

Review of 2023 Report on Possible Revenue Sources for Universal School Meals in Vermont

House Committee on Ways and Means

Julia Richter and Patrick Titterton

February 07, 2023



Review of Universal Meals Program and the Education Fund



Primary cost factors of a statewide universal school meals (USM) program

Three primary factors drive the cost of a USM program:

1. Overall student participation rate

- Higher participation rate leads to higher costs for the State

2. Percent of participating students who are eligible for the federal free and reduced price meals program

- More students that are eligible for the federal program means increased federal funding to support meals

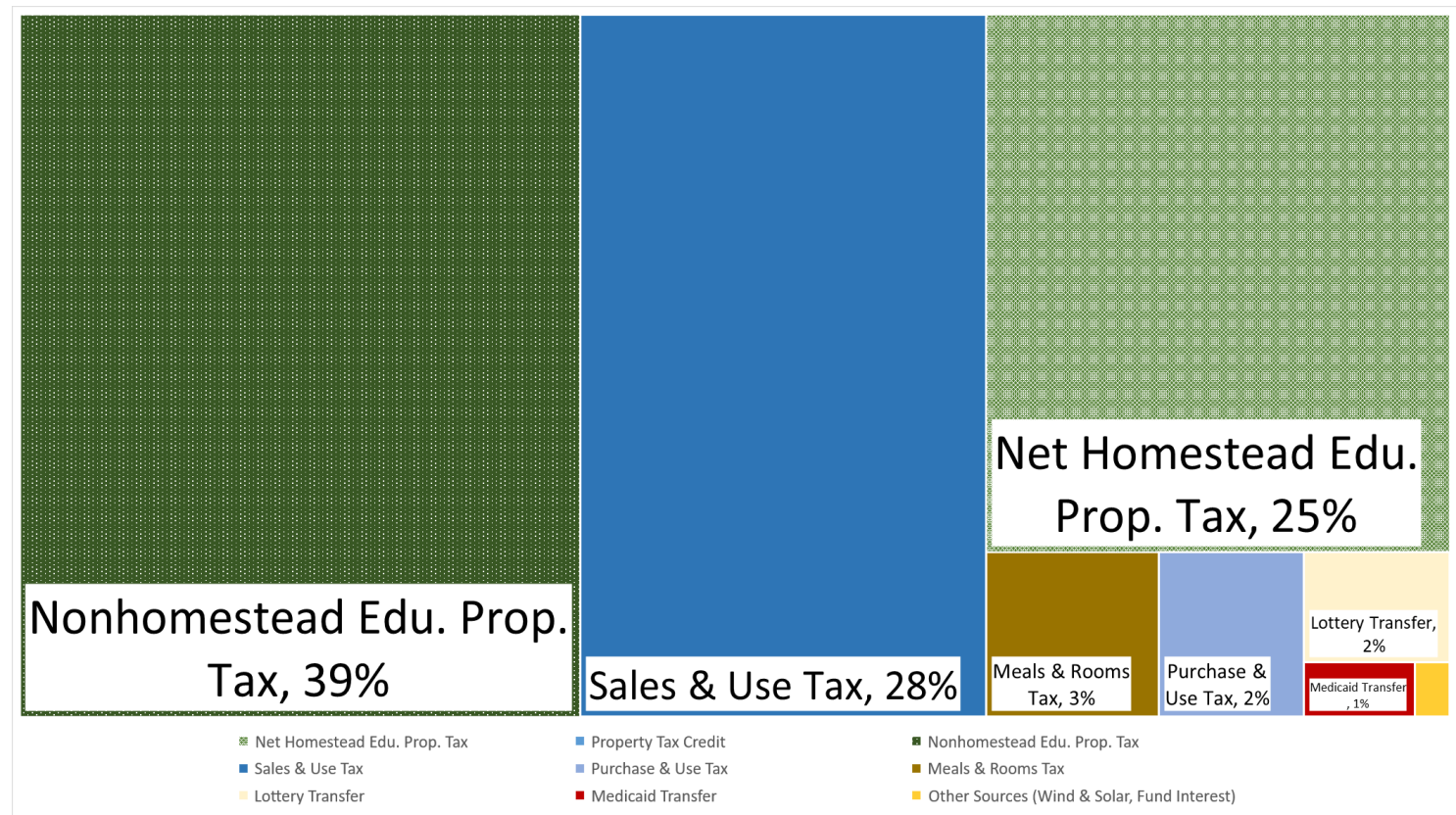
3. Difference between federal school meal reimbursement rates and actual per meal costs



Education Fund is funded through non-property tax sources and property tax sources

- There are multiple non-property tax sources of the Education Fund, including:
 - All revenues from the Sales and Use Tax
 - One-third of Purchase and Use Tax revenues
 - One-quarter of Meals and Rooms Tax revenues
 - All profits from the State lotteries
 - Certain school service-based Medicaid reimbursement funds
 - And other miscellaneous revenue sources
- There are two property tax bases for the Education Fund:
 - Homestead property
 - Nonhomestead property

Projected Revenue Sources for Vermont's Education Fund in FY 2023



Source: [FY 2024 EF Outlook](#)



Estimated Costs for FY 2024

- JFO estimates if the USM program continued in its same structure in FY 2024, it would cost \$26 million - \$31 million
 - This range reflects potential changes to the three primary cost factors discussed in AOE’s 2023 report¹

Percentage of students eligible for free and reduced-price meals	Percentage of Student Participation	
	October 2022 Participation (38.63% participate in breakfast, 60.55% participate in lunch)	Increase to Oct 2022 Participation of ~ 5% (45% participate in breakfast, 65% participate in lunch)
Fall 2019 Percentage (38.23% qualified for free and reduced-price meals)	\$26 million	\$29 million
October 2022 Percentage (34.85% qualified for free and reduced-price meals)	\$28 million	\$31 million

Notes: Cost estimates will be refined as more data becomes available
 1) Report on the “Impact and Implementation of the Universal School Meals Act” (Vermont Agency of Education, January 16, 2023)
<https://legislature.vermont.gov/assets/Legislative-Reports/edu-legislative-report-french-universal-school-meals-20230116.pdf>



USM, the Education Fund, and Property Taxes

- Property taxes are adjusted to ensure that all education expenditures are fully funded
 - If non-property tax revenue sources are not adjusted, any additional costs to the EF will be funded by property tax revenues
- If the USM program were established as an ongoing obligation of the EF, and no non-property tax revenue streams were adjusted, the General Assembly would have to raise property taxes to fund the program and keep the EF balanced.
- **All else equal, fully funding USM through property taxes would result in an approximate \$0.03 increase on both the homestead property tax rate and the nonhomestead property tax rate**



Potential Revenue Sources



Potential Revenue Sources

Act 151 (2022) tasked JFO with exploring revenue sources to fund a Universal School Meals program

- Per enabling legislation, JFO looked at potential revenue from sources that are not ordinarily used for General Fund purposes
- The report includes adjustments to taxes that are currently dedicated to the Education Fund and new taxes that do not currently exist
- The report includes estimates for taxes on:
 - sugar sweetened beverages,
 - applying the sales tax to candy and prewritten software accessed remotely, and
 - adjustments to the sales tax rate and base



Sugar sweetened beverages



Excise tax of sugar sweetened beverages

- JFO used past proposed legislation as a model for the estimate (H.234 from 2013 is an example)
- \$0.01 or \$0.02 tax per ounce
 - 12 ounce can of soda would generate \$0.12 to \$0.24
- Sugar sweetened beverages defined as any nonalcoholic beverage, carbonated or noncarbonated, that is intended for human consumption and contains any added sweetener
- Also applies to powders or syrups meant to be mixed with water



Sugar sweetened beverages

- What is included:
 - Soft drinks,
 - Fruit beverages,
 - Sports drinks,
 - Ready-to-drink tea,
 - Energy drinks, and
 - Ready-to-drink coffee.
- What is not included:
 - Beverages with 100% natural fruit or vegetable juice,
 - Infant formula,
 - Milk or milk alternatives (i.e. soy milk, almond milk, etc.),
 - Diet soft drinks,
 - Ready-to-drink diet tea, and
 - Flavored water.



Sugar sweetened beverages

- Currently no other states have a specific tax on sugar sweetened beverages, but there are 10 localities that do.

City	Tax Rate	Eligible Drinks	Paid By
Albany, CA	\$0.01 per ounce	Sugar sweetened beverages	Distributors
Berkley, CA	\$0.01 per ounce	Sugar sweetened beverages	Distributors
Boulder, CO	\$0.02 per ounce	Sugar sweetened beverages	Distributors
Oakland, CA	\$0.01 per ounce	Sugar sweetened beverages	Distributors
Philadelphia, PA	\$0.015 per ounce	Sweetened Beverages (including diet drinks)	Distributors
San Francisco, CA	\$0.01 per ounce	Sugar sweetened beverages	Distributors
Seattle, WA	\$0.0175 per ounce	Sugar sweetened beverages	Distributors
Washington, D.C.	8% sales tax	Sweetened Beverages (including diet drinks)	Consumers



Sugar sweetened beverages estimate

- JFO estimates that a \$0.01 per ounce tax on sugar sweetened beverages would result in \$17.3 million in tax revenue in FY 2024.
- A \$0.02 per ounce tax would result in \$31.7 million in tax revenue in FY 2024.



Applying the sales tax to candy



Applying the sales tax to candy

- Currently Vermont exempts groceries from the sales tax and candy is treated as a grocery.
- While many states exempt grocery purchases from the Sales and Use tax, some do not consider candy to be a grocery item, meaning that candy purchases are subject to the Sales and Use tax.
- In some states groceries are subject to the sales tax and candy is taxed because it is considered a grocery.
- Overall, 27 states and Washington, D.C. apply the Sales and Use tax to candy.
- JFO estimates that if the Sales and Use tax were applied to purchases of candy, the revenue generated would amount to **\$3.7 million in FY 2024.**



Applying the sales tax to prewritten software accessed remotely



Applying the sales tax to prewritten software accessed remotely

- Vermont sales tax applies to the retail sale of tangible personal property, unless an exemption applies. 32 V.S.A. §9771(1).
- Tangible personal property includes prewritten software:
 - “Tangible personal property” means personal property which may be seen, weighed, measured, felt, touched, or in any other manner perceived by the senses. “Tangible personal property” includes electricity, water, gas, steam, and prewritten computer software. 32 V.S.A. § 9701(7).
- Unlike tangible personal property, charges for a service are generally not taxable, unless specifically enumerated. 32 V.S.A. § 9771.



Why is prewritten software accessed remotely not currently taxed?

- Session law:
 - 2015 Acts and Resolves, No. 51, Sec. G.8 created a sales tax exemption for prewritten computer software when it is accessed remotely.
- Sec. G.8 states that charges for the right to access remotely prewritten software shall not be considered charges for tangible personal property under 32 V.S.A. § 9701(7).



What would become taxable?

“Software as a Service” (“SaaS”), **“Platform as a Service”** (“PaaS”), and **“Infrastructure as a Service”** (“IaaS”) are all currently exempt in Vermont.

- The terms are not uniformly defined in law (or in the computing industry):
 - **SaaS** is when a service provider hosts software applications over the internet for a customer. It is also known as “cloud application services”.
 - **PaaS** is a service containing elements of both IaaS and SaaS. PaaS provides a framework for developers to build on and use to create customized applications.
 - **IaaS** is when a service provider owns, maintains, operates, and houses equipment (such as hardware, servers, network components, etc.) used to support a customer's operations. Customer accesses equipment over the internet and has complete control over the infrastructure.



What would become taxable? Examples

- **Software as a Service (SaaS)**
 - TurboTax and Quickbooks
 - Microsoft Office Online
 - Dropbox
 - Mail Chimp
 - Google Apps (like Docs, Sheets, etc)
 - Toast and Square
- **Platform as a Service (PaaS)**
 - Squarespace web design
 - Force.com (as part of Salesforce)
- **Infrastructure as a Service (IaaS)**
 - Amazon Web Services
 - Google Compute Engine



Revenue Impact of applying the sales tax to prewritten software accessed remotely

- Estimate: **\$18.4 million** for full year implementation
 - Was \$16.8 million in May 2022 but updated data shows significant growth in the industry
 - This market is rapidly growing



Increasing the sales tax rate



Increasing the sales tax rate

- Vermont currently has a sales tax rate of 6% which puts it in the middle of the pack when compared to other northeast states.
 - Notably New Hampshire does not have a sales tax

Comparison of Sales Tax Rates	
New England States - Tax Year 2022	
State	State Sales Tax Rate (does not include local rates)
Vermont	6.00%
Connecticut	6.35%
Maine	5.50%
Massachusetts	6.25%
New Hampshire	None
New York	4.00%
Rhode Island	7.00%



Increasing the sales tax rate

- The January 2023 consensus forecast projects Vermont will generate approximately \$576 million in sales tax revenue in FY 2024.
- This translates to a sales tax base of approximately \$9.1 billion in taxable sales.
- JFO estimates that for each 0.1% increase in the Sales and Use tax rate, the State could expect to raise roughly \$9.1 million.



Other expansions of the sales tax



Other expansions of the sales tax

- Vermont exempts many items from the Sales and Use tax
- The 2023 Biennial Tax Expenditure Report provides estimates for 38 of these exemptions
- The report estimates that these exemptions will result in approximately \$332.2 million in foregone revenue in FY 2024
- The largest exemptions are for groceries, medical products, energy purchases for a residence, and clothing and footwear.
 - These four exemptions are estimated to result in \$270.8 million in foregone revenue in FY 2024.



Summary of potential revenue sources

Taxes	Tax Rate	FY 2024 Revenue Estimate
Sugar Sweetened Beverages Tax	\$0.01 per ounce	\$17.3 million
Sugar Sweetened Beverages Tax	\$0.02 per ounce	\$31.7 million
Candy	6% sales tax	\$3.7 million
Prewritten Software Accessed Remotely	6% sales tax	\$18.4 million
Increase in the Sales Tax Rate	per 0.1% increase	\$9.1 million
Other Expansions to the Sales Tax Base	6% sales tax	Estimated up to \$332.2 million



Questions?



Resources

- 2023 Report on Possible Revenue Sources for Universal School Meals, Joint Fiscal Office
 - [https://ljfo.vermont.gov/assets/Subjects/2023-Session-Documents/b1e815752c/GENERAL-366503-v1-USM Revenue Report v2.pdf](https://ljfo.vermont.gov/assets/Subjects/2023-Session-Documents/b1e815752c/GENERAL-366503-v1-USM_Revenue_Report_v2.pdf)
- 2023 Vermont Tax Expenditures Biennial Report, Joint Fiscal Office
 - <https://ljfo.vermont.gov/assets/Subjects/Tax-Expenditure-Reports/3f5011dba8/2023-Tax-Expenditure-Report-v2.pdf>
- Act 151 of 2022
 - <https://legislature.vermont.gov/Documents/2022/Docs/ACTS/ACT151/ACT151%20As%20Enacted.pdf>

