



State of Vermont
Department of Taxes
133 State Street
Montpelier, VT 05633-1401

Agency of Administration

TO: The Joint Fiscal Committee

FROM: Craig Bolio, Acting Commissioner, Department of Taxes

DATE: November 1, 2019

SUBJECT: Annual Report on the Tax Computer System Modernization Fund (CMF)

CC: Adam Greshin

The Tax Computer Modernization Fund (CMF) was created in 2007 to establish a funding mechanism to modernize the old IT systems (legacy systems) used by the Department of Taxes (Tax). The fund is replenished by “benefits” of the VTax system – enhanced collection and compliance activity above what the legacy systems produced.

Tax is now administering all its tax types through the VTax system. We have established a VTax support team that includes tax subject matter experts, state developers, and vendor (FAST Enterprises) developers. The support team continues to improve the system and update it, installing two main software patches per year, and making dozens of smaller ad-hoc improvements each quarter. We will begin a full version upgrade next year.

In FY19, the VTax system created \$14.95 million in measurable benefits, and \$6.59 million of those benefits were allocated to the General, Education, and various special funds. Last legislative session, Tax proposed, and the legislature passed, a reduction to the retainage percentage. Tax originally proposed a reduction from 80% of incremental receipts to 40% of incremental receipts, and the legislature ultimately passed a reduction to 30% of incremental receipts. In addition, the fund used to retain 100% of the incremental receipts and then ‘give back’ funds over the original 80% retainage figure at the end of each fiscal year. Coupled with the reduction in the retainage percentage, last year’s legislation removed the end of fiscal year give back, and the CMF now retains only the correct percentage of incremental receipts.

Tax envisioned being able to offer future reductions to the retainage percentage in subsequent legislative sessions, and therefore Tax will propose an additional decrease to the retainage this upcoming session. A final proposal will be available with the Governor’s recommended budget.





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Tax continues to use the CMF spending authority to pay for a variety of IT-related expenses:

- A portion of the annual VTax maintenance
 - Approximately 1/3 of the \$1.85m annual VTax maintenance costs are paid from the CMF
- Upcoming implementation costs for the Integrated Property Tax Management System (IPTMS)
 - In February, Tax issued an RFP for this project, and is currently reviewing the proposals. This project will modernize the computer system that manages the statewide Grand List to facilitate the state's receipt of more than \$1 billion in education property taxes. Tax is working closely with the Agency of Digital Services and municipal stakeholders to ensure success on this project.
- Chainbridge economic microsimulation software
 - Tax and JFO incur expenses for purchasing various database updates and modeling options for economic simulation/modeling software. This year, the state purchased an additional module at the request of JFO to help forecasting efforts.
- Implementation costs of various tax changes and new collections
 - Over the past two sessions, Tax has been tasked with collection of abandoned bottle deposits and an expansion to the universal service fee. Tax has used the CMF to pay for the IT costs to program VTax.
- Implementation and maintenance costs related to the scanner upgrade project

Maintaining the CMF and allowing the Tax Department to utilize the funds responsibly will ensure that Tax continues to have a reliable and efficient revenue collection infrastructure.

