

# Consumption Taxes Overview

Tax Workshop #3

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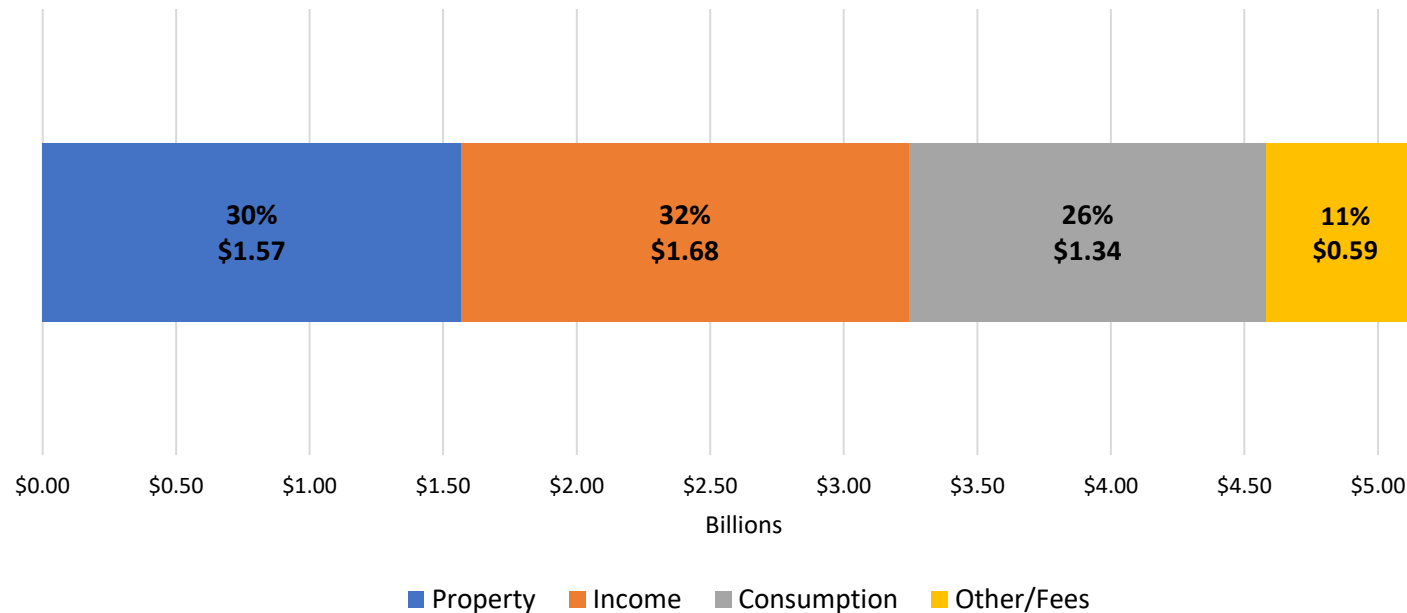


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# Vermont Balance Among Tax Types

State of Vermont Major Revenue Sources - FY 2025 January Forecast



Source	Amount (Billions)
Property	\$1.57
Income	\$1.68
Consumption	\$1.34
Other/Fees	\$0.59
<b>Total</b>	<b>\$5.18</b>

*\*Note – Only includes revenues as part of the official January 2025 state revenue forecast for the General, Education, and Transportation Funds, does not include other non-consensus-forecasted revenues sources such as certain dedicated special fund fees and taxes, etc.*



# What are Consumption Taxes?

1. Sales & Use, Meals & Rooms, Motor Vehicle Purchase & Use
2. Excise Taxes
  - Cigarette, tobacco, alcohol, motor fuels, cannabis
3. Health Care Taxes
  - Provider tax, premium tax
4. Other
  - Fuel taxes
  - Solid waste franchise tax
  - Electric generating tax
  - Solar energy capacity tax



# Consumption Taxes and the Education Fund

## CURRENT LAW BASIS

Source General and Transportation

Fund taxes allocated to or associated  
with the Education Fund only

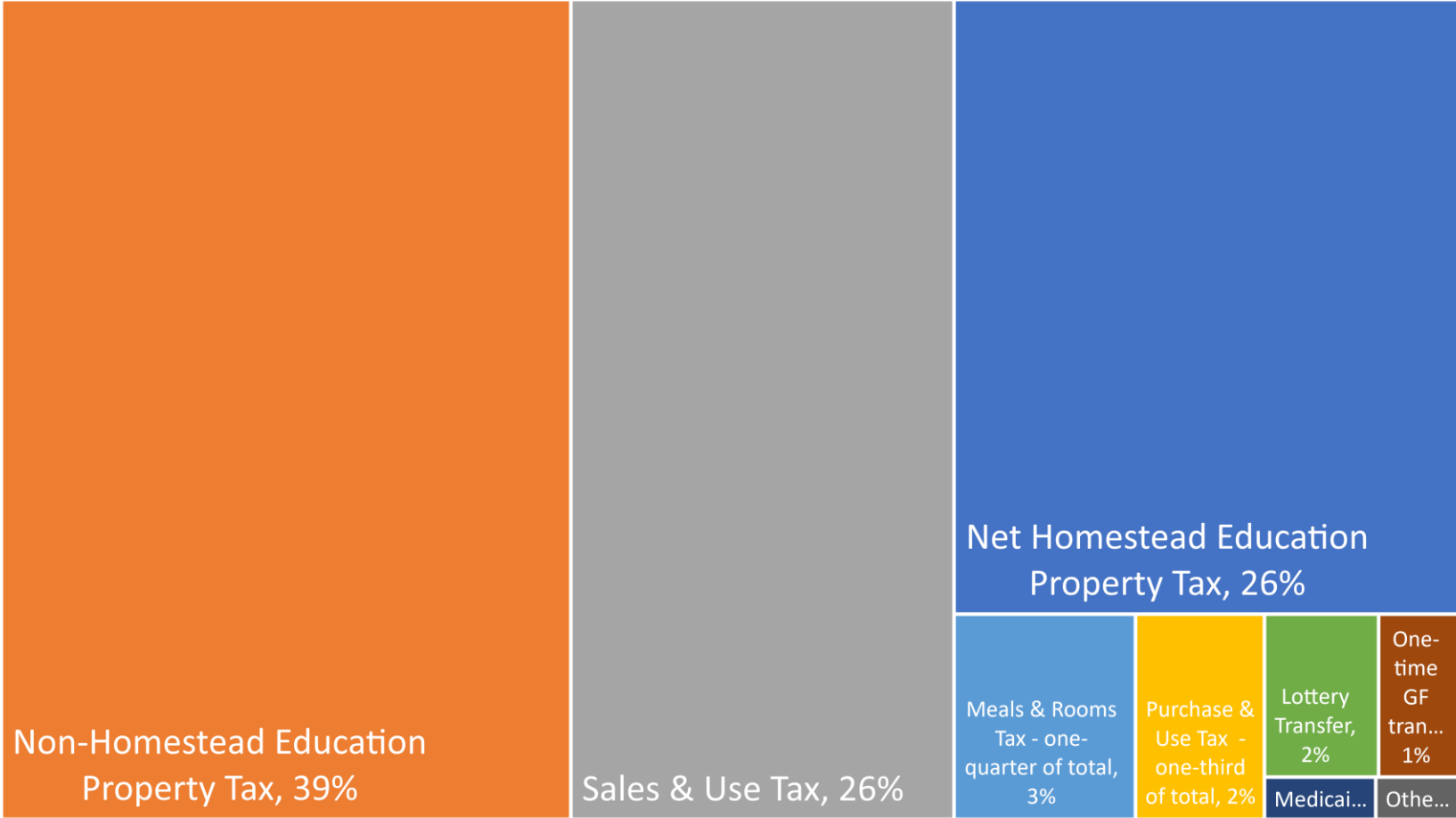
	FY2021	%	FY2022	%	FY2023	%	FY2024	%	FY2025	%	FY2026	%	FY2027	%
	(Actual)	Change	(Actual)	Change	(Actual)	Change	(Actual)	Change	(Forecast)	Change	(Forecast)	Change	(Forecast)	Change
<b>GENERAL FUND</b>														
Meals and Rooms	\$36.0	-12.1%	\$54.2	50.8%	\$59.4	9.6%	\$61.5	3.5%	\$71.2	15.7%	\$75.0	5.2%	\$77.4	3.3%
Sales & Use <sup>2</sup>	\$507.6	17.4%	\$545.2	7.4%	\$584.0	7.1%	\$595.2	1.9%	\$601.9	1.1%	\$619.0	2.8%	\$636.1	2.8%
Interest	\$0.1	-87.1%	\$0.3	169.1%	\$5.8	1892%	\$5.8	0.3%	\$3.2	-44.8%	\$2.8	-12.5%	\$2.2	-21.4%
Lottery	\$32.5	21.2%	\$30.8	-5.2%	\$32.1	4.3%	\$36.0	12.1%	\$35.6	-1.1%	\$36.7	3.1%	\$37.7	2.7%
<b>TRANSPORTATION FUND</b>														
Purchase and Use <sup>3</sup>	\$44.7	27.2%	\$45.7	2.3%	\$47.4	3.7%	\$48.3	1.9%	\$50.7	4.9%	\$52.5	3.6%	\$54.2	3.2%
<b>TOTAL EDUCATION FUND</b>	<b>\$620.9</b>	<b>15.8%</b>	<b>\$676.2</b>	<b>8.9%</b>	<b>\$728.77</b>	<b>7.8%</b>	<b>\$746.8</b>	<b>2.5%</b>	<b>\$762.6</b>	<b>2.1%</b>	<b>\$785.9</b>	<b>3.1%</b>	<b>\$807.6</b>	<b>2.7%</b>

Source: January 2025 Consensus Revenue Forecast

- Major consumption taxes are allocated in whole or part to the Education Fund:
  - 100% of sales and use
  - 25% of meals and rooms
  - 1/3<sup>rd</sup> of motor vehicle purchase & use



# Education Fund Sources (Projected FY 2025)



Source: EF Outlook – Emergency Board Update – January 2025



# What About Cannabis?

- **Two taxes are levied on cannabis:**
  - 14% excise tax -> General Fund
  - 6% sales tax -> Afterschool Programming
- Estimated to generate \$20.8 million in excise tax revenue in fiscal year 2025 and \$22.5 million in 2026.
  - 30% earmarked for substance misuse prevention programs
- Estimated to generate \$8.9 million in sales tax revenue in fiscal year 2025 and \$9.6 million in 2026.

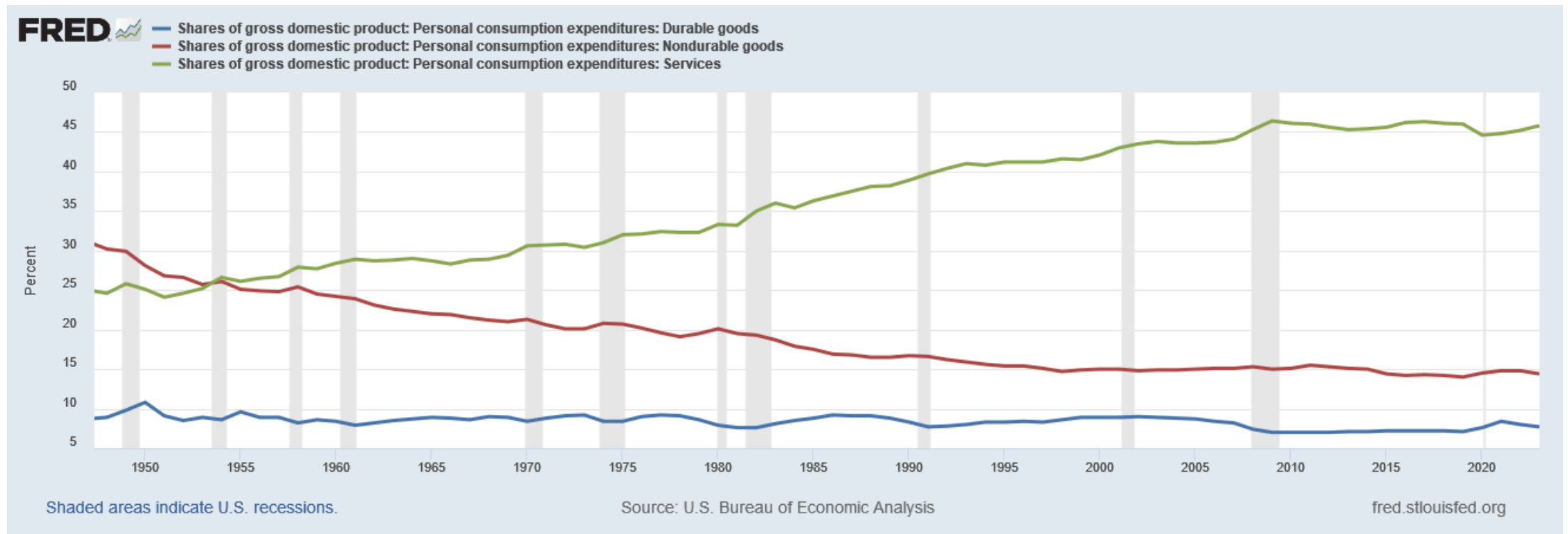


# Sales and Use Tax

- 6% on all retail sales of tangible personal property, unless exempted.
  - Tangible personal property means “personal property that may be seen, weighed, measured, felt, touched, or in any other manner perceived by the senses”
    - Act 183 of 2024 removed the exemption on pre-written software accessed remotely
  - Paid by the purchaser on retail (not wholesale) sales
  - The use tax is due on all purchases of tangible personal property subject to Vermont Sales Tax for which the tax was not otherwise paid



# Sales Taxes and Consumer Behavior

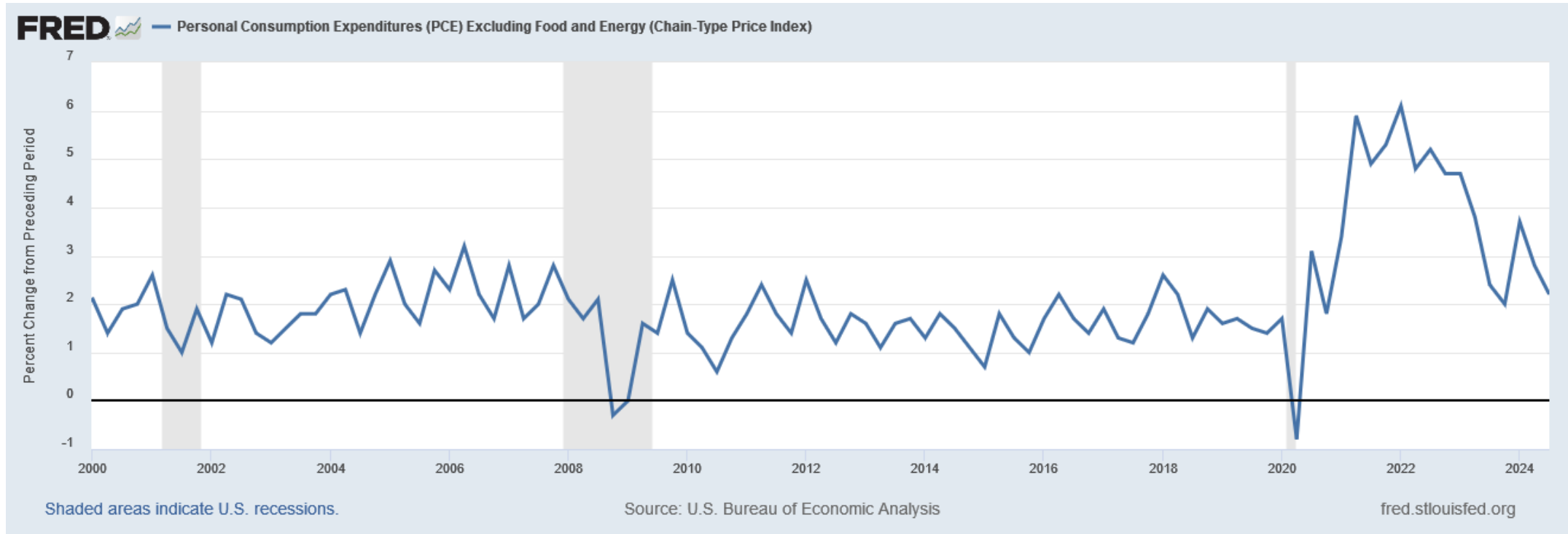


Excepting COVID, personal consumption expenditures continued to shift towards services, which are not subject to the sales tax





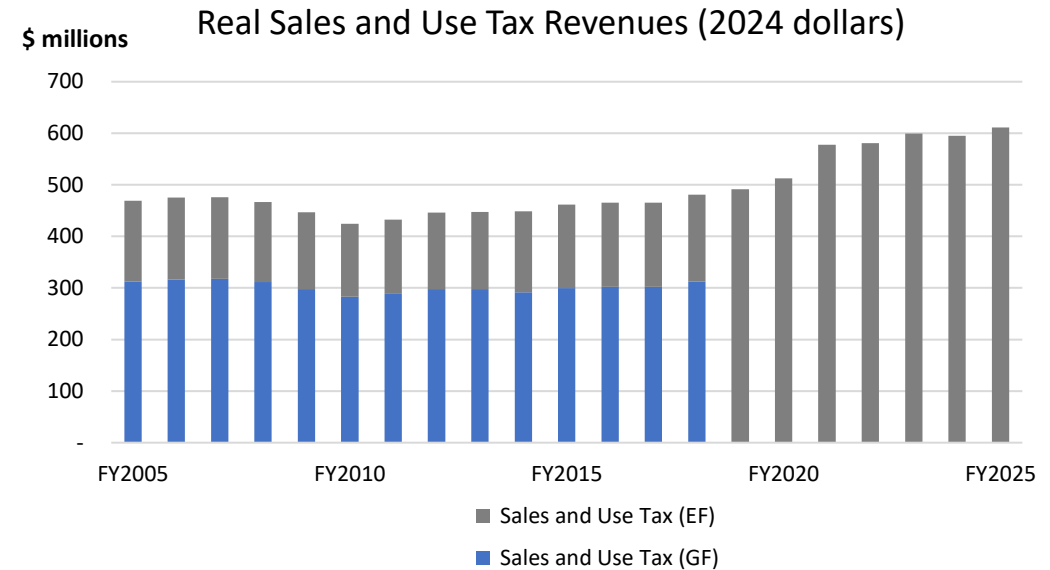
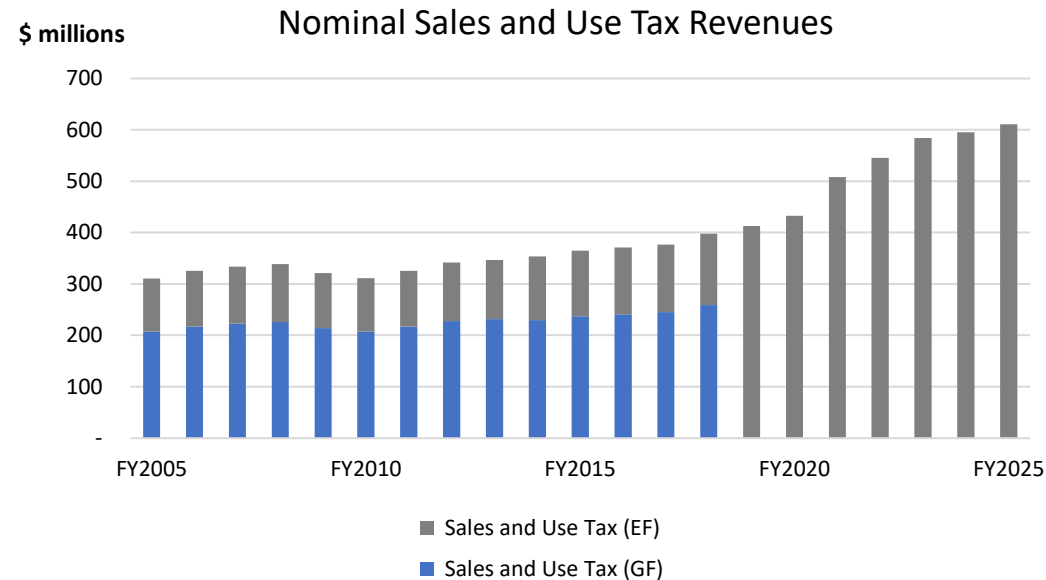
# Sales Taxes and Inflation



Inflation: as prices go up, tax collections also go up - assuming constant rates of consumption



# Vermont Nominal and Real Sales Tax Revenue



Note that figures for FY2025 are estimated in the January 2025 Consensus Revenue Forecast

Nominal tax revenues show the impact of inflation over time and some broader economic trends, including the addition of purchases made online after *Wayfair*

Real tax revenues, which are adjusted for inflation, show the economic slowdown during the Great Recession and the COVID spike in goods purchases



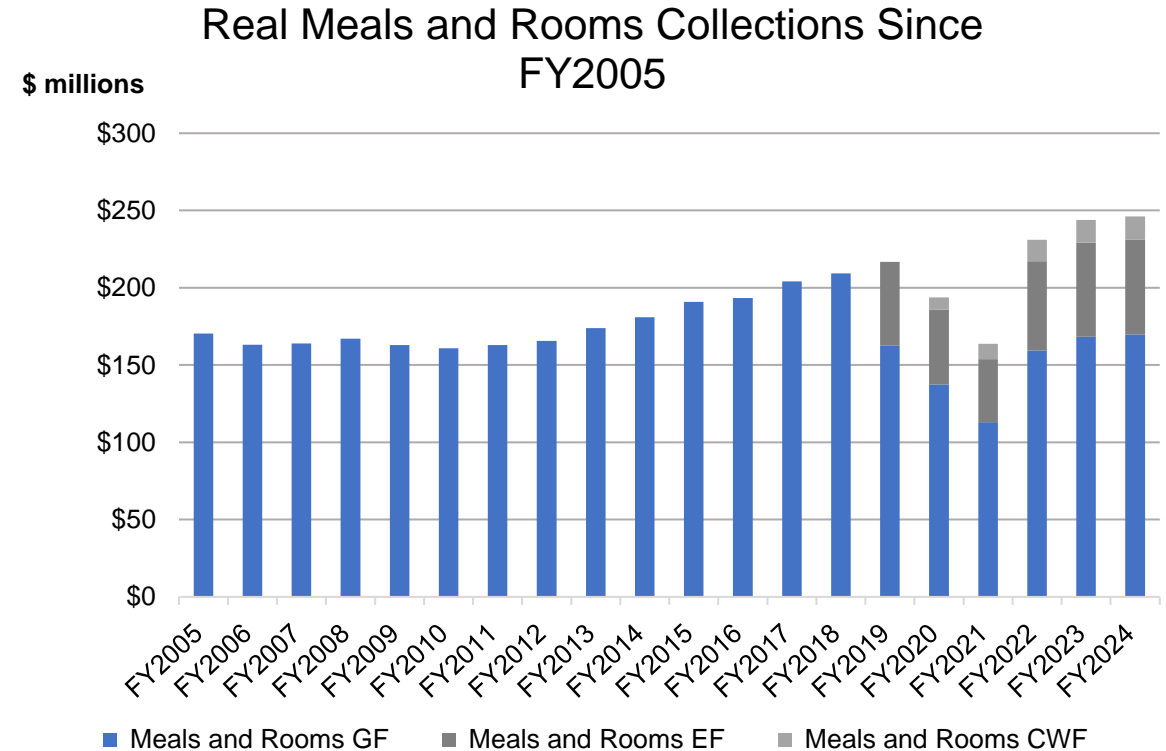
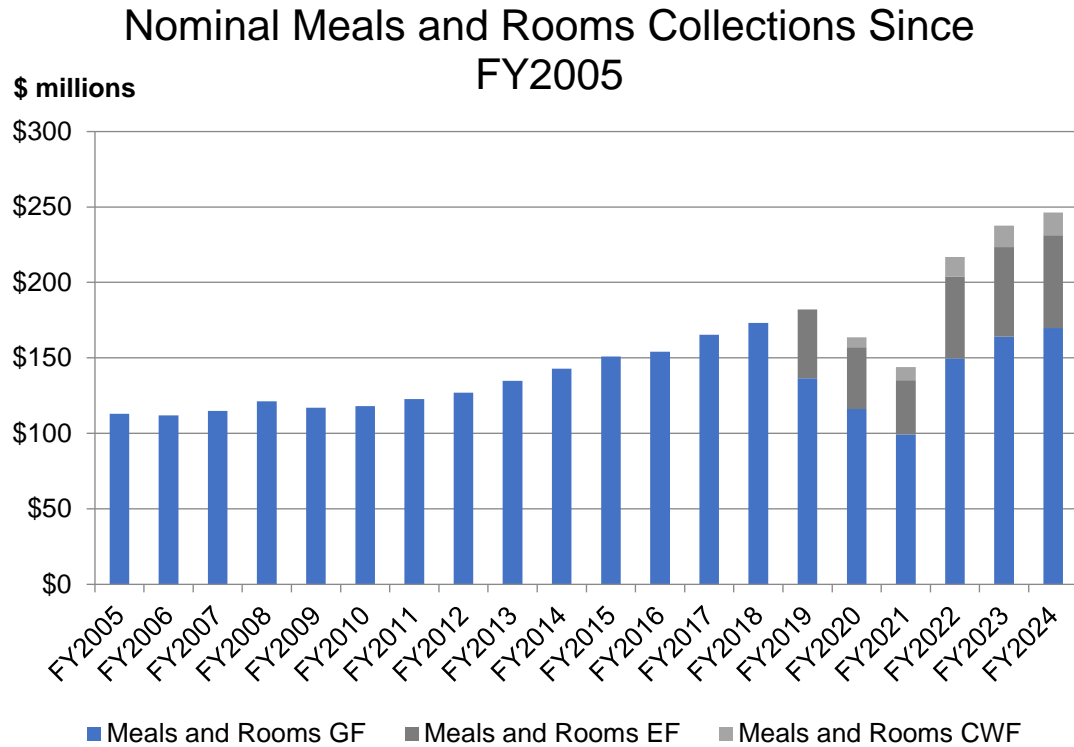
# Meals and Rooms Tax Basics

## Meals and Rooms Tax Rates:

- 9% on meals and rooms
- 10% on alcohol
- Split between 3 funds – effective FY 2020
  - 69% to the General Fund
  - 25% to the Education Fund
  - 6% to the Clean Water Fund
- Short-term rentals newly subject to a 3% surcharge, which is 100% allocated to the Education Fund
  - July 2024 Consensus Revenue forecast estimated \$8.6 million in new revenue in fiscal year 2025



# Vermont Nominal and Real Meals and Rooms Tax Revenue

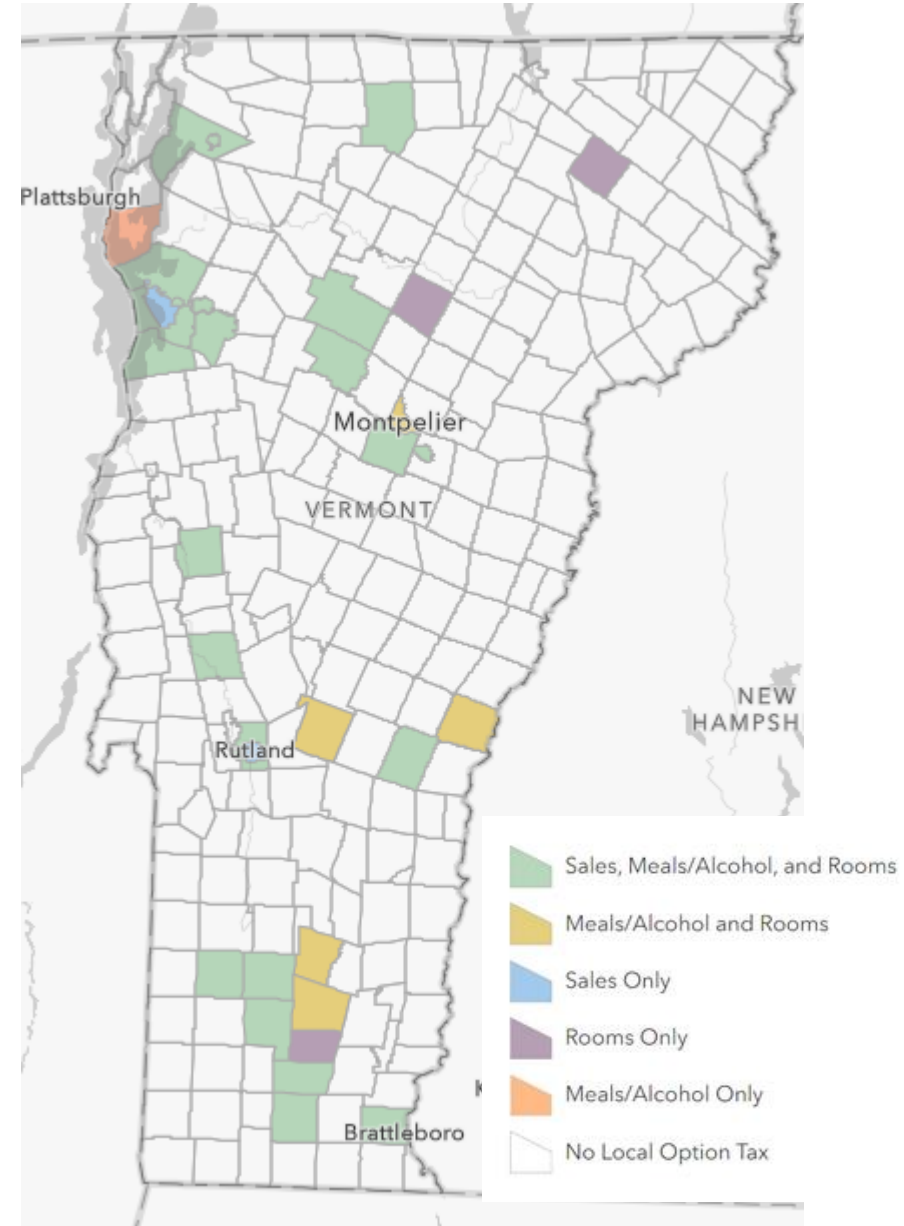


Meals and rooms tax revenue is also affected by economic trends and inflation – COVID-19 obviously caused a hit to meals and rooms revenue collection.



# Local Option Taxes (LOT)

- Municipalities can place a 1% local option on the Sales (not the Use Tax) and Meals and Rooms Tax
  - Can be placed on just rooms, or meals and alcohol
  - Applies to cannabis sales tax
- Municipalities keep 70% of the revenues, 30% goes to the PILOT Special Fund
- Per Act 144 of 2024, charter change no longer required to implement a LOT



# Three main questions

1. Is the system fair?
2. How simple is the system to understand and administer?
3. How do people respond?

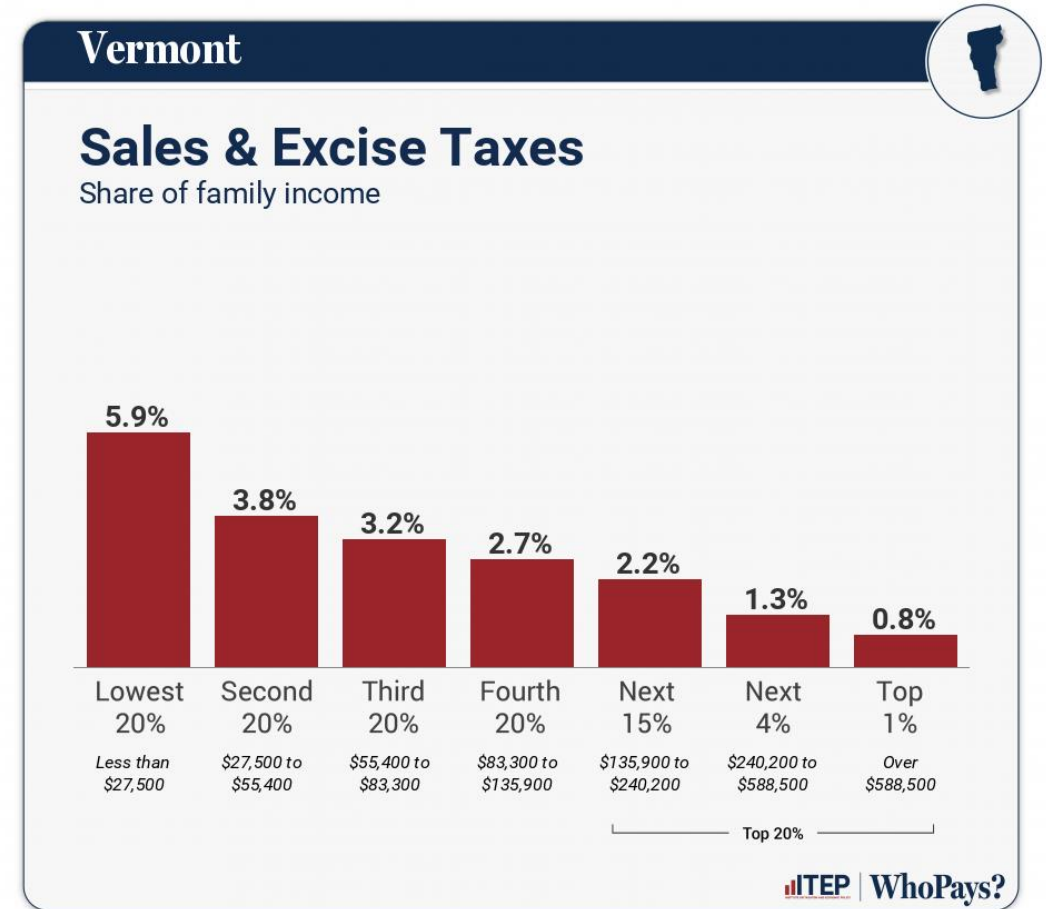


Is the system fair?



# Fairness

- Consumption taxes are generally regressive
  - Younger and/or lower-income households spend a greater share of income on goods
- Rates for sales and use and meals and rooms apply to everyone, regardless of ability to pay



Source: ITEP Who Pays? Report 7<sup>th</sup> Edition





# Six Principles & Consumption Taxes

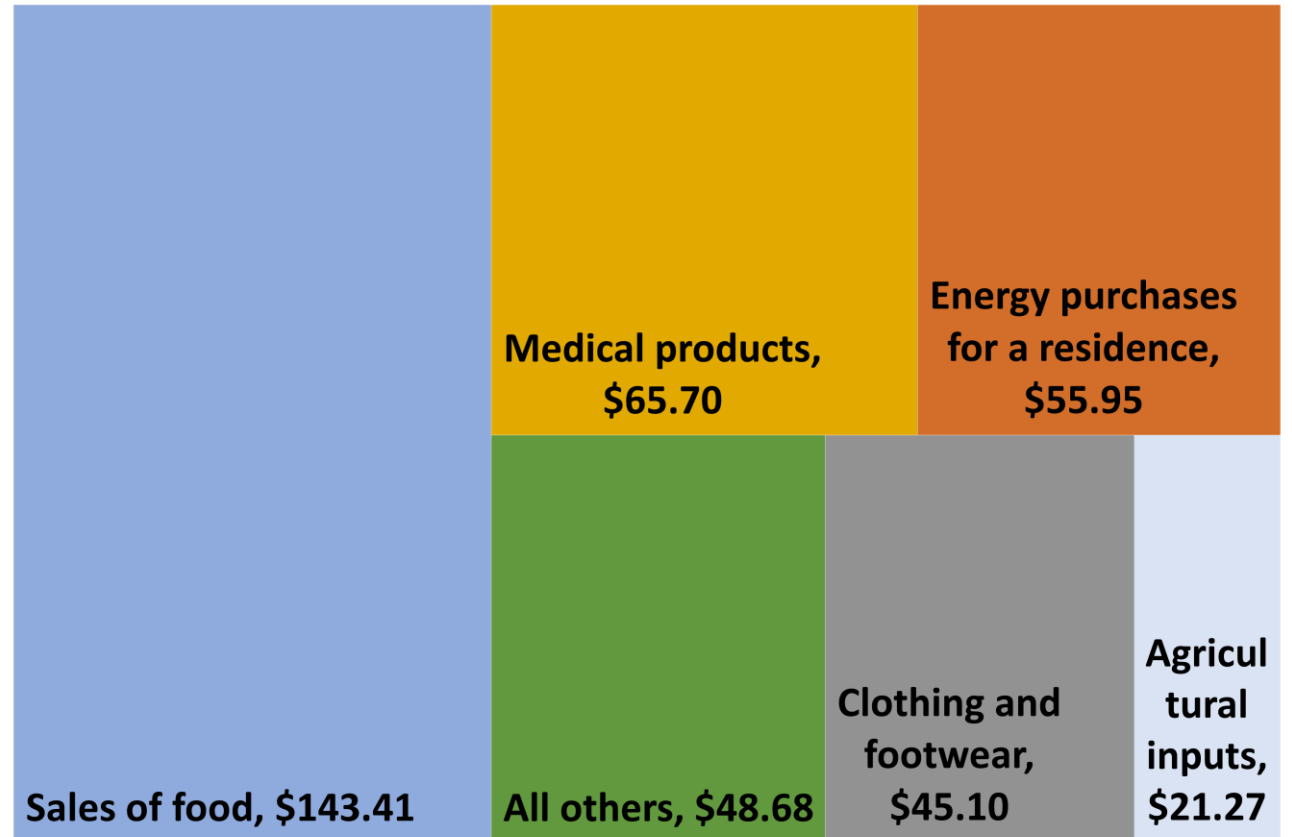
- Choices have been made to exempt certain goods from the sales tax to make the system more equitable
  - Groceries, clothing, medical products
- Not just equity – choices have been made to exempt certain goods from taxes for a variety of reasons
  - Agricultural fuels, advanced wood boilers
- These exemptions come at a cost to simplicity



# Tax Expenditure Report

- Report published every 2 years
  - From the 2025 report
    - **Sales and use:** Estimated \$380.1 million in expenditures in FY 2026
    - **Meals and rooms:** Estimated \$9.6 million in FY 2026

FY2026 Estimated Sales Tax Exemptions: \$380.1 million



How easy is the system to understand and administer?



# Simplicity and Consumption Taxes

- Definitions matter:
  - What is a meal versus tax exempt food (e.g. meals at grocery stores)?
  - What is considered tangible personal property?
- Final point of sale complexities
  - Alcoholic beverages - beverages consumed on premises (meals and rooms) versus to be consumed at home (sales tax) – what if you want purchase both in the same transaction? (Clarifications made in Act 72 of 2023)
  - What about a contractor purchasing materials at a big box hardware store to complete a job? Should those be considered an input and exempt from sales tax?

# 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



# How do people respond?



# Tax Neutrality & Consumption Taxes

## 5. Tax Neutrality – tax system tries to minimize unintended consequences

- Sales and use tax is likely to influence behavior to some extent.
  - Where do retailers decide to locate? How far do Vermonters drive to shop in New Hampshire?
  - Excise tax of 1.5 cents per ounce of soda in Philadelphia decreased sales and consumption of soda (Lozano-Roja and Carlin, 2022)
  - Shon and Chung (2018) found that higher local sales taxes potentially decrease housing prices



# Economic Competitiveness: 2024 Tax Rates

Comparison of Sales Tax Rates NE States - Tax Year 2024	
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%

Comparison of Rooms & Meals Taxes NE States - Tax Year 2024		
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	8.50%	8.50%
New York	Varies by County	4.00%
Rhode Island	6.00%	8.00%

Source: <https://taxfoundation.org/data/all/state/2024-sales-taxes/>

- How does Vermont compare to other NE states? (These comparisons do not include local taxes)
- Comparing sales tax between different states is difficult because states exempt different goods





# Questions?

