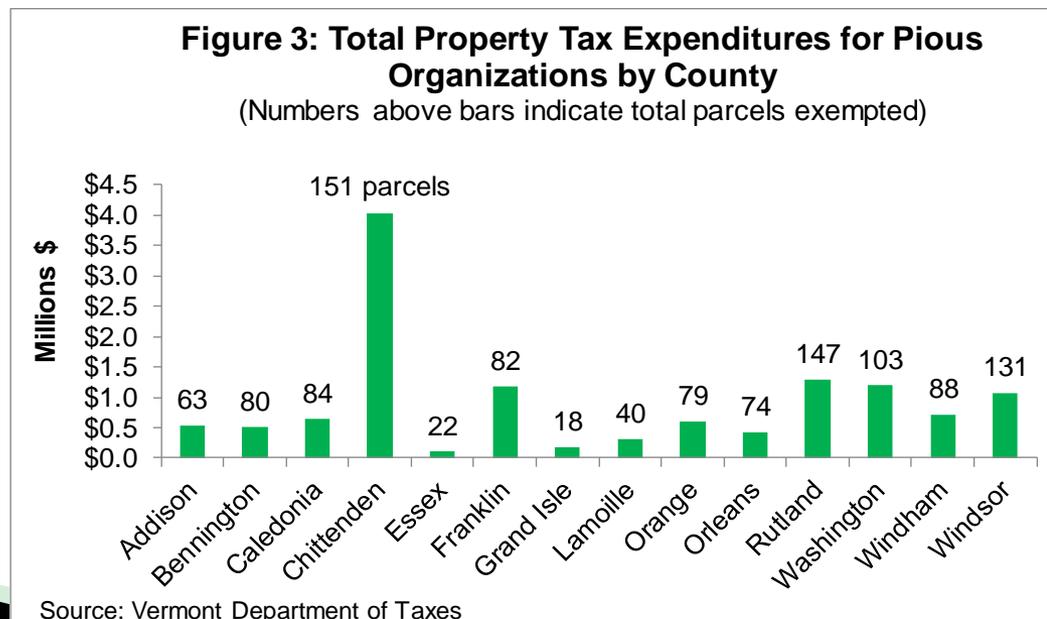
Source: Vermont Department of Taxes

**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

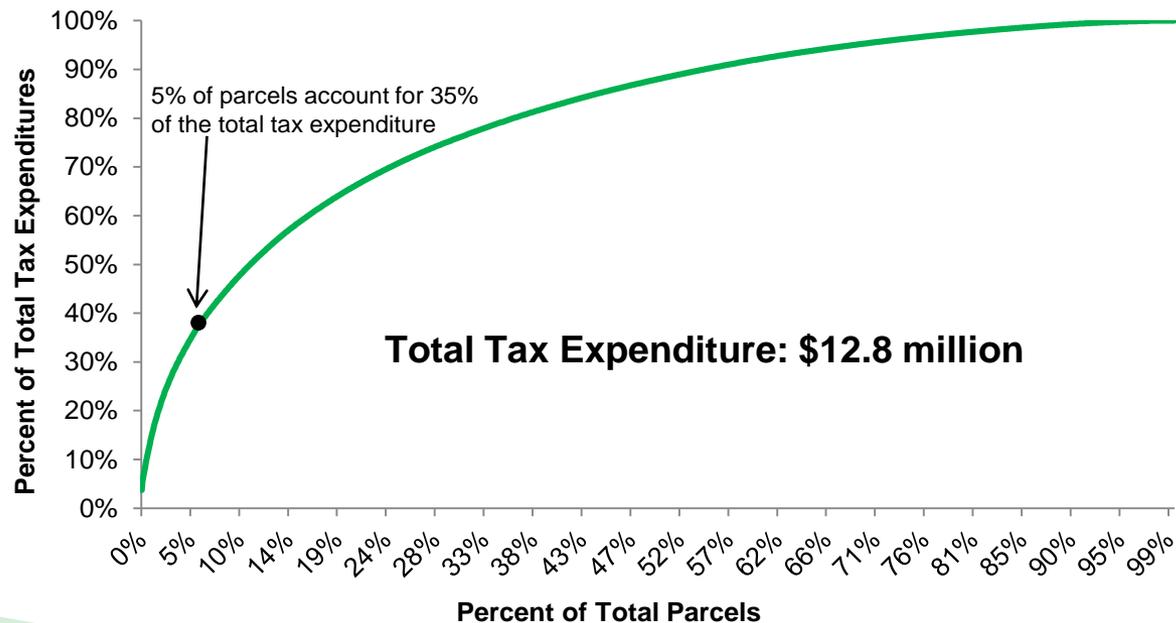
- ▶ 1,162 parcels, \$12.8 million tax expenditure
- ▶ Where is the money?
 - Chittenden County: 24 of top 50 largest exemptions are in Chittenden County



Pious Organizations

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

Figure 4: Property Tax Exemptions for Pious Organizations: FY2018

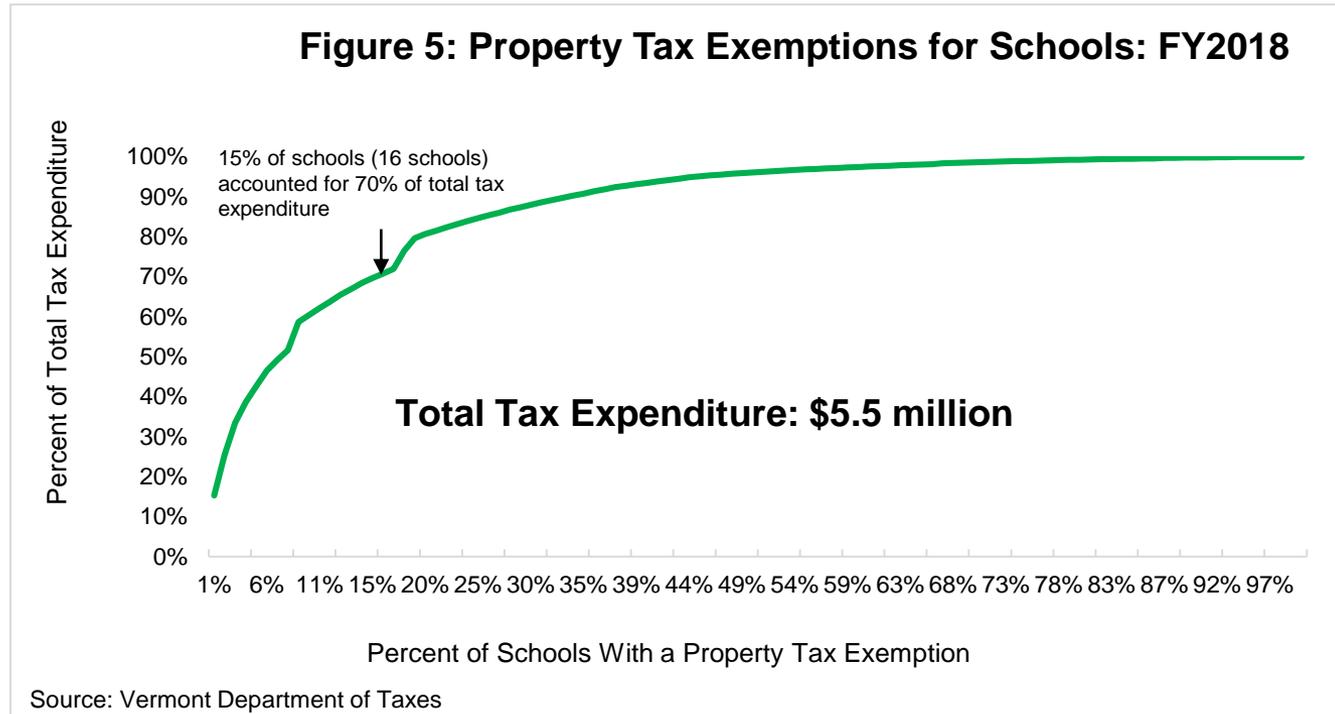


Schools

- ▶ 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).
- 

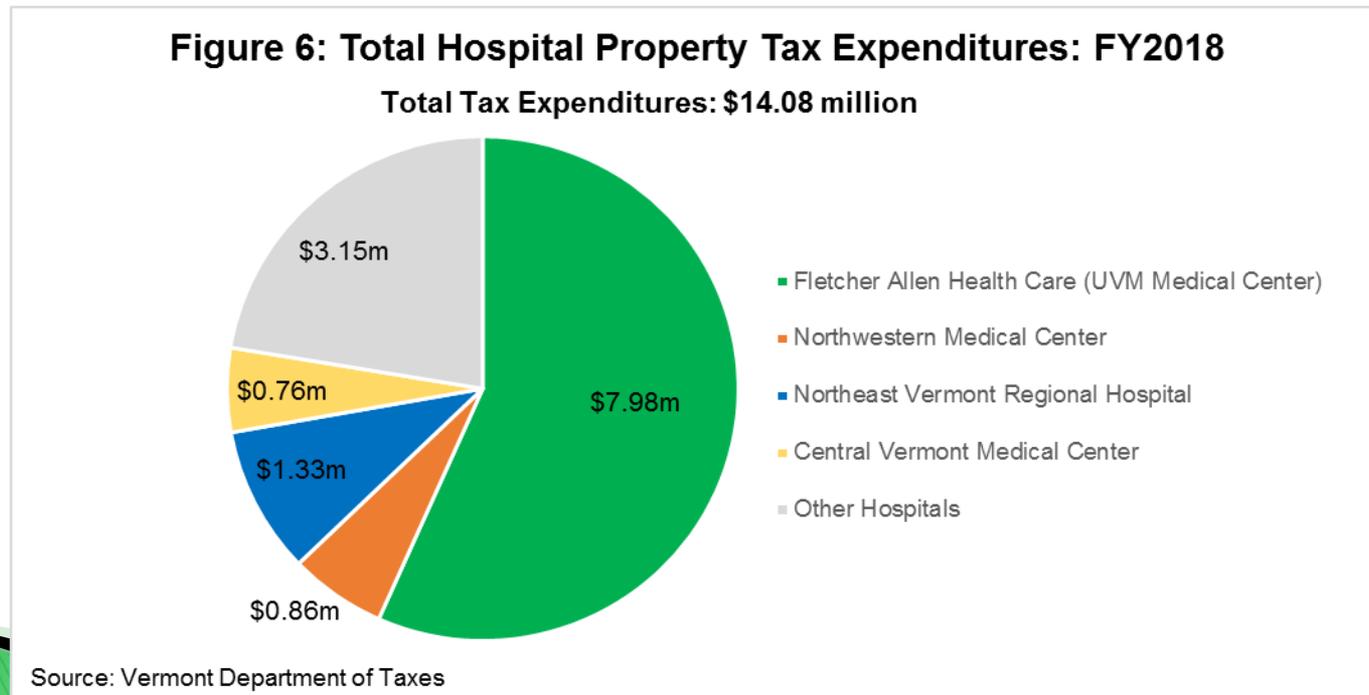
Schools

- ▶ 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
- 