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To: Ann Cummings <ACUMMINGS@leg.state.vt.us>; Faith Brown <FBrown@leg.state.vt.us>

Subject: Follow up from Tax testimony

Hello Senator Cummings and Faith,

There were a couple questions from the Committee that we promised to circle back on during our walk through of the Governor's budget proposals.

1. Regarding the nurses incentive, Senator Sirotkin asked for a breakdown of the average benefit per nurse.

The program gives an average benefit of \$1200 per nurse per year. The most recent graduates would get a little more given the structure of the benefit. The incentive would help approximately 1,050 nurses in the first year. That number creeps up over 1,100 by year 3 given our assumption that post-graduate retention would increase every year.

2. In our discussion of expanding the SUT exemption for manufacturing machinery and equipment (M&E), Senator Pearson asked about the current annual cost of the existing tax expenditure.

We found that the underlying exemption for manufacturing inputs is one of a handful of tax expenditures that are excluded from the Biennial TE Report and has never been estimated by JFO. (Excluded TEs are listed in Appendix B of the report.) We consulted with JFO for some background on this decision. Apparently, some policies we broadly consider "tax expenditures" are on the exclusion list because, unlike other TEs, they address areas where taxation is inappropriate due to constitutional/jurisdiction issues (i.e. taxing meals on interstate trains, or the state taxing itself).

The exemption for manufacturing M&E is as old as the Vermont Sales Tax itself (both enacted in 1969). Vermont and most other SUT states have long exempted manufacturing inputs to avoid "double taxation" of consumer goods. States didn't want to apply SUT during the manufacturing process because SUT would be applied later at the point of consumption. For the purposes of the Biennial TE Report, it seems the existing exemption for manufacturing M&E has been considered more of a boundary on the reach of the Sales Tax than a distinct "tax expenditure" from the SUT.

Very best,
Rebecca

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