

1.1 If we broaden the sales tax base to include education, does this mean that college tuition will be taxable? If so, will this prevent students from attending college in Vermont?

Yes, it does mean that college tuition will be subject to the sales tax. We recommend mechanisms to protect low-income Vermonters from any additional financial burden from this or any of our other recommendations. We also note that the affordability of college is a huge barrier that we as a society need to address. However, since we are recommending a sales tax of 3.6%, the exemption from the sales tax does not make education meaningly more accessible, and the inclusion of education in the sales tax will not make education meaningfully less accessible.

1.2 In addition to tax preparers charging sales tax, does this mean that bookkeepers will have to charge sales tax too?

Yes.

2.1 It is sadly naive to believe that reducing the sales tax to 3.6% and taxing virtually everything will not result in the legislature raising the sales tax every year until it is back up to at least where it is today. Perhaps you are all too young to remember the sales tax was implemented as a “temporary” tax to address a deficit.

We recognize that the legislature may set the rates to any level, and may change the rates at any time. We hope that the structure we recommend leads to more fairness, more sustainability, and more simplicity regardless of the level of revenue the legislature chooses to raise with it. In particular, a broad sales base is more fair, more stable, and simpler than a narrow one at any sales tax rate.

2.2 Taxing services makes even the casual piano teacher a remitter of sales tax. You will have thousands more taxpayers screwing up returns for the department to handle and hours wasted administratively for little tax to the state.

As noted in the report, defining “casual” is a little tricky. We support continuing the exclusion of casual sales from the sales tax. Someone who gives a lesson or two on the weekends to the neighbor’s kids strikes us as engaged in a casual activity. Someone who teaches for two to four hours a day, five days a week, does not. We hope that simplifying the tax, along with the advances in tax software, mean that it will keep getting easier to collect and remit the sales tax accurately for all businesses of any size who sell goods and services to consumers.

2.3 Taxing services is especially detrimental to the elderly as they consume more services as they can no longer do things for themselves, mowing, home repairs, etc.

This is true, and it is also true that services make up a bigger and bigger part of the economy across age groups and across income levels. We are clear in our recommendation that any of these changes be taken only in the context of a program to ensure that low-income Vermonters don’t bear any additional financial burden, and this includes low-income seniors.

2.4 Increasing the medical provider tax will negatively impact the elderly and chronically ill as they consume more medical services than the rest of the population.

Our recommendation is to lower the provider tax rate on hospitals, nursing homes, home health services, and intermediate care facilities. We recommend extending the provider tax to the providers that do not currently pay the provider tax. It is also true that provider taxes do not get passed on to all patients equally. All in all, we are recommending that the total provider tax revenue stay level, and that it simply be distributed across more provider classes.

3.3 A broader sales tax is particularly difficult given that New Hampshire has no sales tax at all.

It is our sense that consumers are more aware of the sales tax rate than they are of which categories are included or not included, so it is our expectation that by lowering the rate, we will reduce our competitive disadvantage with New Hampshire (and gain competitive advantage versus New York and Massachusetts).

3.4 Another new consideration is the remote work environment resulting from COVID, which on its own may encourage migration of small businesses and workers which maybe be heightened by a sales tax expansion.

We agree that part of the increase in remote work will be permanent. We hope that Vermont's attractiveness as a place for remote workers to live and raise their families will be enhanced by one of the lowest sales tax rates in the country, and a significantly lower property tax burden as well. We hope that our recommendation to move a portion of education funding to an income-based tax will not be a deterrent, as young families moving here and purchasing their first home will be earlier in their earning curve, and therefore find an income-based tax less burdensome than a property-value-based tax.

6.5 Moving toward a tax on services would be a massive administrative change, both for the state and for Vermont small businesses. The move would require an expansion of the Vermont Tax Department to help Vermont businesses, who have never handled trust taxes, understand their obligations and inevitably drive compliance when many do so incorrectly due to the complicated nature. In addition, these service-based small businesses, that likely operate on slim margins, will now have to dramatically rethink how they do business and a possible need to acquire never previously necessary bookkeeping services. Just imagine how difficult this change might be for sole proprietors, of which the state has many doing everything from plowing snow from driveways to carpentry to software development.

It is our expectation that by including essentially all goods and services outside of health care, it will become less complicated to comply. While any business that has not previously collected sales tax will have to learn a little bit, we take the fact that thousands of small businesses around the state calculate, collect, and remit sales tax without much trouble as evidence that this is not an undue burden.

6.6 Humans follow price signals, adapting behavior to minimize the impact of the added cost, and we should have a much, much more exhaustive discussion around what the behavioral impact might mean for a low-income person whose groceries would under this proposal be taxable. The marginal impact (moving from 0 to 3.6%) of this increase is massive for many.

We condition our recommendation to include groceries in the sales tax on a mechanism being put in place to protect low-income Vermonters, and we have used a definition of low-income that includes about 40% of the population.

6.7 One issue with this proposal seemingly neglected by the Commission is the nexus of the Vermont sales tax with the numerous local option taxes. Municipalities may find themselves bringing in more revenue than they possibly expected, and thus having a detrimental effect on their economy. Additionally, because the local option tax is a fixed, added percentage on top of the state tax rate, the marginal impact of such a change is even higher on populations that are financially at risk from such a change.

Thank you for this comment. We agree we did not adequately address this question in the first draft, and have discussed it at greater length in the final report.

9.3 In recognition of the need to broaden the tax base beyond property taxes at the local level we recommend that in addition to revising the homestead property tax on the education side, you recommend that in those cities and towns whose voters have approved a one percent sales, meals and rooms, or alcohol, local option tax, the tax [on cannabis] become effective upon that approval. Last session, we strongly supported a two-percent local option sales tax on the retail sales of cannabis products, however that provision supported by the Senate, was opposed by the House and is not in the as-passed version of Act 164.

We support the use of the local option tax, and agree that it should apply to cannabis. If there are compelling reasons to tax cannabis at a higher rate than other things, we would prefer an excise tax, in order to keep the sales tax and local option tax as uniform and simple as possible.

10.1 I am concerned about the expansion of sales tax from goods to services, and have questions about how that would be implemented. For example, if I go out to eat, and pay a rooms and meals tax, do I also pay a service tax for the service of the restaurant employees? Would this apply to services like online software? Would this add an additional tax to streaming services like Netflix, on top of a telecomms tax? I would want to be sure that we're not adding multiple taxes onto individual services as much as possible.

Thanks for the question. Regarding rooms and meals, we specifically warn against double taxation. The Rooms & Meals tax is higher than the sales tax and covers both the goods and the services delivered, so these would not be subject to the sales tax in addition. Regarding to online software: as more and more of what we do moves online, it is important that this activity be included in the sales base. Again, we want very much to avoid double taxation, so we'd expect that services taxed under the telecoms tax would not be taxed under the sales tax.

11.3 The idea that we can broaden that retail sales tax base to services and drop the rate is attractive only on paper. My attached column explains the buzzsaw you'll run into with that guaranteed loser. For another thing, the lower rate will rush back up to six and then 7 percent.

To take the point about the legislature lowering the rate, and then having the rate "rush back up to six and then 7 percent" first: We recognize that the legislature may set the rates to any level, and may change the rates at any time. We hope that the structure we recommend leads to more fairness, more sustainability, and more simplicity regardless of the level of revenue the legislature chooses to raise with it. In particular, a broad sales base is more fair, more stable, and simpler than a narrow one at any sales tax rate.

In response to the points raised in the article referenced in the question:

1. "First, the legislature would have to decide which of 164 different services are to be taxed, and which are to be exempted": *we recommend extending the sales tax to all consumer-level services except health care, so hopefully the process of what to include and what to exempt will not be lengthy or complicated.*
2. Referring to service providers including "barbers, cosmetologists, cab drivers, electricians, plumbers, painters, carpenters, truckers, butchers, architects, lawyers, auto and truck mechanics, small engine repair, excavators, seamstresses, veterinarians, advertising services, computer repair, gunsmiths, custom farm and garden services, snow plowers, tattoo artists, musicians, and many others," *the comment says "All of these, faced by a sales tax on services, would face a daunting record-keeping problem, and the prospect of heavy handed state tax audits based on the principle of "guilty until proven innocent."*
We note that every sole proprietor making bracelets or skateboards or bumper stickers currently collects and remits sales tax, and in almost 40 public hearings over two years, we heard no testimony and received no public comments from anyone complaining either that the sales tax was too hard to compute, collect, or remit, or that the state administration of the sales tax was "heavy handed." *We further note that the submitted article was written in early 2015, and in the almost six years since, the technology for calculating, collecting and remitting sales tax has advanced a great deal, reducing the administrative burden on sellers.*
3. "Economists agree that sales taxes are regressive. Liberals would insist that broadening the sales tax to include services purchased by lower income families requires "targeted credits" or "rebates to protect the poor." Of course these credits and rebates eat into the revenue." *Agreed on all points. Our calculations include returning the sales tax on these categories to the lower 40% of Vermont households by income.*
4. "The sales tax on services advocates invariably put forth the idea that broadening the sales tax might allow dropping the present 6% sales tax rate to 5 % or 4.5%. This is a pathetically hollow argument.

Reducing the sales and use tax rate depends on how much new revenue can be swept in from taxing a broad range of services. Every politically-won exemption reduces the projected revenue and, since the whole idea is to extract more

revenue, that requires pushing the rate back up again.”

We do indeed advocate lowering the rate significantly, and hope to avoid “politically-won exemptions” by recommending the sales tax apply to all consumer-level services except health care. If there are no exemptions or exclusions other than health care, the low rates can persist.

5. “This makes a crucial point: once a tax is on the books, legislators can always nudge the rate up, and further broaden the base to affect more taxpayers, without facing a public uproar.”

As noted above, we recognize that the legislature may set the rates to any level, and may change the rates at any time. We hope that the structure we recommend leads to more fairness, more sustainability, and more simplicity regardless of the level of revenue the legislature chooses to raise with it. In particular, a broad sales base is more fair, more stable, and simpler than a narrow one at any sales tax rate. While we recommend lowering the rates substantially, the recommendation remains valid as a way to improve the sales tax’s fairness, sustainability/stability, and simplicity.

12.1 My biggest concern would be the broadening of the sales tax. It seems to me that that would hurt the lowest income folks the most, particularly taxing groceries. The plan would be to redirect some of the revenue from that and direct it back towards low income households. If that indeed happened, it may work, but I would have serious concerns that over time, that revenue may get redirected elsewhere. The mechanism to direct the revenue to them is not defined, so hard to tell.

Agreed, protecting low-income Vermonters now and over time is of paramount importance.

12.2 Lowering the sales tax to 3.6% sounds good, but the skeptic in me looks at that as opportunity for our legislature to raise it back up over time.

As noted above, we recognize that the legislature may set the rates to any level, and may change the rates at any time. We hope that the structure we recommend leads to more fairness, more sustainability, and more simplicity regardless of the level of revenue the legislature chooses to raise with it. In particular, a broad sales base is more fair, more stable, and simpler than a narrow one at any sales tax rate.

1.1 The balancing act required to offset the regressive nature of a broader sales tax with other taxes is difficult at best and laden with unintended consequences at its worst. As an example, local option taxes will have a direct impact on the proposed sales tax rate and will negate the savings that the Commission hopes to accomplish.

It is our expectation that the local option tax will undergo two changes: first, it will go from being 1% as part of a 7% sales tax to being 1% as part of a 4.6% sales tax; second, the local option tax will now be applied to the same broader base as the sales tax.

15.3 The Realtor® association has always opposed a sales tax on services that apply to a real estate transaction. These services include and are not limited to real estate commissions, legal fees, appraisers, heating service, lead and asbestos mitigators, chimney sweeps, septic service, engineers, consultants, land planners, movers, trash haulers and construction contractors. We believe that the state already receives substantial revenue from the real estate transaction through the Property Transfer Tax and to tax the services required to complete the transaction is double taxation.

We note that the property transfer tax is at a substantially lower rate than even our proposed reduced sales tax rate. It is also true that many of these services, while sometimes used at the sale of a property, are most commonly used on other occasions. We do not see any principled reason to charge a sales tax for the parts needed to fix a septic tank, and not on the labor required to fix it. Finally, on a \$500,000 home sales, the property transfer tax is $(.005 \times \$100,000) + (.0145 \times \$400,000) = \$500 + \$5800 = \$6300$. Even if all those services and the sales tax on services we are recommending made up \$25,000 of the \$500,000 sales price (ie, the services were \$24,131 and the 3.6% sales tax on them was \$869), even at the higher rate of 1.45%, the Property transfer tax on the sales tax would amount to \$12.60 of the \$6300 in Property Transfer Tax, which we do not see as burdensome, distortive, or meaningfully unfair.