

# 2023 Tax Expenditure Report

Senate Finance Committee  
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January 20, 2023



# 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



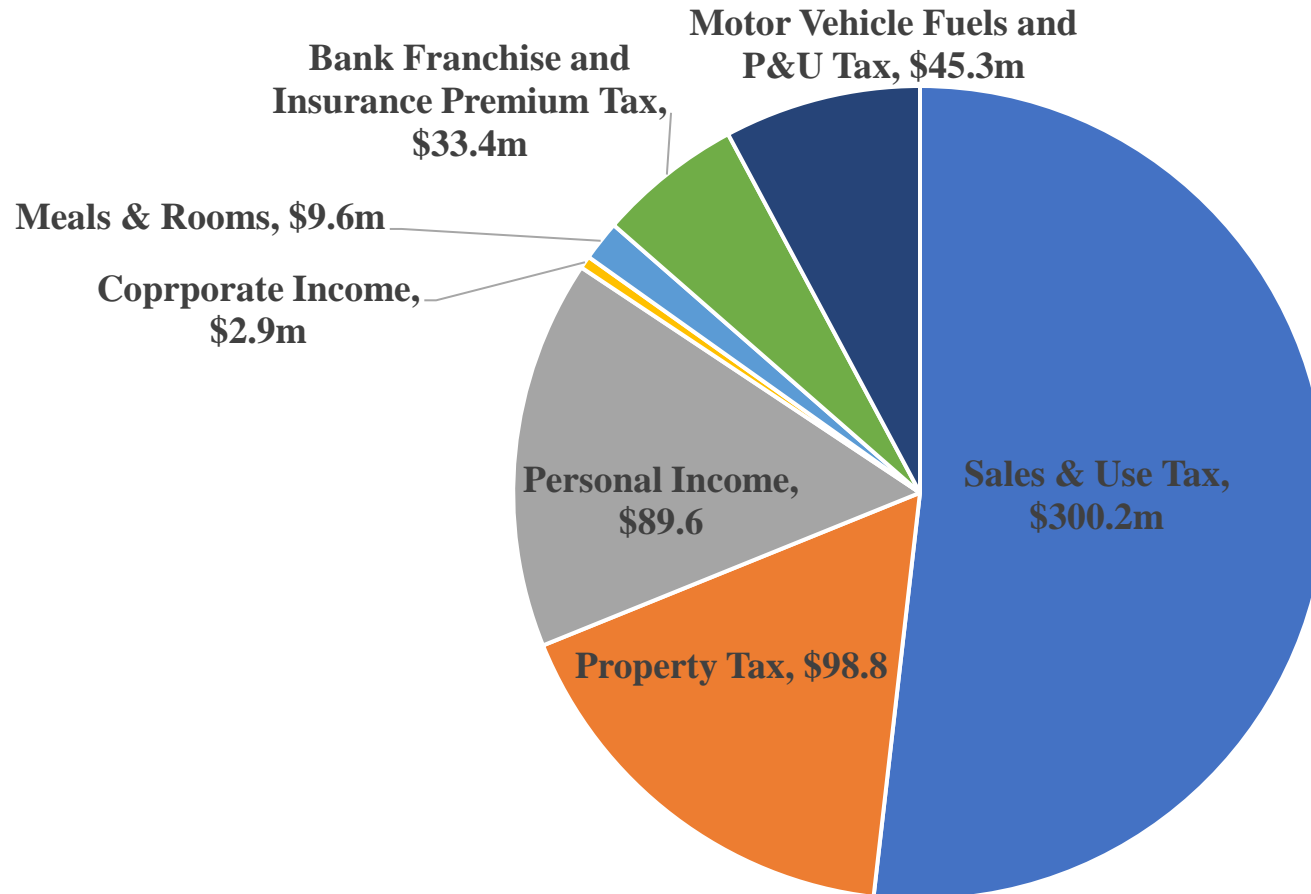
# This Year's Report

- 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



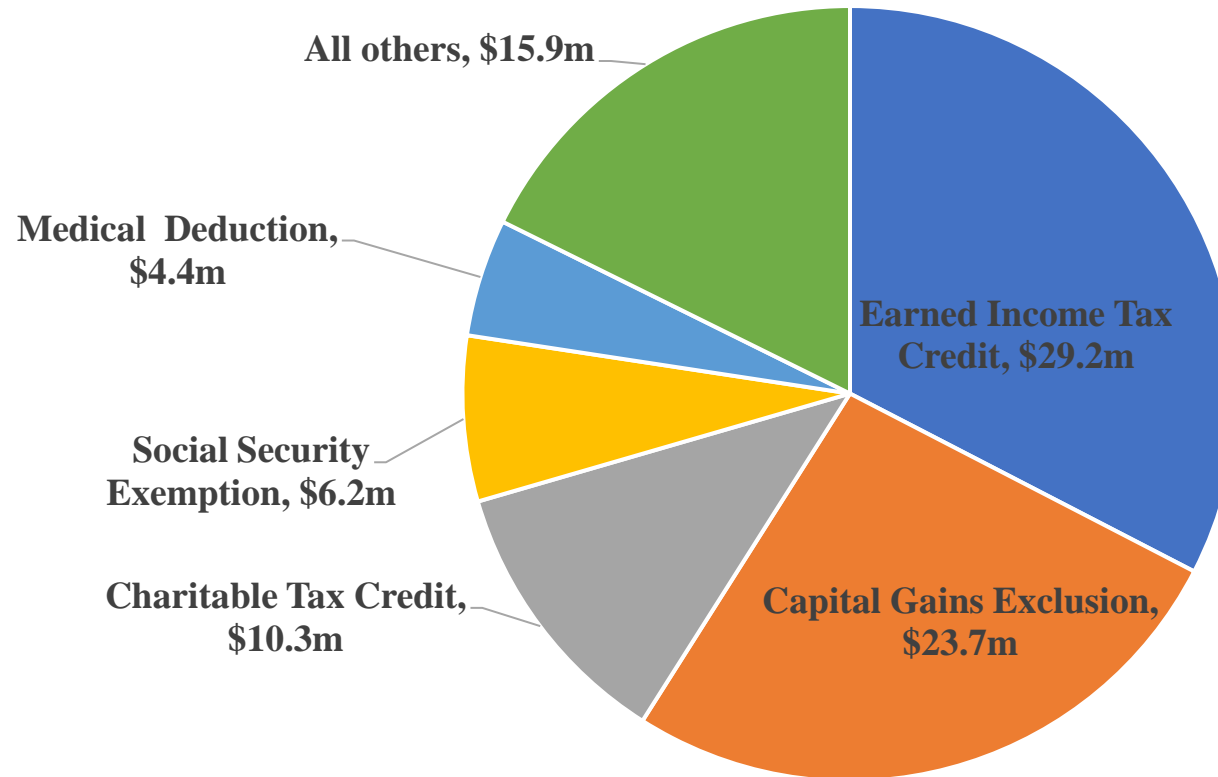
# Personal Income Tax - New and Notable Estimates

| Item Number  | Income Tax Expenditure  | FY2020<br>estimated | FY2021<br>estimated | FY2024<br>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                  |
| <b>Total</b> |   |                     |                     | <b>34,710,000</b>        |

# 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<br>Actual | FY 2021<br>Actual | FY 2024<br>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) |  |                   | *                 | * *                  |
| <b>Total</b>                               |  | <b>4,102,000</b>  | <b>2,890,000</b>  | <b>3,595,000</b>     |



# 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



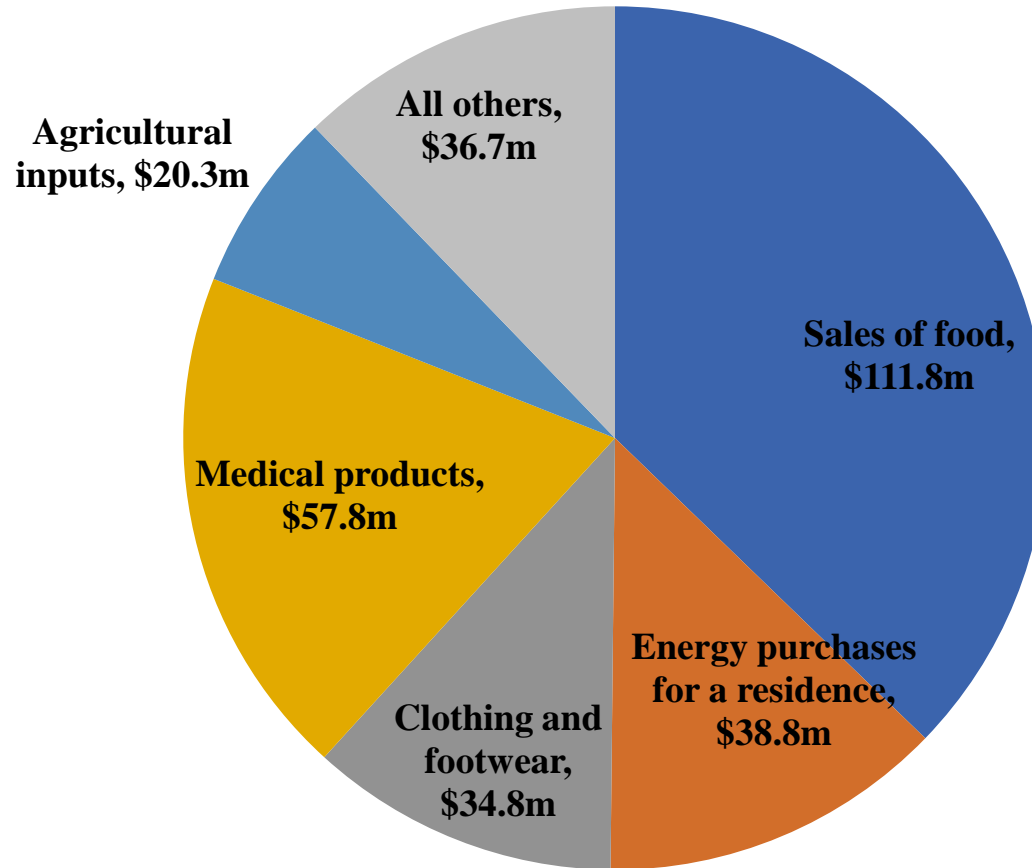
# Sales and Use Tax Expenditures

- 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     |
|             | <b>Total</b>  | <b>9,380,000</b>  | <b>9,580,000</b>  | <b>10,080,000</b> |

| 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     |
|             | <b>Total</b>                                   | <b>0</b>          | <b>0</b>          | <b>0</b>          |



# Meals & Rooms Tax Revenue FY2021

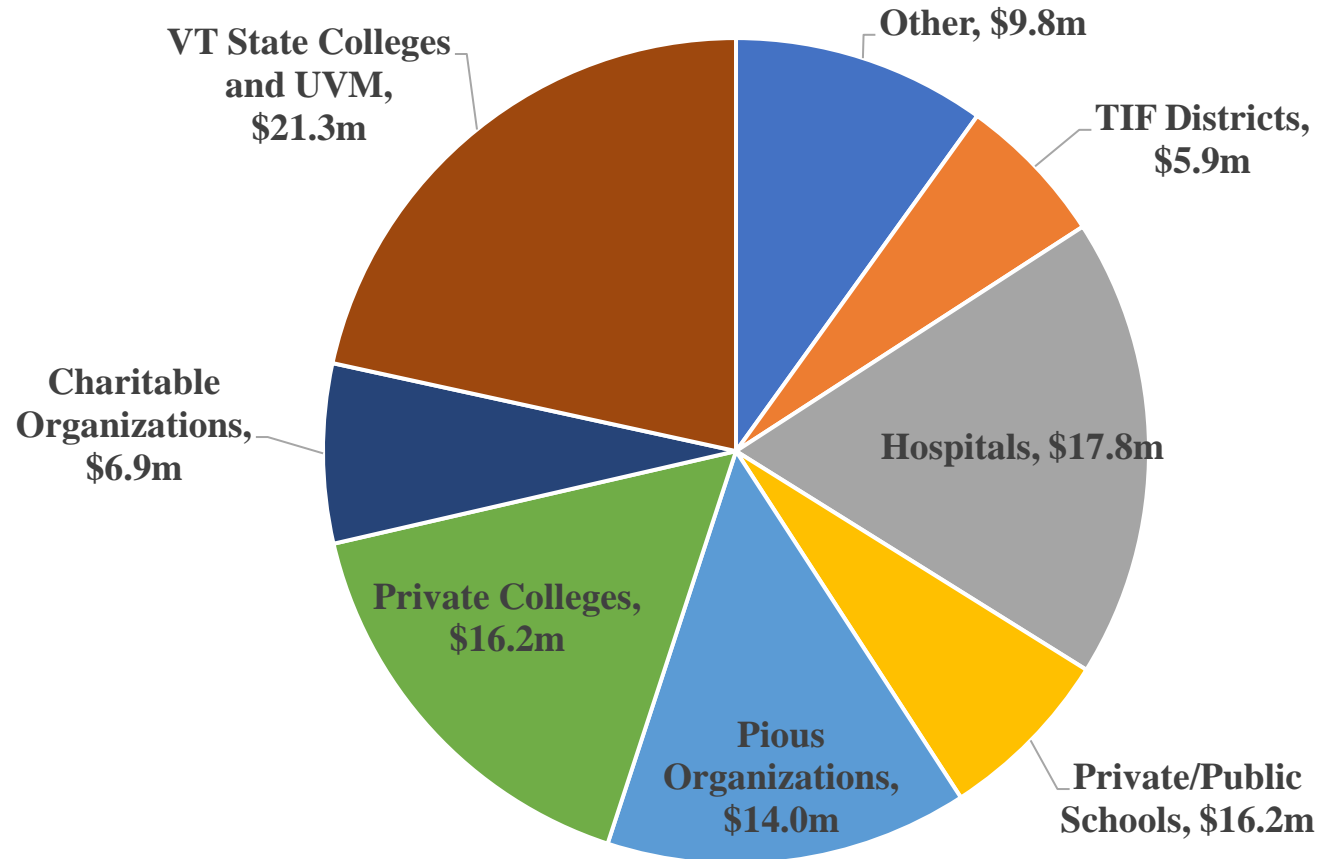
- The cumulative actual meals and rooms tax revenue for FY2021 was \$135.2 million
- The meals and rooms tax expenditures that could be estimated were \$9.6 million in FY 2021





# 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

| <b>Item Number Bank Franchise Tax Expenditures</b> |   | <b>FY 2020<br/>Actual</b> | <b>FY 2021<br/>Actual</b> | <b>FY 2024<br/>Estimated</b> |
|--|---|---------------------------|---------------------------|------------------------------|
| 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                    |
| <b>Total</b>                                       |   | <b>5,593,000</b>          | <b>6,360,000</b>          | <b>7,996,000</b>             |

| <b>Item Number Insurance Premium Tax Expenditures</b> |   | <b>FY 2020<br/>Actual</b> | <b>FY 2021<br/>Actual</b> | <b>FY 2024<br/>Estimated</b> |
|---|---|---------------------------|---------------------------|------------------------------|
| 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                   |
| <b>Total</b>  |   | <b>27,444,000</b>         | <b>27,077,000</b>         | <b>27,756,000</b>            |



# 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<br>actual | FY 2021<br>actual | FY 2024<br>projected |
|-------------|---------------|-------------------|-------------------|----------------------|
| 8.001       | Gasoline tax  | \$0               | \$0               | \$0                  |
| 8.002       | Diesel fuel   | \$ 205,000        | \$568,000         | \$582,000            |
|             | <b>Totals</b> | <b>\$205,000</b>  | <b>\$568,000</b>  | <b>\$582,000</b>     |

## Motor Vehicle Purchase & Use Tax Expenditures

| Item Number | Expenditure                     | FY 2020<br>actual   | FY 2021<br>actual   | FY 2024<br>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             |
|             | <b>Subtotals Tax Exemptions</b> | <b>\$2,165,000</b>  | <b>\$2,467,000</b>  | <b>\$3,200,000</b>   |
| 9.007       | Trade-In allowance              | \$32,300,000        | \$42,300,000        | \$44,900,000         |
|             | <b>Totals</b>                   | <b>\$34,465,000</b> | <b>\$44,767,000</b> | <b>\$48,100,000</b>  |



# 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?

