Summary of Vermont Revenue Collections

House Committee on Ways and Means

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April 15, 2025

The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this presentation is meant to provide information for legislative consideration, not to provide policy recommendations

Revenue Collections to Date

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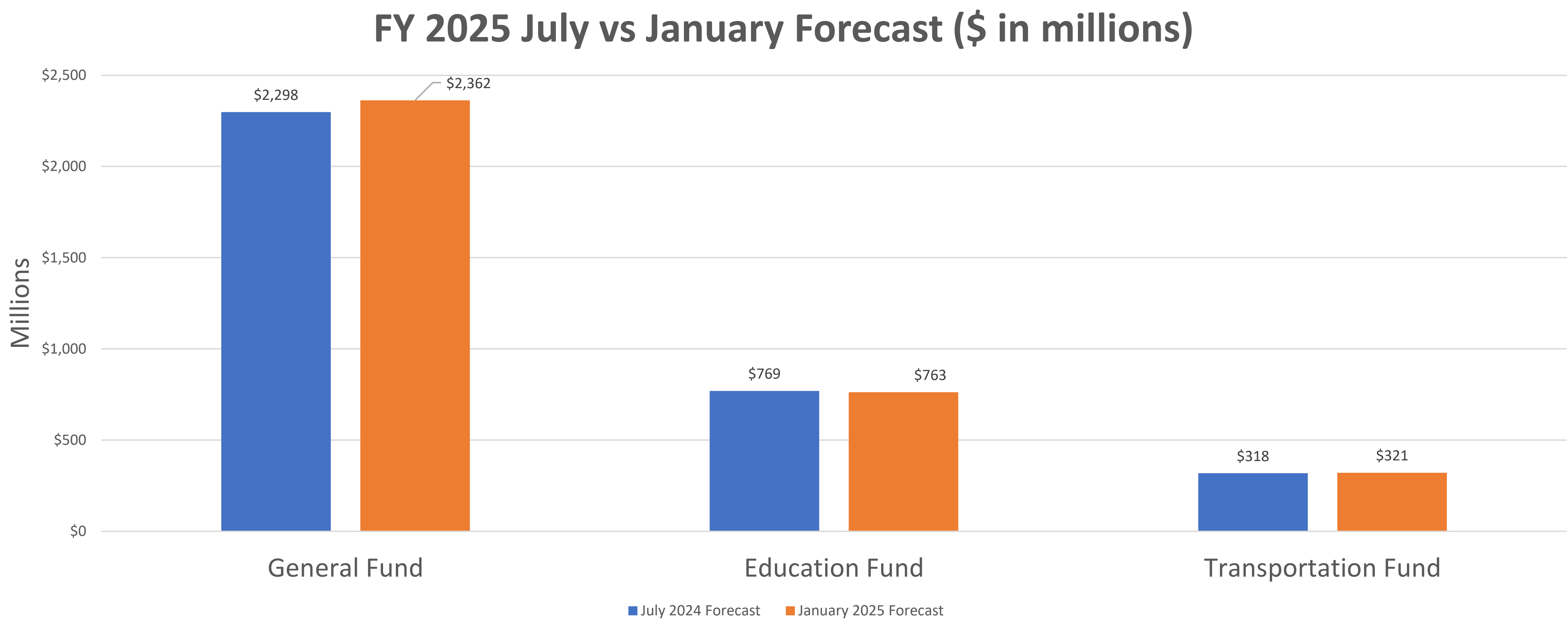
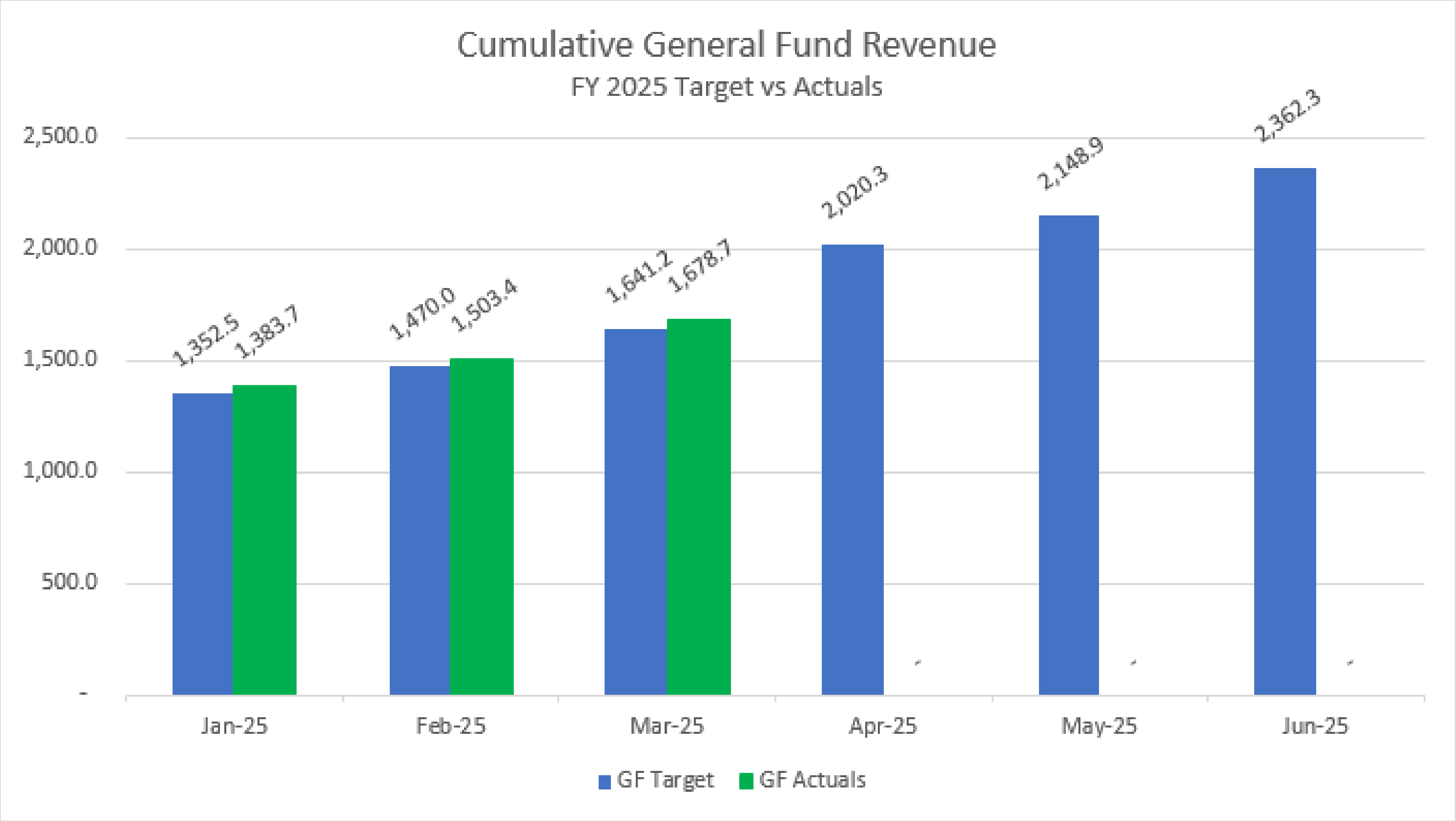
- Through March 2025:
  - General Fund collected $1,678.7 million
  - Education Fund collected $577.4 million
  - Transportation Fund collected $230.5 million

	Mar-25 (millions)	Month vs. Target (millions)	% over (under) target	YTD (millions)	YTD vs Target (millions)	% over (under) target
General Fund	$175.3	$4.1	2.4%	$1,678.7	$37.5	2.3%
Education Fund	$55.7	($1.5)	-2.6%	$577.4	$3.5	0.6%
Transportation Fund	$24.4	($2.9)	-10.7%	$230.5	($2.3)	-1.0%

Forecast Update



General Fund Revenue Collections to Date ($ in millions)



General Fund Composition

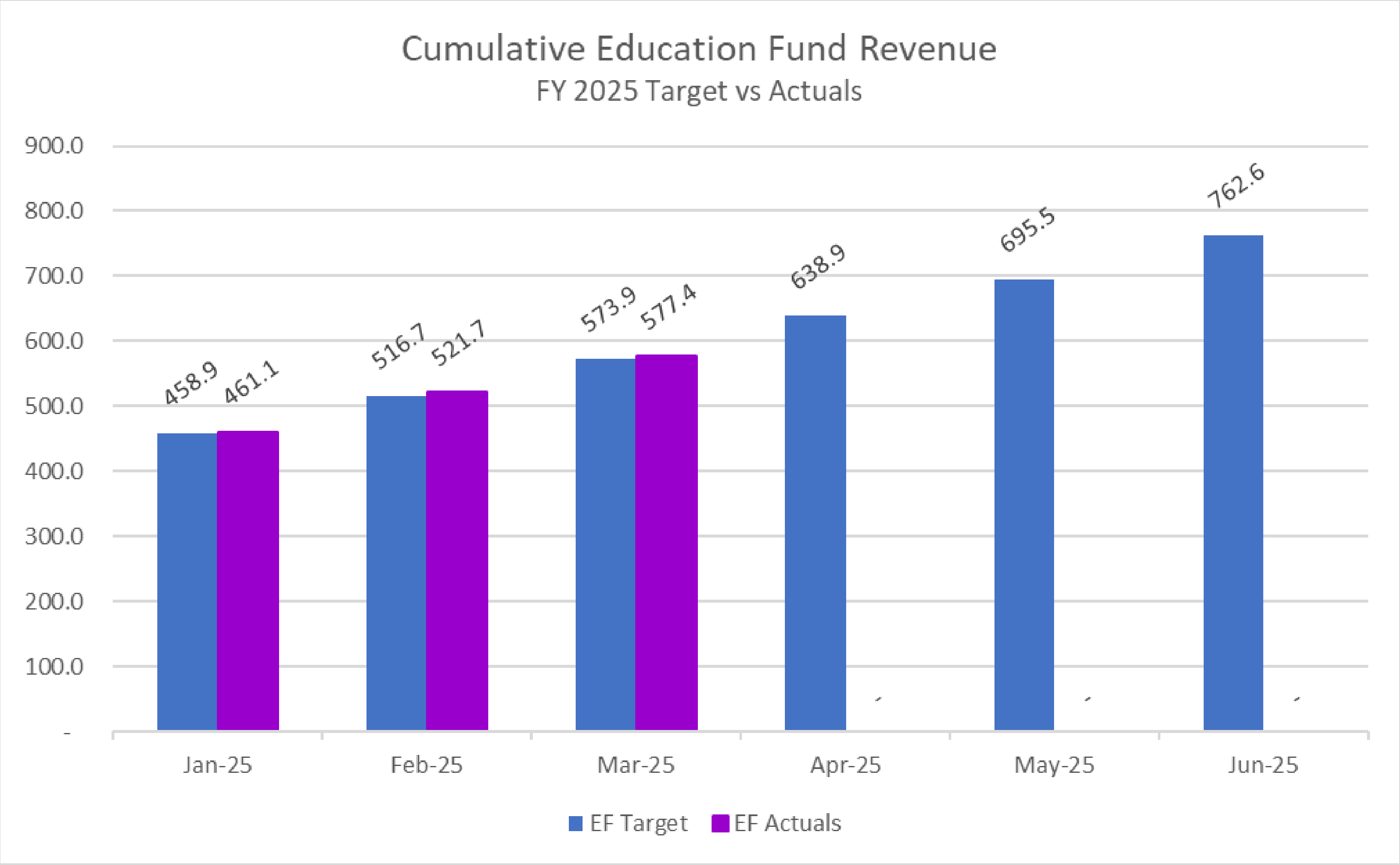
- Personal Income Tax (PIT)
  - 55% of total GF revenue
- Corporate Income Tax (CIT)
  - 11% of total GF revenue
- 69% of Meals and Rooms Tax
  - 7% of total GF revenue
- Health Care Revenues
  - 15% of total GF revenue

- Other Taxes
  - Property Transfer Tax
  - Estate Tax
  - Bank Franchise Tax
  - Insurance Premium Tax
  - Liquor
  - Beverage
  - Miscellaneous taxes and fees

General Fund Summary

- PIT revenue ended the month of March above target by $1.0 million, or 1.7%
  - For the year, PIT is above forecast by $18.1 million, or 2.2%.
- CIT revenue was above target by $2.5 million, or 6.9%
  - For the year, CIT revenue is above forecast by $3.3 million, or 1.9%.
- Estate Tax revenue was above target by $0.2 million, or 11.1%
  - For the year, it is above forecast by $21.2 million, or 96.8%
  - Per 16 V.S.A. § 2885, in fiscal years where there is a General Fund surplus and the General Fund Stabilization Reserve is funded at the statutorily-required level, Estate Tax collections that exceed 125% of the July forecast are automatically allocated to the Higher Education Endowment Trust Fund
  - So far in fiscal year 2025, $43.1 million has been collected
  - Of receipts to date, $28.9 million will be deposited in the General Fund and $14.3 million (and any additional Estate Tax collected through June 30) will be deposited into the Higher Education Endowment Trust Fund

Education Fund Revenue Collections to Date ($ in millions)



Note: reflects non-property tax revenues only

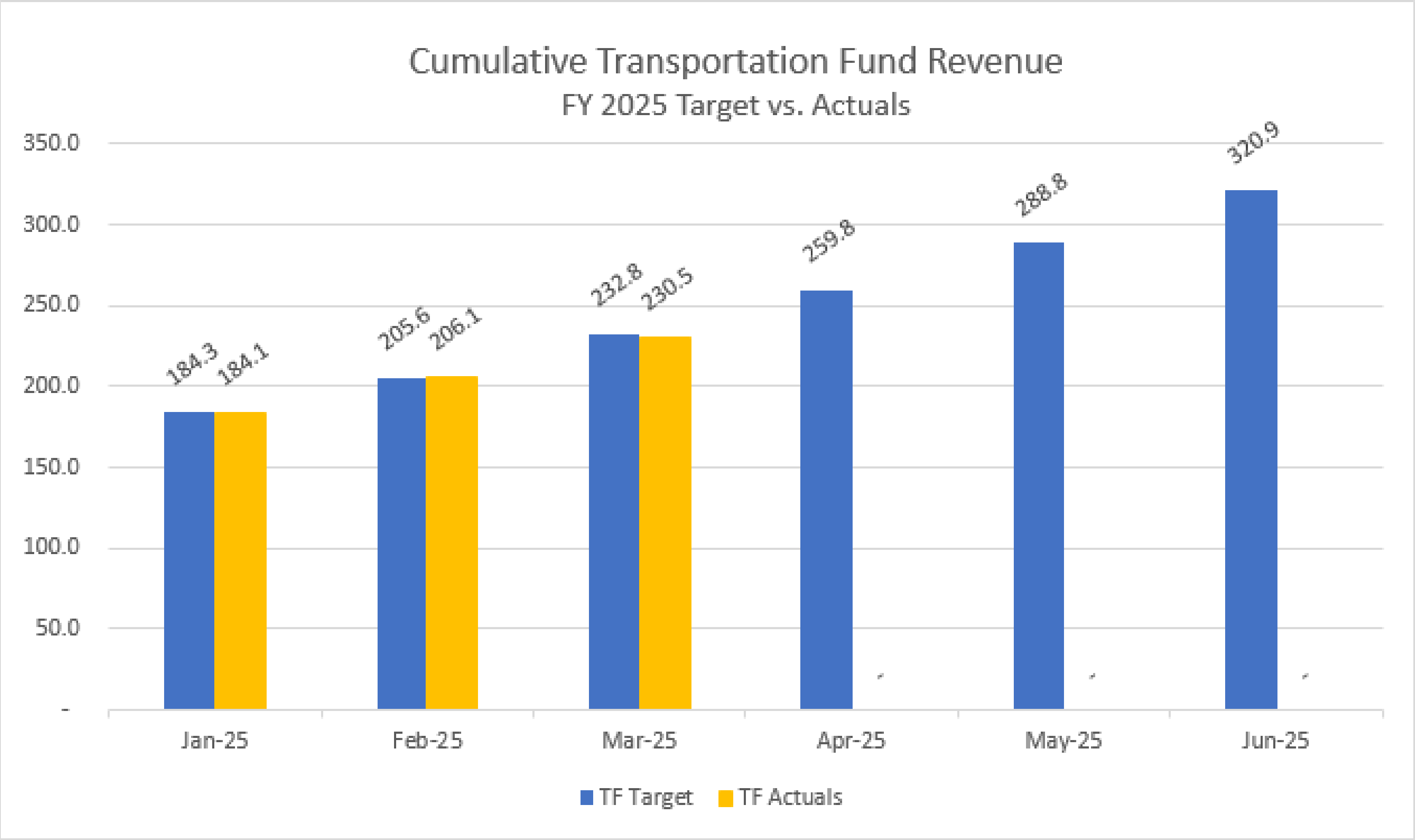
Education Fund Composition

- Sales and Use Tax
  - 79% of non-property EF revenue
- 25% of Meals and Rooms Tax and 100% of the Short-term Rental Surcharge
  - 9% of non-property EF revenue
- 33% of Purchase and Use Tax
  - 7% of non-property EF revenue
- Lottery
- Investment Income
- Property Tax Revenue

Education Fund Summary

- Sales and Use Tax revenue was below target in March by $0.2 million, or -0.4%
  - For the year, it is above forecast by $4.7 million, or 1.0%
- Meals and Rooms Tax revenue was above target by $0.2 million, or 2.7%
  - For the year, it is above forecast by $1.4 million, or 2.6%
  - The 3% Short-term Rental Surcharge is now in effect
- Purchase and Use Tax revenue was below target by $0.3 million or, -7.5%
  - For the year, it is above forecast by $0.1 million, or 0.3%
- Lottery revenue was below target by $1.1 million, or -36.3%
  - For the year, it is below forecast by $2.0 million, or -8.7%

Transportation Fund Revenue Collections to Date ($ in millions)



Transportation Fund Composition

- Gasoline Tax
  - 22% of TF revenue
- Diesel Tax
  - 6% of TF revenue
- 67% of Purchase and Use Tax
  - 32% of TF revenue
- DMV fees
  - 32% of TF revenue
- Other taxes and fees

Transportation Fund Summary

- Gasoline Tax revenue was below target by $0.4 million, or -7.1%, in March
  - For the year, it is above target by $0.2 million, or 0.3%
- Diesel Tax revenue was right on target
  - For the year, it's above target by $0.2 million, or 1.5%
- Purchase and Use Tax revenue was below target by $1.1 million, or -12.8%
  - For the year, it is below forecast by $0.8 million, or -1.1%
- DMV Fees were below target by $1.8 million, or -14.1%
  - For the year, they are below forecast by $1.8 million, or -2.4%

Headwinds Facing Vermont Revenue

Headwinds Facing Vermont Revenue

- Vermont's revenues are sensitive to economic conditions, which are in turn influenced by the many factors including:
    - Tariffs
    - Consumer Confidence
    - Credit Markets
    - Tourism
    - Federal Tax Changes
    - Other federal actions

Tariffs

POLITICS

Trump says 25% tariffs on Mexican and Canadian imports will start Tuesday, with ‘no room’ for delay

China has a weapon that could hurt America: rare-earth exports

It has only just begun to use it

Trump Signals Tariffs Are Coming on Computer Chips and Drugs

President Trump suggested that he would impose new tariffs on national security grounds, but indicated that the auto industry might get relief.

5 MIN READ

POLITICS

Trump changes course and delays some tariffs on Mexico and Canada

April 2, 2025 - Liberation Day tariff announcements

By Elisabeth Buchwald, Antoinette Radford, John Towfighi, Matt Egan, Alicia Wallace, Maureen Chowdhury, Elise Hammond, Lex Harvey and Chris Lau, CNN

Updated 5:39 AM EDT, Thu April 3, 2025

Trump announces 90-day pause on ‘reciprocal’ tariffs with exception of China

By Elisabeth Buchwald and Kevin Liptak, CNN

7 minute read · Updated 5:14 PM EDT, Wed April 9, 2025

Vermont storeowner says new tariffs will directly impact customers

China Halts Critical Exports as Trade War Intensifies

Beijing has suspended exports of certain rare earth minerals and magnets that are crucial for the world’s car, semiconductor and aerospace industries.

Vermont businesses and consumers face uncertainty over shifting tariff policy

The tariffs, especially those levied on Canadian goods, could have far-reaching impacts on Vermont’s economy. Both Canadian and Mexican leaders reached agreements to postpone the tariffs, which were to go into effect Tuesday, for 30 days.

By Habib Sabet

February 3, 2025, 2:49 pm

Tariffs

- Tariffs are a tax imposed on imported goods or services
- The federal government has imposed near-universal 10% tariffs on trading partners with a few carve outs for goods like pharmaceuticals, oil, semiconductors, and some electronic devices
  - The Trump administration has indicated that some of these exemptions may change in the coming weeks and months
  - These tariffs apply to both finished products and inputs
- Other goods are subject to additional good-specific tariffs, including a 25% levy on imported cars

Tariffs

- A tariff increases the cost for a business to import goods
- This cost is typically passed on in whole or part to consumers, by increasing prices
- Global supply chains are very complex
  - For example, vehicles manufactured in North America have components that cross the borders between the U.S., Canada, and Mexico many times and the tariff is applied at each crossing
  - Another example is Boeing, which has more than 20,000 suppliers in 65 countries
- The United States imported $4.2 trillion in goods and services in 2024

Tariffs

- On April 2, 2025, the Trump administration announced tariffs on trading partners ranging between 10 and 60%
  - These were later postponed for 90 days
- In February, the U.S. announced 25% tariffs on goods entering the United States from Canada and Mexico
  - These tariffs were also delayed, but separate universal tariffs on steel, aluminum, and automotive imports including from Canada and Mexico were imposed
  - Last week, the U.S. Department of Commerce announced a 34% tariff on Canadian softwood lumber (used in construction) would go into affect this fall
- While Canada and Mexico are exempt from the 10% tariffs in place on most other countries, certain sector-specific tariffs affect goods that Americans consume a lot of

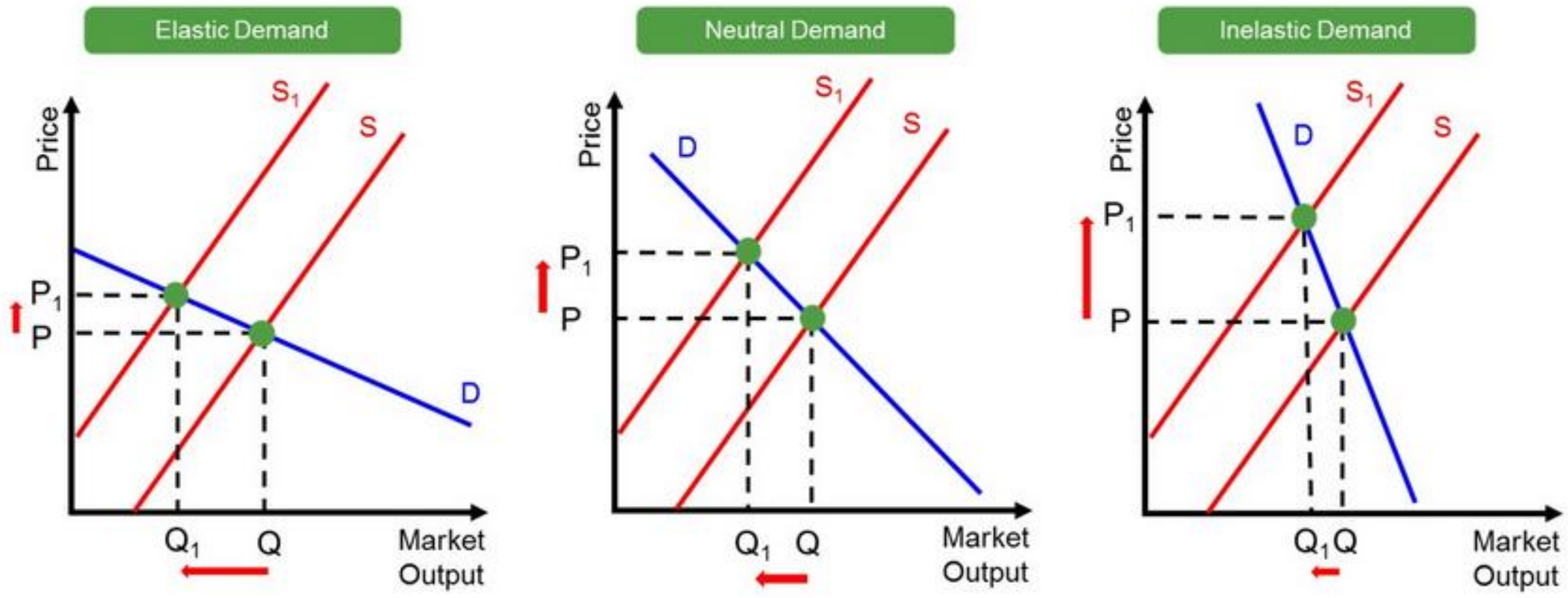
Tariffs – Effect on State Revenues

- Tariffs on Canadian goods would have an outsized impact on Vermont
  - Softwood lumber: Canada supplies 30% of U.S. softwood lumber used in framing homes
  - Drywall: a large percentage of drywall is manufactured in Canada and imported into the U.S.
  - Steel and aluminum: while not commonly imported from Canada in its raw form, Vermont developers rely on Canadian suppliers for key materials like nails, beams, and fasteners
- Tariffs on these inputs would increase the cost of building new homes and renovating old ones
  - Less development could affect Grand List growth
  - Less development could also increase the prices of new and existing homes, which would increase the PTT collected per transaction
  - PTT per-transaction increases could be offset by a decrease in overall transactions

Tariffs – Effect on State Revenues

- Elasticity of demand for imports determines any impact on State revenues
  - If a good is very elastic, tariffs will decrease consumption significantly
  - If a good is inelastic, tariffs will decrease consumption marginally
- Vermont consumers buy many imported products that tariffs would put upward price pressure on
- Taxes like the Sales Tax and Purchase and Use Tax are ad valorem, meaning they are a percent of the end consumer purchase price
  - If consumers purchase the same quantity of goods at higher prices, then revenue collections increase
  - If consumers purchase less, revenue collections decrease, especially if the goods are elastic

Tariffs – Effect on State Revenues



Tariffs – Effect on State Revenues

- Tariffs could directly affect Vermont taxes including Sales Tax and Purchase and Use Tax as increased prices reduce consumer spending
- They could also have many indirect effects on taxes like PIT, CIT, PTT, and Meals and Rooms Tax
  - PIT and CIT: tariffs have caused uncertainty for companies have already led to production pauses and layoffs; PIT collections decrease as unemployment increases; CIT collections decrease as companies become less profitable
  - PTT: tariffs on construction materials will increase the cost of building a home, slowing development and corresponding Grand List growth and making homes more expensive, potentially decreasing the overall number of transactions
  - Meals and Rooms Tax: increased prices on essential goods could lower discretionary spending on vacations and at restaurants, impacting Vermont's tourism industry

Tariffs – Effect on State Revenues

- In sum, tariffs have direct and indirect impacts on almost every corner of Vermont's economy
- The extent to which State revenues are impacted will depend on the effect of tariffs on prices for specific goods, as well as how sensitive consumer behavior is to those effects (elasticity)
  - Increased costs for highly elastic goods will likely result in revenue loss
  - Increased costs for highly inelastic goods will likely have a muted effect

Consumer Confidence

Consumer Confidence

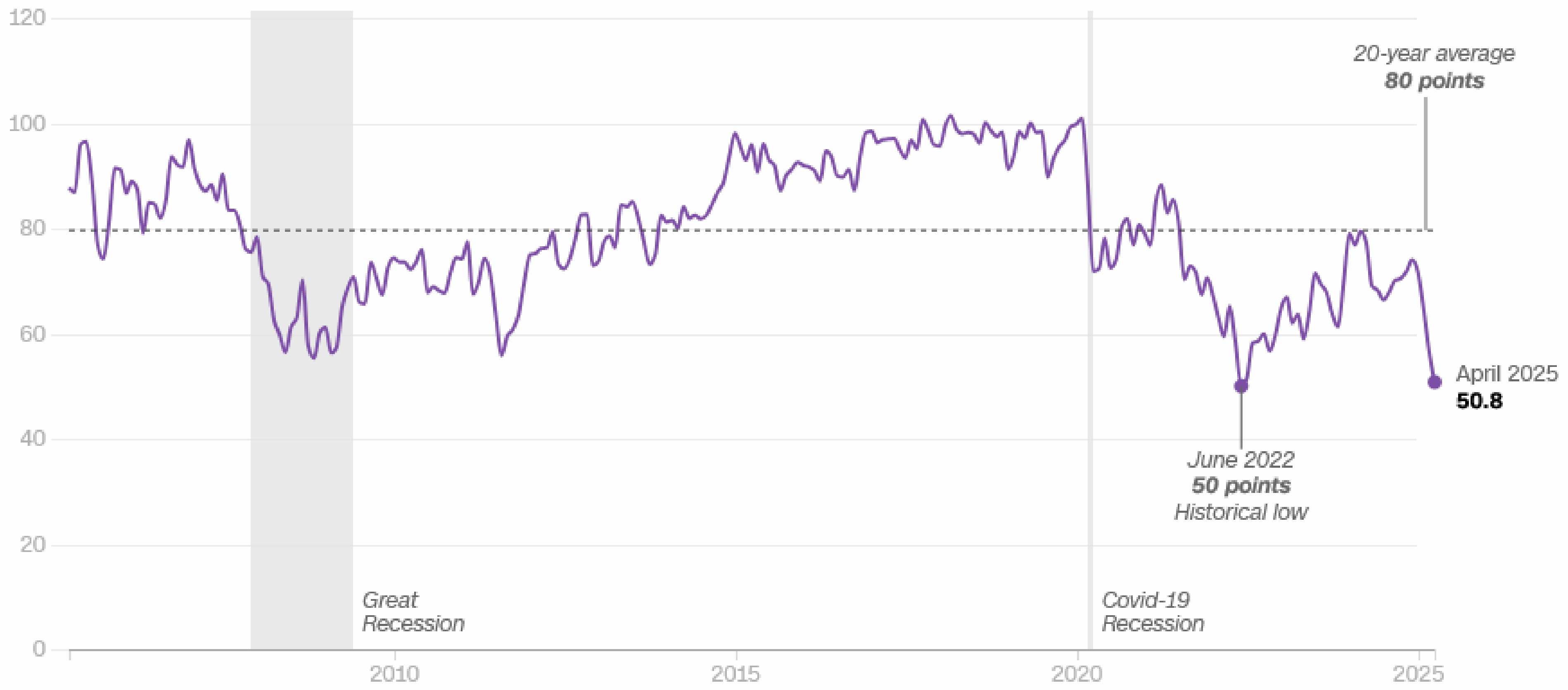
- The Consumer Confidence Index (CCI) is an economic indicator that measures consumer optimism about the current and future state of the economy
- A rise in the index suggests consumers are confident in the future, leading to increased spending and economic growth
- Conversely, a decline may signal reduced consumer confidence and eventual decreased spending and economic growth
- The CCI is what is considered “soft data,” meaning it doesn’t directly measure economic activity, but may indicate coming economic changes

Consumer Confidence

- In January, the CCI was 71.7

Consumer Confidence

- This month the CCI fell to 50.8
- 50.8 is the second lowest reading on records going back to 1952 and is lower than at any point during the Great Recession.



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Consumer Confidence

- Consumer spending accounts for about 70% of the U.S. economy
- Reduced consumer spending could lead to businesses postponing planned expansions, slowing hiring, or announcing layoffs

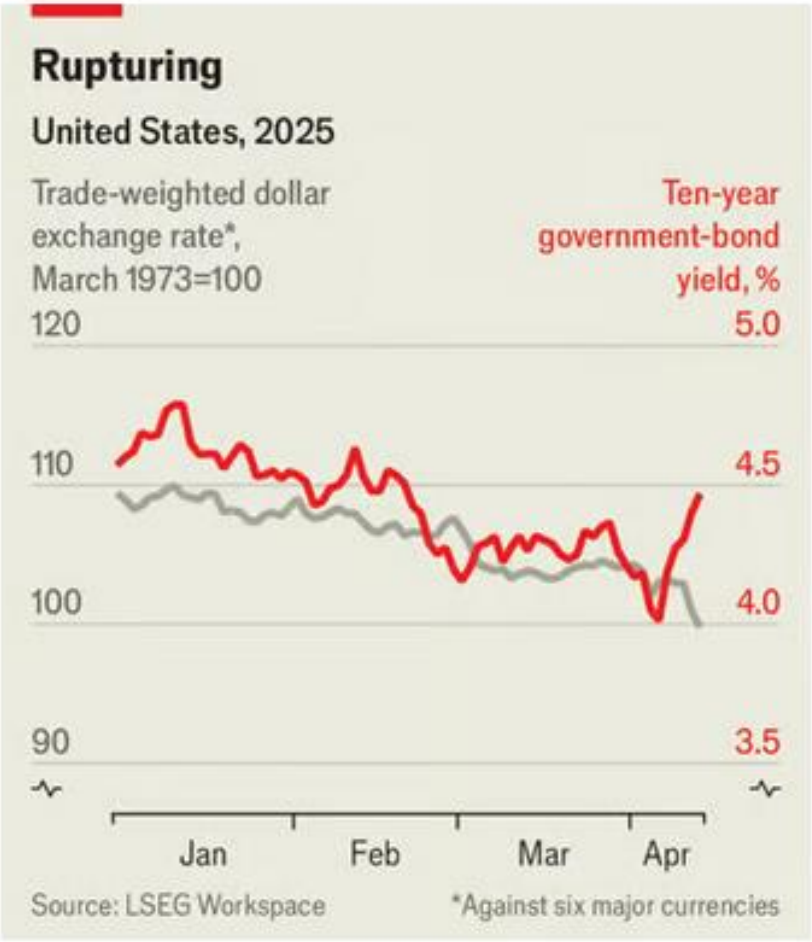
Credit Markets and the U.S. Dollar

Credit Markets and the U.S. Dollar

- Typically, dollars and treasury bonds are “safe haven” assets
  - Market or economic instability often results in increase in bond yields and the value of the dollar as investors look for stability
- Since April 1, 2025, the dollar has fallen 4% and yields on ten-year Treasury bonds have risen 0.3%
- If bond yields rise because of economic growth, that typically results in a stronger dollar
- That the inverse is happening suggests that bonds are currently perceived as relatively risker than they normally would be, suggesting fears about economic stability

Credit Markets and the US Dollar

US Dollar: -8% YTD



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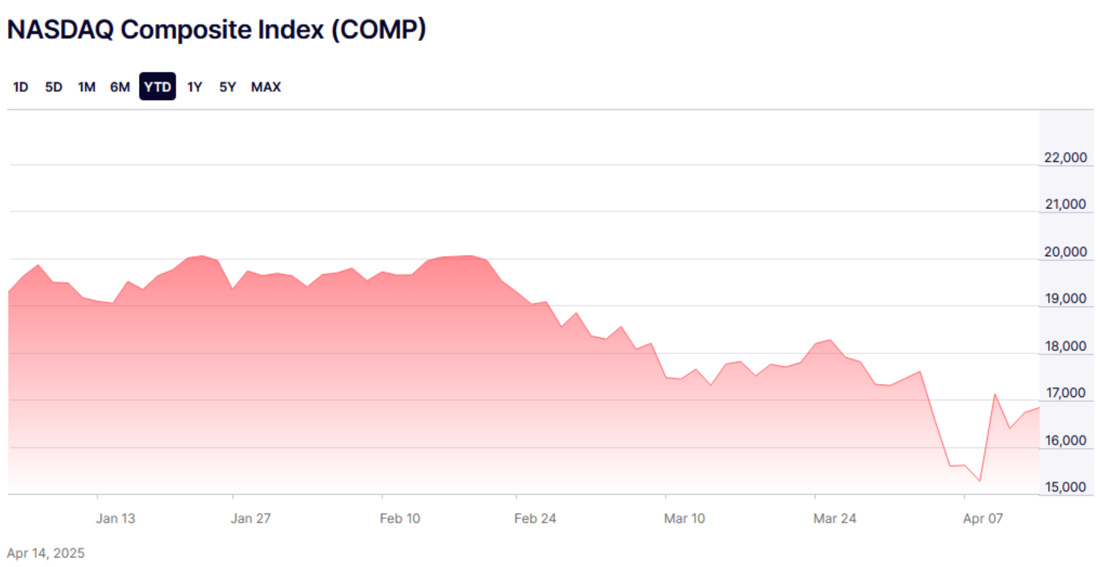
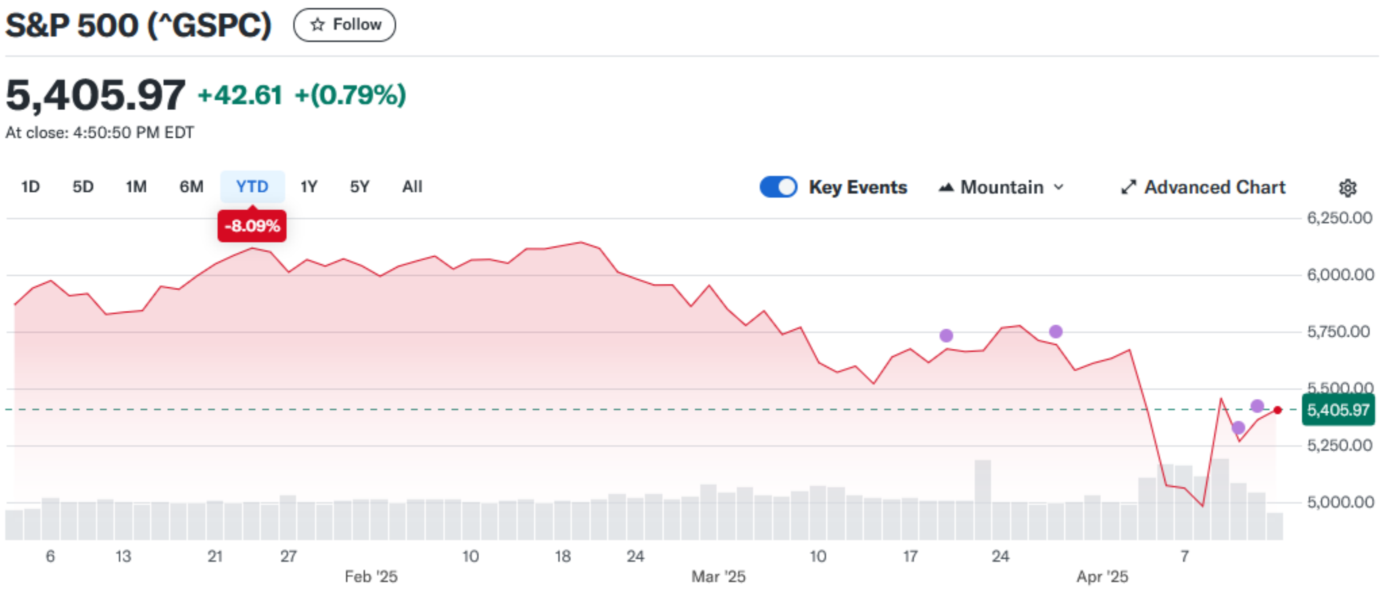
Credit Markets and the US Dollar





Credit Markets and the U.S. Dollar – What Does This Mean?

- The increase in bond yields suggests borrowing will become more expensive
- Both businesses and consumers rely on borrowing to pay for capital investments, home purchases, car purchases, and many other types of spending
  - As it is already, Americans are behind on car payments at a record level
    - As of January, the subprime auto loan 60 day delinquency index spiked to 6.6%
  - Further, a quarter of student loan borrowers are estimated to have fallen behind on payments
- Higher interest rates in conjunction with higher prices makes these purchases more expensive and could lead to some businesses and consumers scaling back spending
- Increased financing costs could impact the Purchase and Use Tax and PTT
- Hiring slows and decreased profits could hit the PIT and CIT
- Less discretionary spending means less Sales and Use Tax and Meals and Rooms Tax revenue

Tourism

Tourism

- Nationally, tourism accounts for an average 3% of state GDP
- In a recent report from the Agency of Commerce and Community Development (ACCD), Vermont's tourism industry comprises approximately 9.3% of State GDP
- Tourism is estimated to be a $4 billion industry in Vermont
  - 15.8 million guests annually
  - Supports approximately 31,000 jobs
- Tourism spending includes:
  - $1.4 billion on lodging
  - $830 million on food and beverages
  - $658 million on retail spending
  - $581 million on gas and other transportation costs
  - $446 million on recreation and entertainment
  - $282.3 million on State and local taxes

Tourism

- Tourism supports a significant amount of spending on goods subject to the Sales and Use Tax, Meals and Rooms Tax and transportation-related taxes (e.g., Gasoline Tax, rental vehicles, etc.)
- A significant number of visitors are from Canada
  - Kingdom Trail Association reports that it has roughly 135,000 visitor annually and 40% of them are Canadian
  - Jay Peak Resort reports that an estimated 30% to 40% of its visitors are from Canada
- While exact figures have not been reported, there are indications that many Canadians are cancelling planned trips or opting to visit other places

Tourism

- The federal government has announced some changes to visa and registration requirements for Canadians traveling to the U.S.
- Many Canadians will now have to register with the U.S. government if they are going to be in the country for 30 days or longer
- Nationally, this is estimated to affect between 2.2 million and 3.2 million visitors annually (this figure represents all foreign visitors, not just Canadians)
- Additional hurdles to travel could hinder the State’s appeal as a travel destination

Federal Tax Changes

Federal Tax Changes

- On April 10, 2025, the U.S. House passed a budget reconciliation that would make the Tax Cuts and Jobs Act (TCJA) tax cuts permanent and allow for an additional $4.5 trillion in cuts over the next 10 years
  - Without action, the act's federal PIT provisions would expire at the end of 2025
- Recent proposals include exempting social security, tips, and overtime income from PIT
- Other proposals include creating an itemized deduction for auto loan interest if it was manufactured in the U.S., lowering the corporate rate to 15% for domestic production activities, repealing the Inflation Reduction Act Green Energy Tax Credit, and restoring the full State and Local Tax (SALT) deduction

Federal Tax Changes

- Vermont's PIT code starts with the federally-defined Adjusted Gross Income (AGI)
- Any potential changes to the AGI definition would flow through directly to Vermont's PIT code, barring any legislative action
- Following the passage of TCJA in 2018, Vermont decoupled several areas of its tax code from the federal code to largely follow the pre-TCJA status quo
    - This included creating a State-defined standard deduction and personal exemption for the first time
- Recent reports state that some in Congress voted yes on the budget reconciliation in return for promises of cuts to federal entitlement programs
    - This could create additional pressure on the General Fund to maintain current service levels, especially in conjunction with any potential revenue decreases

Other Federal Actions

Other Federal Actions – Hospital Provider Tax

- States are allowed to use revenues from taxes on health care providers (provider taxes) to help finance the state share of Medicaid expenditures, as long as they meet certain conditions
- One of those conditions is the state cannot hold providers harmless, meaning states cannot guarantee, directly or indirectly, that the tax paid will be returned to providers to make them whole
  - As part of this, there is what is known as "safe harbor," which is the presumption that this requirement is met if provider tax is equal to or less than 6% of net patient revenue
- A current proposal at the federal level would lower that safe harbor to 3%
  - This could result in an approximately a $104 million loss of State match dollars for Vermont, equivalent to a total of $252 million loss of gross Medicaid dollars in the program

Other Federal Actions – Federal Employees

- There are 3,285 federal civilian employees and many other federal contract employees that work in Vermont
- Recent federal workforce layoffs and cancelled contracts could eliminate some of these jobs
- For example, recent USAID cuts resulted in 150 layoffs at Tetra Tech
- Widespread layoffs would put downward pressure on PIT revenue if people can't quickly replace lost income

Questions?