

Consumption Taxes Overview

House Ways and Means
Emily Byrne, Associate Fiscal Officer
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Sales and Use Tax



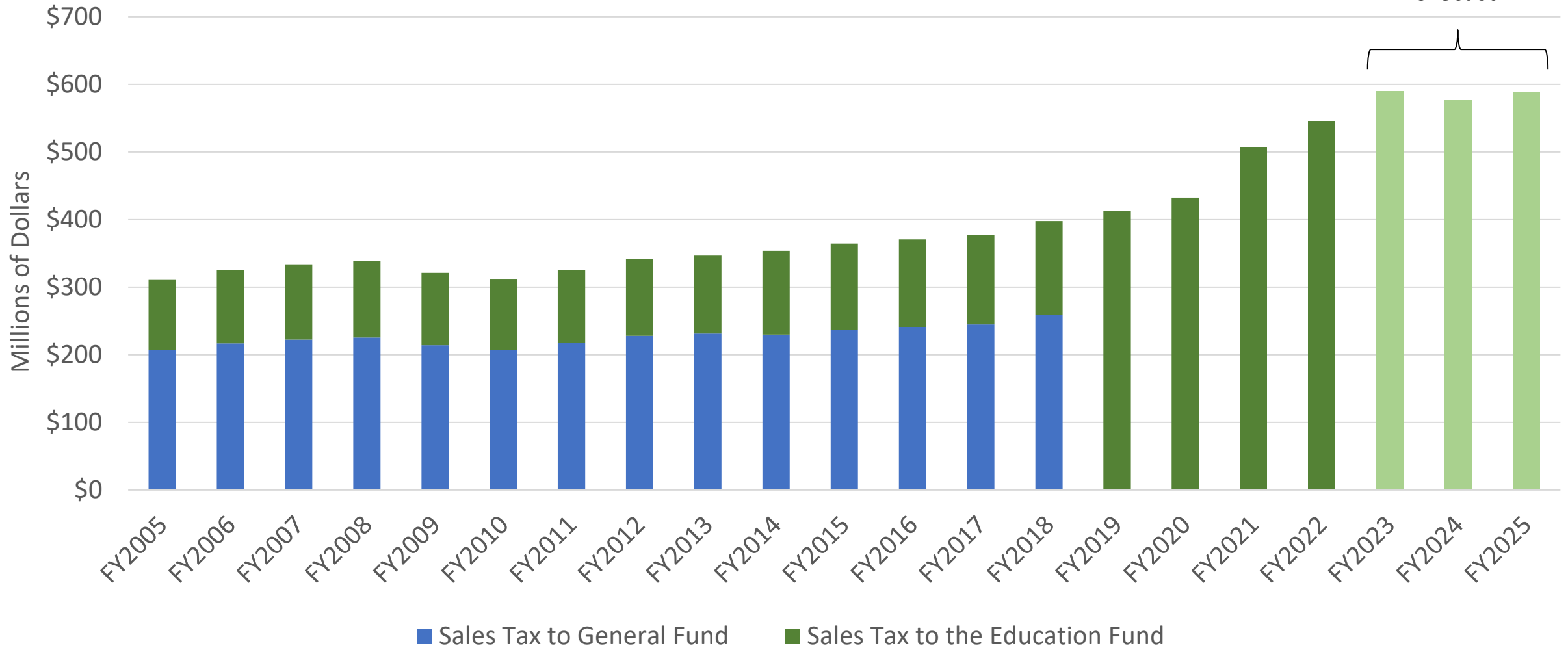
Sales and Use Tax

- 6% charged on all retail sales of tangible personal property, unless exempted
 - Many exemptions, the tax expenditure report includes an estimated \$300.2 Million in FY 2021
 - Difference between exemption and not tangible personal property
 - Exemption is the exclusion from the base: medical products and groceries
 - Not tangible personal property means things like services. Vermont does exempt services, they are just not considered personal property
- 20 Municipalities have a 1% Local Option Sales Tax
- 100% allocated to the Education Fund (changed in 2018)



Sales Tax Collections Since FY2005 (Not Adjusted for Inflation)

Jan. 2023
Consensus
Forecast



Source: January 2023 Consensus Revenue Forecast



2022 State Sales Tax Rates

Comparison of Sales Tax Rates NE States - Tax Year 2022	
State	Sales Tax Rate
Vermont	6.00%
Connecticut	6.35%
Maine	5.50%
Massachusetts	6.25%
New Hampshire	None
New York	4.00%
Rhode Island	7.00%

This doesn't include any local taxes – New York has significant local taxes, Vermont has Local Option Taxes



Meals and Rooms Tax



Meals and Rooms Tax

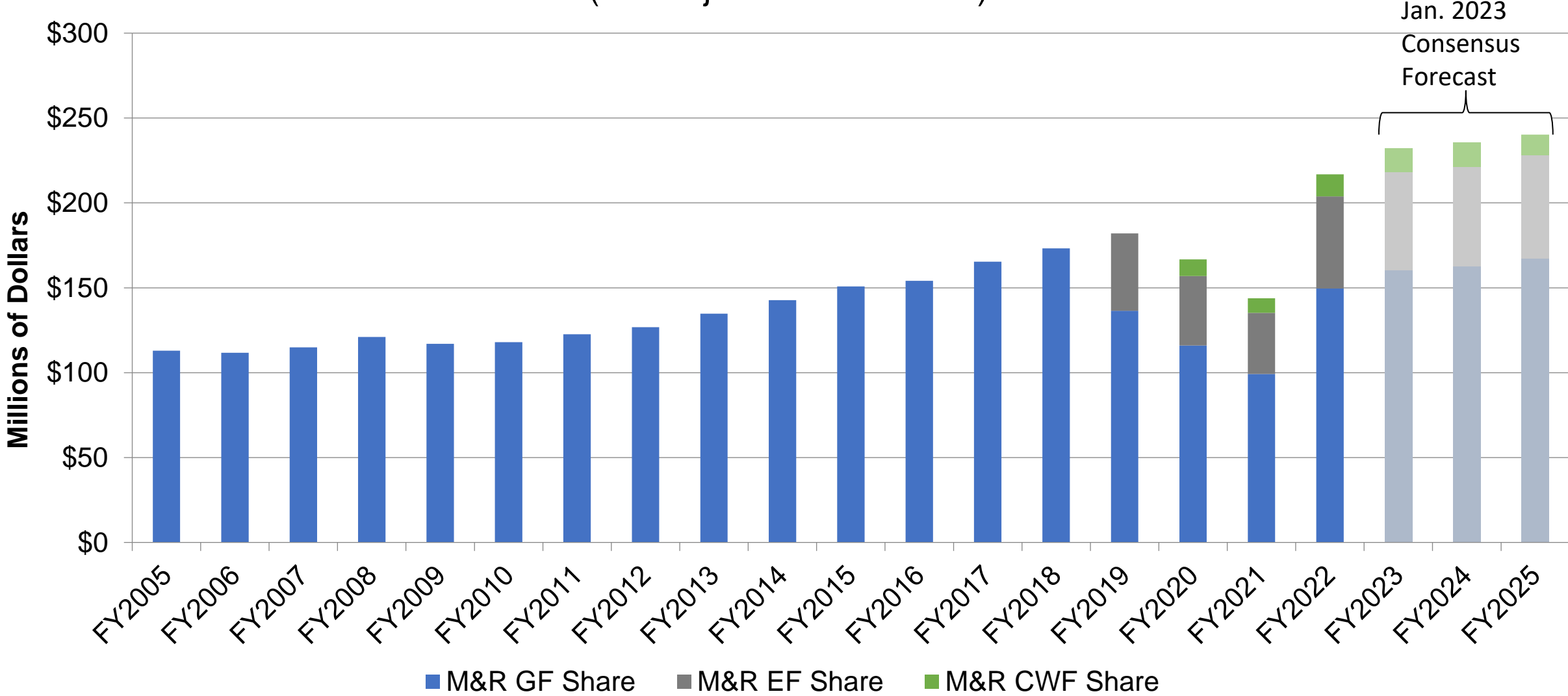
- Meals Tax: 9% charged sales of prepared food in restaurants, bars, etc.
 - The Tax expenditure report outlines 8 exemptions, totaling \$9.6 million in FY 2021
- Rooms Tax: 9% on room rentals, including meeting rooms in hotels
 - The Tax Expenditure report outlines 6 exemptions
- 10% on Alcoholic beverages served in restaurants, bars etc.
- 25* Municipalities have a 1% Local Option Meals and Rooms Tax
- Split between 3 funds
 - 69% to the General Fund
 - 25% to the Education Fund
 - 6% to the Clean Water Fund

**Elmore only has a 1% local option rooms tax; Burlington and Rutland administer their own Local option meals and rooms tax*



Meals and Rooms Collections Since FY2005

(Not Adjusted for Inflation)



Source: January 2023 Consensus Revenue Forecast



2022 Rooms & Meals Tax Rates

Comparison of Rooms & Meals Taxes NE States - Tax Year 2022		
State	Rooms Tax	Meals Tax
Vermont	9.00%	9.00%
Connecticut	15.00%	7.35%
Maine	9.00%	8.00%
Massachusetts	5.70%	6.25%
New Hampshire	9.00%	8.50%
New York	4.00%	4.00%
Rhode Island	5.00%	7.00%

This doesn't include any local taxes – New York has significant local taxes, Vermont has Local Option Taxes



Other Consumption Taxes



Other types of Consumption Taxes

1. Excise taxes

- Cigarette, Tobacco, Alcohol, Motor Fuel, Cannabis

2. Health Care Taxes

- Provider tax, premium tax

3. Other

- Fuel taxes
- Solid waste franchise tax
- Electric generating tax
- Solar Energy capacity tax



Consumption Taxes and The Six Principles of a High-Quality Tax System



Six Principles

1. Sustainability/Reliability
2. Fairness
3. Simplicity
4. Economic Competitiveness
5. Tax Neutrality
6. Accountability

Source: <https://www.ncsl.org/research/fiscal-policy/principles-of-a-high-quality-state-revenue-system.aspx#principles>



Six Principles & Consumption Taxes

1. Sustainability/Reliability

- Sales and Use:
 - Historically impacted in a recession
 - Inflation: prices go up, tax collections go up
 - Demographic impacts on consumption practices – older people are more likely to use services than younger people
 - Continued shift to a service-based economy
- Meals and Rooms:
 - Tourism is a significant driver – estimated 50%+ of meals tax revenue and vast majority of rooms tax revenue
 - How is the ski season?
 - How were the leaves?



Six Principles & Consumption Taxes

2. Fairness

- Consumption Taxes are generally regressive (vertical equity)
 - Younger and/or lower-income households spend a greater share of income on goods
- But, the tax rate is 6% regardless of your ability to pay (horizontal equity)
- To account for the regressive nature of the Consumption Taxes, Vermont includes several exemptions



Six Principles & Consumption Taxes

3. Simplicity

- Exemptions from the sales and use tax can make the system complex
- Streamlined Sales Tax Agreement
 - VT joined in 2007 - 24 states total
 - Standardizes the definition of products – for example
 - “Candy” to mean a preparation of sugar, honey, or other natural or artificial sweeteners in combination with chocolate, fruits, nuts or other ingredients or flavorings in the form of bars, drops, or pieces that do not include flour and require no refrigeration
 - “Tobacco” means cigarettes, cigars, chewing or pipe tobacco, or any other item that contains tobacco
 - Makes compliance easier for multi-state sellers
- Final point of sale complexities
 - If a contractor buys lumber for a house from Home Depot, are they the final consumer or is the person who is paying the contractor?



Simplicity and Consumption Taxes

EXEMPT Clothing

- Aprons, household & shop
- Athletic supporters
- Baby receiving blankets
- Bathing suits & caps
- Beach capes & coats
- Belts & suspenders
- Boots
- Coats & jackets
- Costumes
- Diapers, child & adult, including disposable diapers
- Earmuffs
- Footlets
- Formal wear
- Garters & garter belts
- Girdles
- Gloves & mittens for general use
- Hats & caps
- Hosiery
- Insoles for shoes
- Lab coats
- Neckties
- Overshoes
- Pantyhose
- Rainwear
- Rubber pants
- Sandals
- Scarves
- Shoes & shoelaces
- Slippers
- Sneakers
- Socks & stocking
- Steel-toed shoes
- Underwear
- Uniforms, athletic & nonathletic
- Wedding apparel

TAXABLE Clothing Accessories or Equipment

- Belt buckles sold separately
- Briefcases
- Cosmetics
- Costume masks sold separately
- Hair notions, including, but not limited to, barrettes, hair bows & hair nets
- Handbags
- Handkerchiefs
- Jewelry
- Patches & emblems sold separately
- Sewing equipment & supplies including, but not limited to, knitting needles, patterns, pins, scissors, sewing machines, sewing needles, tape measure & thimbles
- Sewing materials that become part of "clothing," including, but not limited to, buttons, fabric, lace, thread, yarn & zippers
- Sunglasses, nonprescription
- Umbrellas
- Wallets
- Watches
- Wigs & hairpieces



Six Principles & Consumption Taxes

4. Economic Competitiveness

- Sales and Use Tax – cross border concerns
 - Rate is below the NE average, but NH has no sales tax
 - Comparisons across states is difficult because states exempt different goods
- Meals and Rooms – similar rate to our neighbors
 - States and cities have varying lodging rates



Six Principles & Consumption Taxes

5. Tax Neutrality

- Sales and Use Tax – likely to influence behavior to some extent
 - Individuals may travel to avoid paying the sales tax
 - May influence behavior – sales tax on soda
- Meals and Rooms – moving toward tax neutrality
 - Any room offered for sleeping that is rented more than 15 days in a calendar year is subject to the tax
 - AirBnB and other on-line travel agents are fully collecting M&R tax



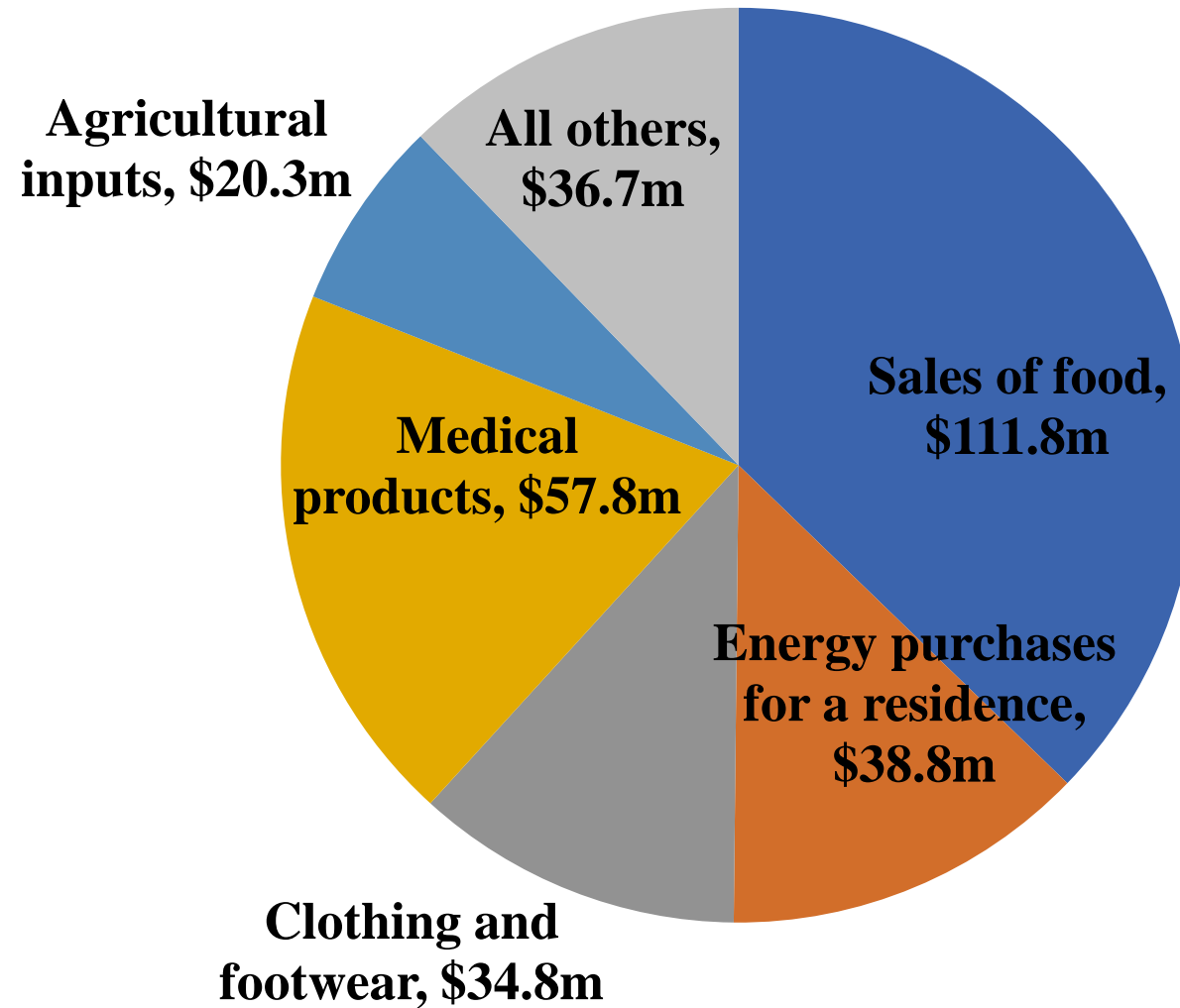
Six Principles & Consumption Taxes

6. Accountability

- Vermont Tax Expenditure Report published every 2 years
 - 2023 report came out on January 17th
 - Sales and use:
 - Estimated \$300.2 million in expenditures in FY 2021 with the goal of increasing progressivity
 - Meals and Rooms:
 - Estimated \$9.6 million in FY 2021
 - Exemptions for food serviced by schools and grocery type items furnished for take-out



FY2021 Estimated Sales Tax Exemptions: \$300.2 million



Applying the Sales Tax on Remotely Accessed Software



Remotely Accessed Software

- Currently not subject to the sales tax
 - Includes **“Software as a Service”** (“SaaS”), **“Platform as a Service”** (“PaaS”), and **“Infrastructure as a Service”** (“IaaS”)

Examples:

- SaaS:
 - TurboTax and Quickbooks
 - Microsoft Office Online
 - Dropbox
 - Toast and Square
- PaaS
 - Squarespace web design
 - Force.com (as part of Salesforce)
- IaaS
 - Amazon Web Services
 - Google Compute Engine



Revenue Impact

- Updated **PREIMINARY** 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 estimate is based on a previous bill, which included taxing all types of software accessed remotely
- This is a rapidly growing industry
 - The first JFO estimate in 2013 was about \$5 million

