

2023 Tax Expenditure Report

House Ways and Means Committee

Patrick Titterton, Fiscal Analyst

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What is a Tax Expenditure

- Statutory provisions which reduce the amount of revenue that would otherwise be collected
- Done to encourage a particular activity or limit the amount of taxes collected from certain groups
- Examples:
 - Tax credits and deductions
 - Earned Income Tax Credit, Social Security deduction
 - Exemptions from the tax base
 - Clothing and groceries exempt from the sales tax
- JFO and Department of Taxes attempt to estimate, when possible, as many expenditures as possible



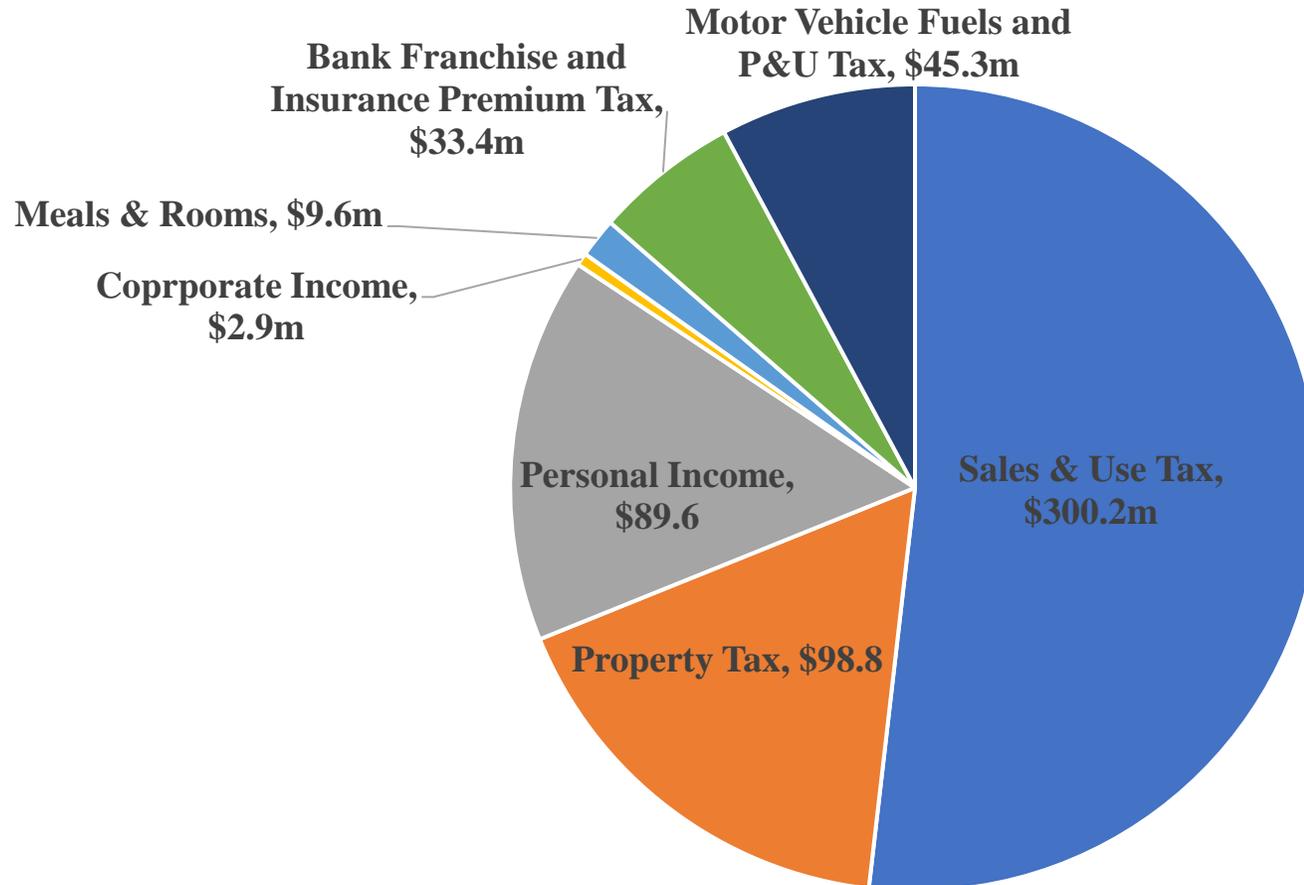
This Year's Report

- Biennial Report that was published on January 17, 2023. Next report will be published in 2025 per statute.
- FY20, FY21 estimates, along with FY24 projections
 - FY21 actuals available for personal income taxes and property taxes.
- Reviews of tax expenditures related to housing and community development
 - Full Review
 - Earned Income Tax Credit
 - Six Expedited Reviews



Total Vermont Tax Expenditures - FY2021

2021 Tax Expenditures: \$579.8 million
(excludes VT Standard Deduction and Personal Exemptions)



Personal Income Tax - New and Notable

- Act 138 of 2022 introduced multiple new expenditures and expansions of existing expenditures. Actual expenditures resulting from these changes will be available for the 2025 Tax Expenditure Report.
 - New expenditures include:
 - The Child Tax Credit
 - Student Loan Interest Deduction
 - Civil Service Retirement System and military retirement threshold exemption
 - Expanded expenditures include:
 - Child and Dependent Care Credit
 - Earned Income Tax Credit
 - Social Security Exemption threshold increase



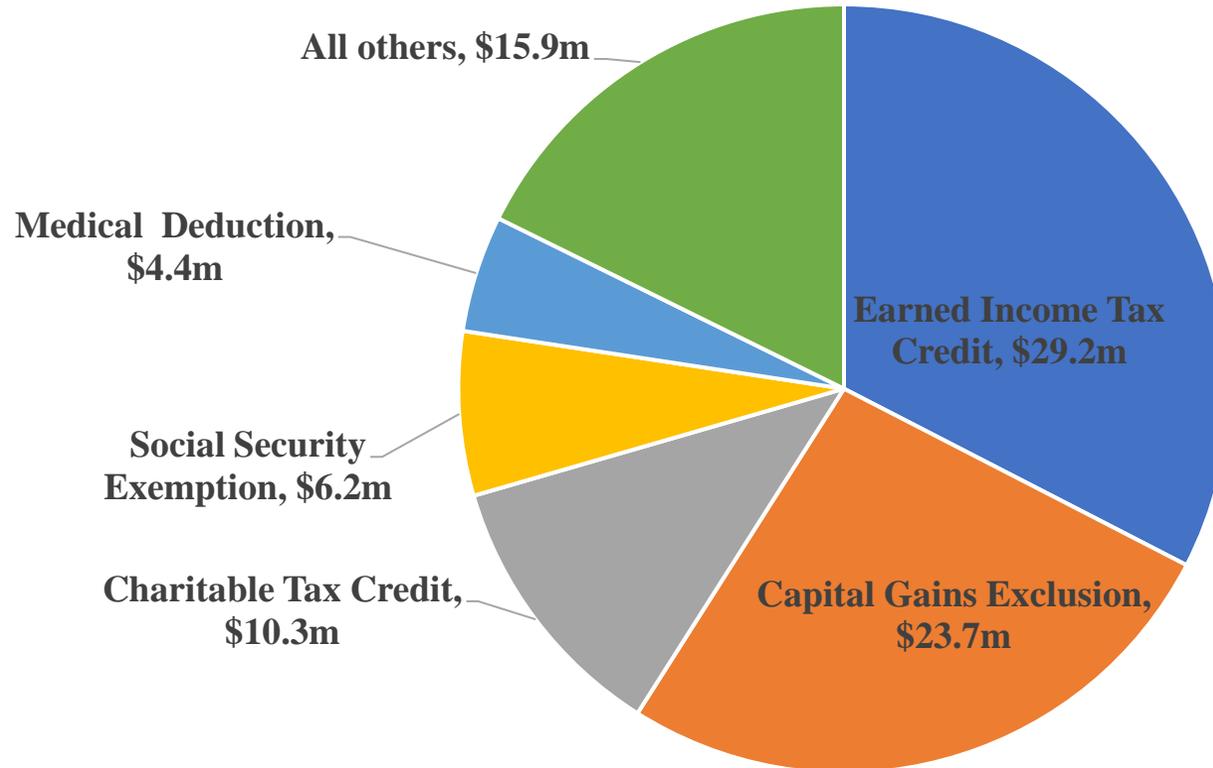
Personal Income Tax - New and Notable Estimates

Item Number	Income Tax Expenditure	FY2020 estimated	FY2021 estimated	FY2024 Projected (\$)
1.701	Child Tax Credit			31,800,000
1.702	Student Loan Interest Deduction			2,200,000
1.703	Civil Service Retirement System and military retirement threshold exemption			710,000
Total				34,710,000

Personal Income Tax - FY2021

FY2021 Personal Income Tax Expenditures: \$89.6 million

(note: does not contain VT Standard Deduction or Personal Exemptions)



Note: Standard Deduction was \$149.2 million and Personal Exemptions were \$122.1 million in FY2021



Personal Income Revenue - FY2021

- The cumulative actual personal income tax revenue for FY2021 was \$1,231.7 million
- The personal income tax expenditures that could be provided were \$89.6 million in FY 2021



Personal Income Vermont Employment Growth Incentive Program (VEGI)

- VEGI provides incentives to businesses to recruit and expand payroll and capital investment
- Incentive amounts are based on the Net Revenue Benefit to the State
- Incentives are paid out over 5-year periods based on businesses meeting payroll and investment targets
- Annually, \$10 million can be allocated*

Year	2016	2017	2018	2019	2020
Incentives Paid to Companies	\$3,999,767	\$3,767,677	\$2,520,666	\$2,702,754	\$2,525,464

* Can be increased by \$5 million with JFC approval



Corporate Income Tax Expenditures

Item Number	Corporate Income Tax Expenditures	FY 2020 Actual	FY 2021 Actual	FY 2024 Estimated
2.001	Vermont Municipal Bond Income Exemption	Inadequate data	Inadequate data	Inadequate data
2.101	Charitable Housing Credit		*	* *
2.102	Affordable Housing Credit		*	0 0
2.103	Qualified Sale of Mobile Home Park Credit		0	0 0
2.104	Entrepreneur's Seed Capital Fund		0	0 0
	Downtown and Village Center Tax Credits		*	* *
2.108	Machinery and Equipment Tax Credit		0	0 0
2.109	Research and Development Tax Credit	4,102,000	2,890,000	3,595,000
2.202	Downtown Tax Credits (carryforward only)		0	0 0
2.204	Business Solar Energy Tax Credit (carryforward only)		0	0 Repealed
*Suppressed data (fewer than 10 claimants)			*	* *
Total		4,102,000	2,890,000	3,595,000



Corporate Income Tax Revenue FY2021

- The cumulative actual corporate income tax revenue for FY2021 was \$152.6 million
- The corporate tax expenditures that could be provided were \$2.9 million in FY 2021



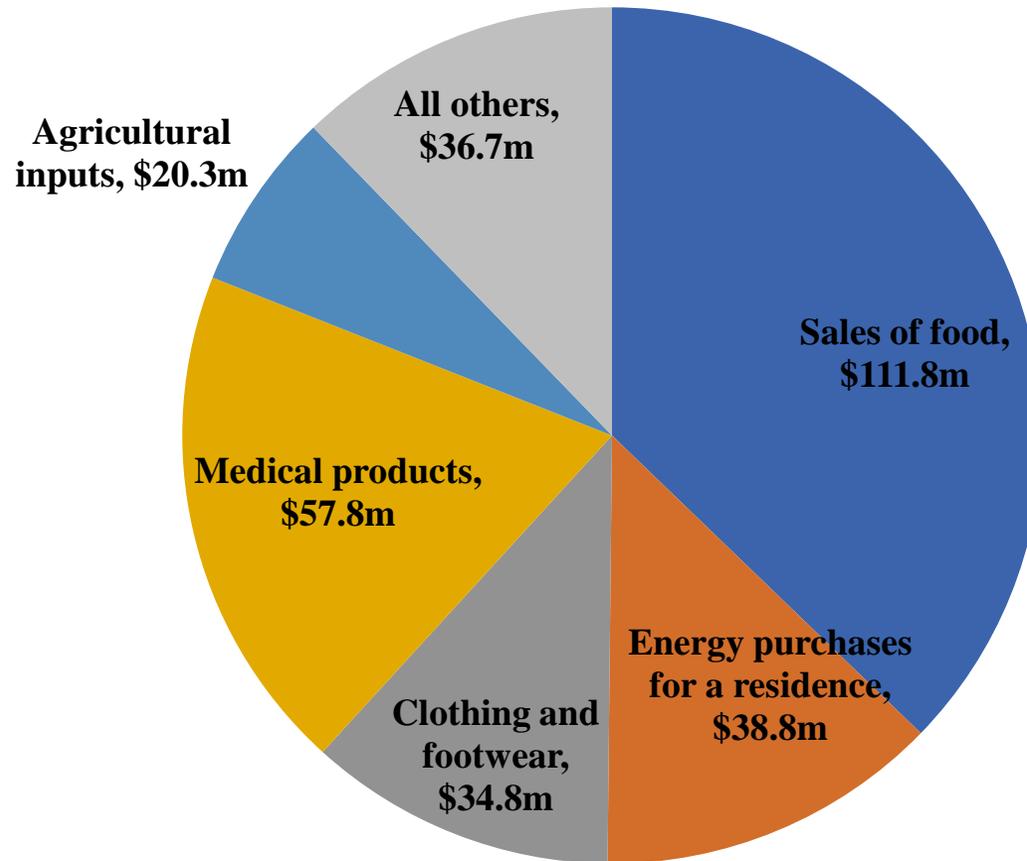
Sales and Use Tax Expenditures

- Medical Products
- Agricultural Products
- Veterinary Supplies
- Fuels for Railroads and off-road uses
- Sales of food
- Newspapers
- Rentals of washing facilities
- Admission fees to nonprofit museums
- Items sold to fire, ambulance, and rescue squads
- Funeral Charges
- Property used in research
- Agricultural machinery and equipment
- Energy purchases for farming
- Sales of films to movie theaters
- Ferryboats and depreciable parts
- Sales of mobile homes and modular homes
- U.S. Flag sold to or by exempt veterans' orgs
- Property Transferred as part of personal service
- Advertising materials
- Documents that record a professional service
- Tracked vehicles
- Scrap construction materials by a third party
- Property incorporated in railroad line
- Clothing and footwear
- Property incorporated into a net metering system
- Purchases by and from 501(c)(3)'s
- Building materials used by government or 501(c)(3)'s
- Railroad rolling stock and depreciable parts
- Reallocation of receipts from construction materials
- Sales to nonprofit hospital service corporations
- Sales to credit unions
- Sales by licensed auctioneers
- Amusement charges by nonprofit and political orgs
- Amusement charges presented by 501(c)(3)'s
- Aircraft and depreciable parts for commercial use



Sales and Use Tax – FY2021

FY2021 Estimated Sales Tax Exemptions: \$300.2 million



Sales & Use Tax Revenue FY2021

- The cumulative actual sales and use tax revenue for FY2021 was \$507.6 million
- The sales and use tax expenditures that could be estimated were \$300.2 million in FY 2021
 - Sales and use tax revenue excludes many important consumer staples that consumers spend a relatively large portion of their household income on.



Meals and Rooms

Item Number	Meals & Alcoholic Beverages Tax	FY 2020 estimated	FY 2021 estimated	FY 2024 projected
4.001	Grocery-type items furnished for take-out	6,700,000	6,900,000	7,400,000
4.002	Served on the premises of a non-profit	Not estimated	Not estimated	Not estimated
4.003	Served on the premises of a school	1,800,000	1,800,000	1,800,000
4.004	Served in hospitals, convalescent and nursing homes	880,000	880,000	880,000
4.005	Summer camp for children	Under 100,000	Under 100,000	Under 100,000
4.006	Sold by nonprofits at fairs etc but limited to 4 days	Not estimated	Not estimated	Not estimated
4.007	Furnished to an employee of a hotel or restaurant	Not estimated	Not estimated	Not estimated
4.008	Served at a continuing care retirement facility	Not estimated	Not estimated	Not estimated
	Total	9,380,000	9,580,000	10,080,000

Item Number	Rooms Tax	FY 2020 estimated	FY 2021 estimated	FY 2024 projected
4.101	Student housing	Not estimated	Not estimated	Not estimated
4.102	Hotel or restaurant employee	Not estimated	Not estimated	Not estimated
4.103	Summer camps	Under 100,000	Under 100,000	Under 100,000
4.104	Nonprofit establishments	Not estimated	Not estimated	Not estimated
4.105	Rooms at a continuing care retirement facility	Not estimated	Not estimated	Not estimated
4.106	Hospital, convalescent and nursing home	Not estimated	Not estimated	Not estimated
	Total	0	0	0



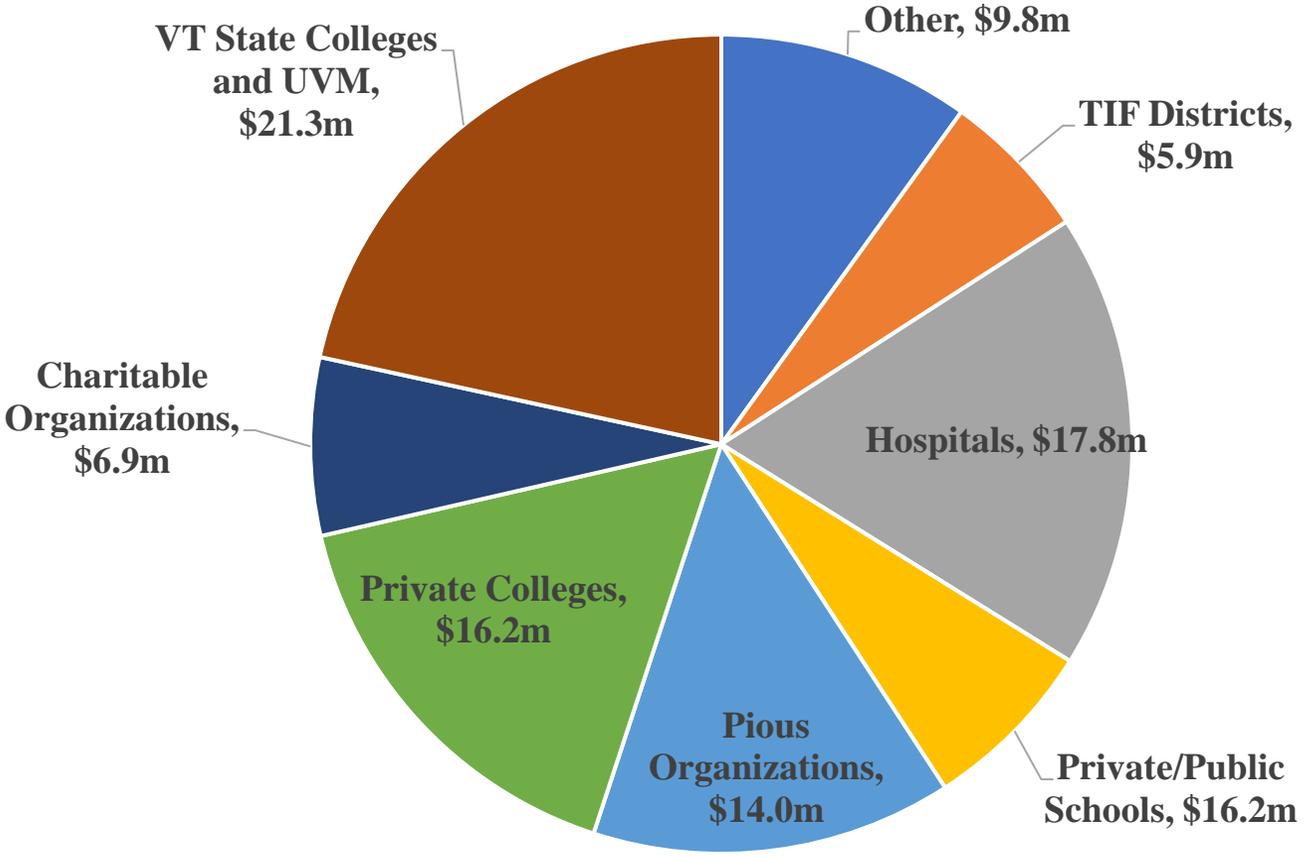
Meals & Rooms Tax Revenue FY2021

- The cumulative actual meals and rooms tax revenue for FY2021 was \$135.2 million
- The meals and rooms tax expenditures that could be estimated were \$9.6 million in FY 2021



Property Tax – FY2021

FY2021 Property Tax Expenditures: \$98.8 million



Property Tax Expenditures

- Mostly consist of non-profits or government entities that typically do not pay taxes
 - Higher Education institutions
 - Pious organizations
 - Hospitals
 - Schools
 - Charitable organizations
- Tax Increment Financing (TIF) Districts keep the education tax increment – amounting to an Education Fund Tax Expenditure
- Property Tax expenditures are paid for by property taxes from the rest of the property tax base



Bank Franchise and Insurance Premiums Tax

Item Number Bank Franchise Tax Expenditures		FY 2020 Actual	FY 2021 Actual	FY 2024 Estimated
6.001	Credit Unions	1,590,000	1,820,000	2,190,000
6.101	Affordable housing Tax Credit		*	*
6.102	Downtown and Village Center Program Tax Credits		*	*
6.103	Entrepreneur's Seed Capital Fund Credit		0	0
6.104	Charitable Housing Credit		*	*
*Suppressed data (fewer than 10 claimants)		4,003,000	4,540,000	5,806,000
Total		5,593,000	6,360,000	7,996,000

Item Number Insurance Premium Tax Expenditures		FY 2020 Actual	FY 2021 Actual	FY 2024 Estimated
7.001	Affordable Housing Tax Credit		*	*
7.002	Downtown and Village Center Program Tax Credits		*	*
7.003	Entrepreneurs' Seed Capital Fund Credit		0	0
7.101	Annuity Considerations	11,848,000	11,560,000	12,317,000
7.102	Fraternal Societies	110,000	110,000	110,000
7.103	Hospital and Medical Service Organizations	13,710,000	13,710,000	13,710,000
*Suppressed data (fewer than 10 claimants)		1,676,000	1,575,000	13,811,000
Total		27,444,000	27,077,000	27,756,000



Bank Franchise and Insurance Premium Tax Revenue FY2021

- The cumulative actual bank franchise tax revenue for FY2021 was \$13.9 million
- The bank franchise tax expenditures that could be provided were \$6.4 million in FY 2021
- The cumulative actual insurance premium tax revenue for FY2021 was \$60.4 million
- The insurance premium tax expenditures that could be provided were \$27.1 million in FY 2021



Motor Vehicle Tax Expenditures

Gasoline and Diesel Fuel Tax Expenditures

Item Number	Expenditure	FY 2020 actual	FY 2021 actual	FY 2024 projected
8.001	Gasoline tax	\$0	\$0	\$0
8.002	Diesel fuel	\$ 205,000	\$568,000	\$582,000
	Totals	\$205,000	\$568,000	\$582,000

Motor Vehicle Purchase & Use Tax Expenditures

Item Number	Expenditure	FY 2020 actual	FY 2021 actual	FY 2024 projected
9.001	Religious, charitable	\$73,000	\$80,000	\$146,000
9.002	Non-registered vehicles	No data	No data	No data
9.003	Gifts	\$2,035,000	\$2,312,000	\$2,958,000
9.004	IRC Sec. 351	\$21,000	\$41,000	\$42,000
9.005	Handicap	\$23,000	\$30,000	\$37,000
9.006	Veterans	\$13,000	\$4,000	\$17,000
	Subtotals Tax Exemptions	\$2,165,000	\$2,467,000	\$3,200,000
9.007	Trade-In allowance	\$32,300,000	\$42,300,000	\$44,900,000
	Totals	\$34,465,000	\$44,767,000	\$48,100,000



Motor Vehicle Tax Revenue FY2021

- The cumulative actual gas and diesel tax revenue for FY2021 was \$87.0 million
- The gas and diesel tax expenditures that could be estimated were \$568,000 in FY 2021
- The cumulative actual motor vehicle purchase & use tax revenue for FY2021 was \$89.4 million
- The motor vehicle purchase & use tax expenditures that could be estimated were \$44.8 million in FY 2021



Questions?

