



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

Agency of Administration

TO: The Joint Fiscal Committee

FROM: Craig Bolio, Commissioner, Department of Taxes

DATE: November 3, 2020

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. In parallel to completing the grants work and tax due date changes necessary because of the COVID-19 pandemic, Tax is also launching a VTax version upgrade next week. Version upgrades are substantial, year long projects which provide a new look and feel to the software and a variety of new features that the Department can take advantage of moving forward.

In FY20, the VTax system created approximately \$6.5 million in measurable benefits, and approximately \$4.5 million of those benefits were allocated to the General, Education, and various special funds. Last legislative session, Tax proposed, and the Legislature passed, a restructuring of how the CMF is funded. Prior to this latest restructuring, the CMF retained 30% of incremental receipts that Tax collected due to the VTax system. However, because VTax has now been operational for several years, the Administration and Legislature agreed that tracking incremental receipts between VTax and the legacy systems was no longer as relevant. The new structure dictates that the CMF is transferred up to 2% of total revenue collected from billed and offset debts. This restructuring retains the original spirit of the funding mechanism, that it is based solely on tax revenues that were not paid voluntarily, while saving the Tax Department a significant amount of administrative work in calculating the benefits. This restructuring is also, by design, expected to create less funding for the CMF, and more funding for the usual funds that receive these tax revenues.





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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 April 2020, Tax signed a contract with Axiomatic, LLC, to modernize the computer systems that manage the statewide Grand List. This will retire the state's use of the NEMRC software which has been in place for over 20 years. Tax is working closely with our partners in ADS and with municipal stakeholders to ensure success on this project. This project is currently on target to launch in early 2022.
- Chainbridge economic microsimulation software
 - Tax and JFO incur expenses for purchasing various database updates and modeling options for economic simulation/modeling software.
- Implementation costs of various tax changes
 - Tax expects to use the CMF to pay for implementation costs related to the collection of the cannabis excise tax that was passed in Act 164.
- 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.

