



# VERMONT LEGISLATIVE Joint Fiscal Office

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## Fiscal Note

May 21, 2024

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### **H.885 – An act relating to approval of an amendment to the charter of the Town of Berlin**

As passed by the General Assembly

#### **Bill Summary**

This bill would approve an amendment to the charter of the Town of Berlin that would allow the Town to collect a 1% local option tax on sales, meals, rooms, and alcoholic beverages. This charter proposal was approved by voters on March 5, 2024.

#### **Fiscal Impact**

JFO estimates the bill would generate an annual increase of approximately \$300,000 of State special fund revenues starting in fiscal year 2025. The increase would mostly accrue to the Payment in Lieu of Taxes (PILOT) Special Fund, which receives 30% of local option tax revenue. The Tax – Local Option Process Fees Special Fund, which receives revenue from return processing fees, would benefit as well.

#### **Background and Details**

Per 24 V.S.A. §138, municipalities that meet certain property tax criteria (and towns with charters) may enact a local option tax of an additional 1% on sales, meals, rooms, or alcohol. Table 1 shows both statewide tax rates and tax rates with a local option tax:

*Table 1: Tax Rates With and Without a Local Option Tax*

Tax Type	Statewide Rate	With a Local Option Tax
Sales Tax	6%	7%
Meals and Rooms Tax	9%	10%
Alcohol Tax	10%	11%

Quarterly, the Department of Taxes remits 70% of revenue generated from a local option tax to the municipality that levies it. Revenues can only be used for municipal services (not for education expenditures). The remaining 30% of revenue goes to the PILOT Special Fund.<sup>1</sup> Since the State does not pay property taxes on State-owned real estate, the PILOT Special Fund makes an annual appropriation to

<sup>1</sup> Sale of aviation jet fuel is exempt from this allocation. Returns for aviation jet fuel sales are not assessed the \$5.96 return processing fee, and instead of sending 30 percent of local option tax revenue to the PILOT Special Fund, 30 percent of local option tax revenues are sent to the Transportation Fund.

municipalities based on the replacement value of buildings owned by the State within municipal borders. In fiscal year 2023, the PILOT Special Fund received \$12.8 million in revenue.<sup>2</sup>

Finally, the Department of Taxes issues a \$5.96 per-return processing fee. Municipalities pay for 70% of the fee and the remaining 30% is paid out through the PILOT Special Fund. Revenues from the fee support the cost of administering and collecting local option taxes. These return fees are deposited in the Tax – Local Option Process Fees Special Fund.

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<sup>2</sup> <https://ljfo.vermont.gov/assets/Meetings/Joint-Fiscal-Committee/2023-11-07/aecb85d0cc/Special-Fund-Report-FY2023.pdf>