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Joint Fiscal Office

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Fiscal Note

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H.437: An Act Related to Changes that Affect the Revenue of the State: As Passed the House: Updated

[Uhttps://legislature.vermont.gov/Documents/2022/Docs/BILLS/H-0437/H-0437%20As%20passed%20by%20the%20House%20Official.pdf](https://legislature.vermont.gov/Documents/2022/Docs/BILLS/H-0437/H-0437%20As%20passed%20by%20the%20House%20Official.pdf)

Bill Summary

This bill makes three changes to state revenues. It creates a surcharge on the property transfer tax on the value of properties transferred over \$1 million. It expands the existing sales tax exemption for manufacturing machinery and equipment to equipment that is part of an integrated production process. Finally, it expands the first-year credits for the manufactured homes portion of the Affordable Housing Credit from \$425,000 to \$675,000.

Fiscal Impact

This bill is expected to increase overall state revenues by \$1.65 million in FY2023, \$1 million in FY2024 and \$480,000 in FY2025. This impact will be split between the General Fund and Education Fund (see table below).

- General Fund revenues are expected to increase \$2.55 million in FY2023, \$1.90 million in FY2024, and \$1.38 million FY2025.
- Education Fund revenues are reduced approximately \$900,000 per year due to the expansion of the manufacturing inputs sales tax exemption in Section 4.

H.437 Senate Finance: Summary of Revenue Impacts					
Section	Description	FY23	FY24	FY25	FY26
General Fund					
1-3	Property Transfer Tax Surcharge	\$2.80	\$2.40	\$2.13	\$1.96
5	Manufactured Home Credit	-\$0.25	-\$0.50	-\$0.75	-\$1.00
Subtotal General Fund		\$2.55	\$1.90	\$1.38	\$0.96
Education Fund					
4	Manufacturing M&E Exemption	-\$0.90	-\$0.90	-\$0.90	-\$0.90
Total		\$1.65	\$1.00	\$0.48	\$0.06

Details and Analysis

Sections 1 through 3 of the bill creates a 0.5% property tax surcharge on the value of properties over \$1 million. The surcharge, like the other rates in the property transfer tax, is marginal in nature, meaning it is applied to the value of the property transferred over \$1 million. As the table below notes, properties transferred over \$1 million would pay 1.95% (1.25% plus 0.5% new surcharge + 0.2% clean water surcharge) on the value of the transfer over \$1 million, up from 1.45% currently.

Property Transfer Tax Table (Proposed)			
Property Type	First \$100K	\$100K to \$1 million	Over \$1 million
Principal Residence	0.50%	1.25%+ 0.2% (CWS)	1.25%+ 0.5% surcharge + 0.2% (CWS*)
VHFA, VHCB, USDA (first \$110K)	No Tax	1.25% + 0.2% (CWS on amounts above \$200k)	1.25%+ 0.5% surcharge + 0.2% (CWS)
All Other	1.25% +0.2% (CWS)		1.25%+ 0.5% surcharge + 0.2% (CWS)

*CWS: Clean Water Surcharge. All revenues dedicated to the Clean Water Fund.

Sections 1 through 3 are expected to raise \$2.8 million in FY 2023, \$2.4 million in FY 2024, and \$2.13 million in FY 2025. This increase in revenues would benefit the General Fund.

Section 4 expands the existing sales tax exemption for machinery and equipment used in manufacturing. Under current law, only machinery and equipment used directly in the manufacture of tangible property is exempt. This section would expand the exemption such that machinery and equipment used as part of an integrated process to process tangible property would be exempt. Examples of this include equipment used to treat, transport, or store waste or other byproducts, to control pollution at the plant or facility, or to inspect or conduct quality control on the product. **This section is expected to reduce sales tax revenues by \$900,000 per year.** This reduction in revenues impacts the Education Fund.

Section 4 of the bill increases the first-year allocation for the manufactured homes credit within the Affordable Housing Tax Credit from \$425,000 to \$675,000. These tax credits reduce General Fund revenues. They are five-year credits. As such, the total revenue impact of the state increases by \$250,000 each year for five years, with the maximum revenue impact occurring in FY2027 of \$1.25 million (see table below).

Overall Flow of Revenue Impact, Manufactured Housing Credit Expansion							
	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Credits Issued Year 1	-\$250,000	-\$250,000	-\$250,000	-\$250,000	-\$250,000	\$0	\$0
Credits Issued Year 2	\$0	-\$250,000	-\$250,000	-\$250,000	-\$250,000	-\$250,000	\$0
Credits Issued Year 3	\$0	\$0	-\$250,000	-\$250,000	-\$250,000	-\$250,000	-\$250,000
Credits Issued Year 4	\$0	\$0	\$0	-\$250,000	-\$250,000	-\$250,000	-\$250,000
Credits Issued Year 5	\$0	\$0	\$0	\$0	-\$250,000	-\$250,000	-\$250,000
Credits Issued Year 6	\$0	\$0	\$0	\$0	\$0	-\$250,000	-\$250,000
Credits Issued Year 7	\$0	\$0	\$0	\$0	\$0	\$0	-\$250,000
Total Revenue Impact	-\$250,000	-\$500,000	-\$750,000	-\$1,000,000	-\$1,250,000	-\$1,250,000	-\$1,250,000

In FY 2023, this expansion will reduce General Fund revenues by \$250,000, growing by \$250,000 per year through FY 2027. After FY2027, the increase in the manufactured housing allocation of the Affordable Housing Tax Credit will total \$1.25 million.