



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

Agency of Administration

TO: The Vermont Legislative Joint Fiscal Committee

FROM: Andrew Stein, Chief Operating Officer, Department of Taxes

DATE: November 8, 2022

SUBJECT: Annual Report on the Tax Computer System Modernization Fund

CC: Craig Bolio, Commissioner of Taxes; Adam Greshin, Commissioner of Finance and Management

In 2007, the State established in law the Tax Computer System Modernization Fund (CMF) to finance the modernization of the Tax Department's aging IT systems, called legacy systems. Since then, the Department of Taxes has transformed into a modern, highly efficient, and service-oriented Department. The digital enhancements and process improvements associated with the CMF have benefited nearly all Vermonters and Vermont businesses. To maintain this progress, ongoing investment is necessary.

The CMF has been fundamental to the Department's successful IT overhaul and ongoing IT improvements – most notably, the implementation and continuous updates of the Department's integrated IT system, called VTax. The Department uses VTax to administer the 30-plus tax types under its collection authority.¹ In FY22, VTax helped the Department efficiently and accurately collect more than \$2.6 billion in state revenue. VTax is relied on for almost all activities related to tax administration, including taxpayer registration, return review, fraud detection, refunding, billing, collections, auditing, and revenue accounting. The system also features a filing and payment website for taxpayers, called myVTax. The tax system interfaces with the statewide accounting system (VISION), the Department's scanning system, the BGS Print Shop, the State's bank, and the Internal Revenue Service's modernized e-file system through which most income tax returns are filed.

VTax has greatly expanded the Department's capabilities, including the capacity to make a broad range of continuous process improvements, quickly implement legislative changes, deliver enhanced service to taxpayers, employ a data-driven approach to administration, automate key processes and validations, and provide robust analytics for better reporting, audit opportunities, and security oversight. During the pandemic, the system was critical to making key due-date changes, implementing a retroactive unemployment insurance exclusion, and administering roughly \$200 million of the Emergency Economic Recovery Grant Program. The Department has also used the system to assume administration of the

¹ Property Taxes are collected by municipalities, and the administration of the statewide education property tax is largely administered outside of this system. The Department is currently implementing a new IT system funded by the CMF to help administer that tax and associated programs.





health care contribution assessment from the Department of Labor. This fiscal year, the Department worked with our VTax vendor, FAST Enterprises, and the Agency of Digital Services (ADS) to build the Cannabis Excise Tax and the reformed Renter Credit in this system.

The CMF is currently funded by 2% of revenue collected from billed and offset debts, which stem from compliance actions. In FY22, the CMF received \$1,029,540.44 in receipts from roughly \$51.5 million generated by compliance actions taken on 13 tax types during the fiscal year. The roughly \$1 million in FY22 CMF revenue is about 10 percent of the roughly \$10 million generated in FY19 for the CMF under a prior funding formula. In larger context, \$0.0004 of every dollar collected by the Department in FY22 went to the CMF (which is down from FY21 when \$0.0007 of every dollar collected by the department went to the CMF).

The CMF has been critical to the Department's enhanced functionality over the past decade, as it has and continues to be the Department's primary funding source for the implementation and maintenance of key IT projects. The fund was extended in Act 95 of 2014 through the end of this fiscal year, so the Department aims to discuss with the Legislature this upcoming session ways to continue making key investments in the Department's IT infrastructure. The high level of service that Vermonters have come to expect from the Department depends on these investments, and they are critical to maintaining systems that impact nearly all Vermonters and Vermont businesses.

This year, the Department plans to use the CMF to pay for a variety of IT-related expenses that include:

- A portion of annual VTax maintenance costs and enhanced developer support:
 - Approximately 1/3 of the \$1.85 million annual VTax maintenance costs are paid from the CMF to the State's vendor FAST Enterprises.
 - The CMF also pays for four additional FAST developers to make a range of system updates related to policy updates, security, accounting, reporting, compliance, and taxpayer service functions across the Department.
- Implementation costs for the Vermont Property Information Exchange (VTPIE) system:
 - In April 2020, the Department signed a contract with Axiomatic, LLC, to modernize the computer systems that manage the Statewide Education Property Tax, which includes managing the statewide Grand List, Property Tax Credits, TIF Districts, Current Use, equalization of property values, tax billing, deed recording, and other functions. This update will retire the State's use of the NEMRC software, which has been in place for more than 20 years. The Department is working closely with our partners in ADS and the municipalities. This project is underway and is being deployed in phases through the end of calendar year 2023.
- Implementation of a new scanning system:



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- The Department in collaboration with ADS recently issued a Request for Proposals to procure a new scanning system. Bids are due by November 28, 2022, and the project is expected to get off the ground in the next year.
- Chainbridge economic microsimulation software:
 - The Department and the Legislative Joint Fiscal Office incur expenses for purchasing various database updates and modeling options for this economic and revenue simulation/modeling software. It is used for a range income-based policy analyses.
- Implementation costs of various tax changes:
 - In FY22, the Department used the CMF to pay for implementation costs of the Cannabis Excise Tax, which was passed in Act 164 of 2020.

In summary, the CMF has been integral to the Department's modernization over the last decade. It is key to the Department maintaining digital infrastructure that impacts all Vermonters and facilitates the reliable, accurate, nimble, and efficient administration of Vermont's tax code. The Department looks forward to the discussion with the Legislature this upcoming session about the future of the fund and ensuring Vermonters and Vermont businesses continue to receive the highest levels of service from our Department.