



Written Testimony on H.437
Expansion of the Manufacturing Tax Exemption
Senate Committee on Finance

Chris Carrigan, Vice President
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Chair Cummings and honorable committee members:

The Vermont Chamber of Commerce supports the proposal in bill H.437 to include machinery and equipment used as an integral or essential part of an integrated production operation. Moving away from the direct use standard to an integrated plan that makes tax exempt the use tax for ancillary processes, packaging, testing, and quality assurance, is important for three key reasons, including:

1. Modernization of Vermont's tax law;
2. Workforce recruitment and retention through upskilling; and
3. Modernization of facilities.

Modernize Vermont's Tax Law:

This change and expansion will reduce complexity and clarify tax law to enable our Vermont manufacturers to achieve greater **compliance** with the Vermont Department of Taxes and reduce the number of costly audits and lawsuits. As mentioned by the Vermont Department of Taxes in the House Committee on Ways and Means, many of our small Vermont manufacturers do not have use and sales tax expertise. Importantly, this change will **modernize** and align Vermont's tax law with the thirty-three other states that have similar exemptions in place.

Workforce Recruitment, Retention and Upskilling:

Vermont employers have seen more employees reach retirement age and fewer students graduating from our schools for years, and, as a result, they now face a severe worker shortage. This has been exacerbated in 2021-2022 by the "Great Reshuffle, Resignation, and Retirement." The Vermont Futures Project identified that Vermont needed **10,000** workers in the labor force before the pandemic. That number has increased. We now have **30,000** job openings, and even with investments workforce training programs, we do not have enough people to fill the number of open positions.

The Vermont Chamber Manufacturing Council, consisting of Vermont-based manufacturing businesses from across the state have described the significant barriers they face in recruiting and retaining workforce to meet market demands. Higher wages and expansive benefit and incentive packages are not enough to bring people into this field. Upgrades in machinery and equipment are opportunities to upskill the current workforce and increase productivity to meet new customer demands and grow in Vermont

Expanding the manufacturing tax exemption will help empower our manufacturers to reinvest in both workforce recruitment, and, most importantly, retention through **retraining** and **upskilling** their current workforce.

To illustrate the benefits of the expansion, and after consulting their tax departments and CPAs, Sonnax Transmission Systems in Bellows Falls, Vermont would reinvest \$15,000 in workforce recruitment and equipment. Westrock in Sheldon Springs, Vermont would reinvest \$19,000 in workforce recruitment and equipment. Any cost expenditure related to the expansion and making this change, therefore, would be recovered with revenue by retaining and upskilling our current workforce and growing Vermont's existing tax base.

Modernization of Facilities:

This exemption will incentivize manufacturers to further invest in testing, inspection, and **quality assurance** measures for their products, customers, and supply chain partners. Twincraft Skincare in Winooski and Essex Junction, Vermont, for example, would reinvest between \$50,000 and \$100,000 in wastewater treatment infrastructure (pollution control), testing and inspection equipment for lab facilities.

Conclusion:

In closing, manufacturing is a vital and important industry and economic driver for Vermont's economy. With this proposal we have an opportunity to **modernize** Vermont's tax law and empower our manufacturers to reinvest in critical workforce retention through the retraining and upskilling of the current workforce, especially during a severe workforce labor shortage.

For these reasons, the Vermont Chamber of Commerce strongly supports the expansion of the manufacturing tax exemption.