

Commissioner Kleppner's Comments on Commissioner Trenholm's Draft

Chapter 8B – v11-23-2020

Our Changing Landscape, the Role of Technology in the Tax Structure

Technology has changed our lives in many ways. Our Tax Structure must also keep up with these technological changes to be sustainable in the future. The financial needs of the state which are funded primarily by the taxes will continue despite this changing landscape of technology.

Changes to the Way We Travel:

As transportation technology evolves, there is less and less dependence on fossil fuels to power the vehicles that we use to travel, both locally and long-distance. More and more alternative fuel vehicles are on the road today, and that number is increasing each year. This creates a positive environmental impact which is very positive. The other side of that change is the decrease in the use of fossil fuels which at present are the major source of tax revenue that is used to maintain our roadways. The same holds true for public transportation vehicles as well.

Technology is also affecting the way we book leisure time events, air travel and lodging. As more and more services for reservations become digitized, the tax structure must evolve with it and tax these items to the same extent they are at present despite the use of e-tickets and on-line booking for lodging, etc.

Changes to the Way We Live and Work:

Technology is also changing the way we live. The pandemic has shown us that many jobs can be done remotely, i.e. working from home. This presents a great opportunity for people to live in Vermont and enjoy the tremendous lifestyle it offers, while maintaining a position that may not be available with a Vermont based organization. This is something the state has been working on to begin to rebalance the demographics of the state and the aging population. This is something that will not only increase the younger population of the state, it will also increase the higher income earners, and have a positive affect on the personal income tax collections. As this evolves, the traditional nexus for the employer of having an employee working in the state will have to be revisited so it does not become a discouragement for employers with headquarters and operations in another state to allow their employees to work remotely in Vermont. This will also hold true for Vermont based employers as well. The difference here is the decrease in the demand for office space that will result from this. This will tend to depress the value of office properties from an education funding tax and municipal property tax standpoint. It will also decrease the income from these rentals and ultimately the amount of income tax revenue collected from the property owners. The tax structure will need to contain new sources of revenue to make up for the two pieces of lost revenue mentioned in the previous sentence.

Commented [BK1]: On the subject of how we work, do we want to address the fact that there is likely to be less business travel in the future, as people use video conferencing instead of airplane/taxi/hotel/conference room? It might be worth figuring out how much of travel to Vermont is business-related, to get a sense for the loss of Rooms & Meals due to the move to digital meetings.

Many households in Vermont now utilize solar power and excess energy storage units as their source of electricity. This is an excellent use of renewable energy and certainly reduces our carbon footprint which is important to stop climate change and global warming. Many of these households are connected to the grid and therefore contribute to the taxes ultimately paid by the Public Utility they are connected to. The state through its tax structure must continually monitor the amount of revenue from the use of electricity in taxes and be able to replace those lost taxes with another sustainable source of revenue.

The use of landline telephone service has decreased over the years as VoIP technology develops as well as the use of cellular telephones. The Telephone Property Excise tax is a tax that, from a collection standpoint, continues to diminish every year. As mentioned in another part of this report, it and other obsolete taxes need to be phased out and new sources of tax revenue found.

Our purchasing habits have also changed due to the advances in technology. The ability to purchase on-line has increased the ability of Vermont residents to order goods from around the world on-line and have them delivered, many times in the next day. As a result of the Wayfair case, many of these transactions are presently captured by the sales tax which would be the equivalent of a resident purchasing the good at a brick and mortar store in Vermont. The tax structure must continue to monitor enforcement and take the appropriate measures to promote a high level of compliance to sustain its revenue from the sales tax. This change in purchasing habits does; however, bring a consequence to other taxes in the tax structure of the state. Lost jobs at brick and mortar stores means lost wages which means lost income tax revenue. This also leads to a decrease in the need for retailers to invest in large brick and mortar establishments to sell their product and consequently a drop in the education property tax as well as the municipal property tax. The structure must be flexible and provide new sources of revenue to make up for the lost tax revenue from these retail brick and mortar establishments.

Many of our purchases today are digital rather than tangible property, such as audible and e-books. Also, our movie watching habits have changes as well. Although people do still go to the movie theatre, that is down from years past. Movie rentals is another area that has dramatically changed. Not that many years ago, if you wanted to rent a movie, you went to the local movie rental shop, rented the movie, watched it and returned it. Today with the streaming services available, we rent them digitally streaming them over our computers and smart televisions that are connected to the internet. Music is available as well through on-line subscription services as well as in many cases for free. Not that many years ago, we purchased record albums, then tapes and finally CDs which are all tangible personal property subject to sales tax. The tax structure must be flexible to find new ways of taxing the things we always paid tax on that may be out of the reach of the tax system without adapting itself to the new technology.

These are just a few examples of how the changing landscape with respect to technology will affect the tax system, and the structure must constantly be evaluated and change to be sustainable and provide the necessary revenue that the state needs to provide the services to the residents it must provide.

As this summary points out, our changing landscape with respect to technology affects the three major tax types, Income, Sales and Use and Education Funding Property Tax/Municipal Property Tax. To preserve the sustainability of the tax structure, the legislature should study the affects technology has already had on our tax structure as well as ten years down the road, what it might look like.

Commented [BK2]: Do we want to address the likelihood of the increased use of remote learning?