VERMONT LEGISLATIVE
Joint Fiscal Office
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Fiscal Note
May 11, 2023
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H.471 – An act relating to technical and administrative changes to Vermont's tax laws

Senate proposal of amendment[1]

Bill Summary

This bill makes wide ranging changes to various tax laws, state economic development programs, and sets the workers' compensation rate for fiscal year 2024.

Miscellaneous Tax Changes:

- This bill links Vermont's income tax codes to the Federal income tax and estate tax statutes as written as of December 31, 2022.
- Makes miscellaneous changes, including to personal income tax, meals and rooms tax, sales and use tax, use value appraisal, property valuation, the homestead property tax credit, and property transfer tax.

Vermont Economic Growth Incentive (VEGI) and Tax Increment Financing (TIF):

- Makes various changes to Tax Increment Financing (TIF) programs.
- Extends the sunset of the Vermont Economic Growth Incentive (VEGI) program by one year, from January 1, 2024 to January 1, 2025.

Workers' Compensation

- Retains the fiscal year 2023 workers' compensation contribution rate for 2024.

Fiscal Impact

The table on the following pages summarizes both the technical tax changes and provisions with a fiscal impact in the bill. The background and details section includes more in-depth discussion of the fiscal implications of certain TIF provisions.

[1] https://legislature.vermont.gov/Documents/2024/WorkGroups/Senate%20Finance/Bills/H.471/Drafts,%20Amendments,%20and%20Legal%20Documents/H.471~Abby%20Shepard~Senate%20Committee%20on%20Finance%20Committee%20Report%20-%20Substitute%20Amendment%20(5-2-0)~5-11-2023.pdf

Sections	Brief Provision Description	Revenue or Budget Impact	Impacted Fund(s)
1-2	Annual link up of Vermont's income tax code to the Federal income tax and estate tax statute	No impact	n/a
3-4	Clarifies that Sales and Use Tax applies to alcoholic beverages sold in sealed containers for off premises consumption	No impact	n/a
5	Clarifies the process of requesting a refund of Meals and Rooms Taxes incorrectly or erroneously collected	De minimis	General Fund, Education Fund, and Clean Water Fund
6	Allows unrefunded local option tax overcollections to be deposited in the correct State-level fund	De minimis	General Fund, Education Fund, and Clean Water Fund
8	Extends the sales tax exemption for advanced wood boilers for one year	De minimis - existing $36,000-$60,000 sales tax expenditure	Education Fund
9	Repeals Computer Assisted Property Tax Administration Program (CAPTAP) fees	No impact-program is no longer used	n/a
10	Repeals requirement for town clerks to send a copy of their grand list to the Division of Property Valuation and Review (PVR)	Minimal savings for town clerks	n/a – No state funds impacted
11	Allows the Commissioner of Taxes to notify property owners of their use value appraisal through a wider variety of methods	Minimal savings for the Department of Taxes	General Fund
12	Exempts land that is already exempt from property tax under the Native American tribe exemption from the land use change tax	De minimis	Education Fund
13	Expands the scope of the nonprofit exemption from the property transfer tax and creates a new exemption to transfers between related 501(c)3 nonprofits.	De minimis	Education Fund
14	Clarifies the apportionment percentage for the Child and Dependent Care tax credit for part-year residents.	De minimis	General Fund
15-17	Allows those without a social security number and eligible for the EITC and CTC to receive those credits.	De minimis	General Fund
18	Allows for advance quarterly payments of up to 50% of annual amount of the child tax credit	De minimis	General Fund
19-20	Updates references to composite	No change	n/a

	payment rate from middle to second-highest personal income tax rate		
21	Extends the property tax exemption for qualified rent-restricted units every 10 years if VHFA finds that the property meets exemption requirements.	De minimis - Existing $250,000 tax expenditure	Education Fund
22	Extends the deadline for filing for a property tax credit	De minimis	Education Fund
23-31	Various changes to Vermont Bond Bank statute	No impact	n/a
32	Joint Fiscal Office Financing Public Infrastructure Improvements Report	Cost of up to $50,000 from legislative funds	General Fund – Budgetary
33	Allows TIF increment to be used for debt service payments for up to two years after the start of the debt incursion period; bond anticipation notes permitted	De minimis	Education Fund
34	Clarifies that boundaries of a TIF district cannot be changed after the approval of the district plan	De minimis	Education Fund
35	TIF districts shall not remit less than the tax due on the original taxable value of the TIF district	De minimis	Education Fund
36	Clarifies that the original taxable value of parcels in the TIF district shall be used to calculate the aggregate tax due, even if properties are subject to a stabilization agreement	De minimis	Education Fund
37	City of Barre TIF district debt retention period extension from 2034 to 2039	Est. annual tax expenditure of $275,000 to $290,000 between 2034 and 2039	Education Fund
38	Town of Hartford TIF district debt retention period extension from 2034 to 2036	Est. annual tax expenditure of $650,000 in calendar year 2035 and 2036	Education Fund
39	Extends the sunset of the Vermont Economic Growth Incentive (VEGI) Program from January 1, 2024 to January 1, 2025	Extends existing annual $2.5 to $4 million tax expenditure	General Fund
40	Sets the workers' compensation contribution rate for fiscal year 2024	No change in fiscal year 2024 revenue	Workers' Compensation Administration Special Fund

Background and Details

Section 33

Section 33 would add debt service interest payments to the list of improvements that are considered allowable uses for property tax increment. This provision allows TIF districts to fund interest payments on borrowed funds for a period of two years before increment is available. The potential cost of allowing TIF districts to fund interest payments in the first two years after debt incursion comes from the counterfactual of the extra increment that could have been generated over the 20-year retention period if debt had been used for concrete improvements rather than debt service.

Only two TIF districts have not passed the two-year threshold in their debt incursion period to qualify for this provision: Bennington and Killington. (Note that extensions to debt incursion and increment retention periods in Sections 29 and 30 apply to the Barre and Hartford TIF districts). JFO has previously estimated a *de minimis* cost to the Education Fund for similar debt-to-debt financing in TIF districts and estimates a similar potential cost if the Bennington and Killington TIF districts also use debt-to-debt financing within the first two years of their debt incursion period. However, if other newly created districts incur debt to cover interest payments in the future, the cost to the Education Fund could increase.

Sections 36 and 37

Section 36 allows the City of Barre to extend the increment retention period of their TIF district from 2034 to 2039. JFO estimates that the total cost of this extension to the Education Fund will be between approximately $275,000 and $290,000 per year between 2034 and 2039 and $1.5 million in total.

Section 37 allows the Town of Hartford to extend the increment retention period of their TIF district from 2034 to 2036. JFO estimates that the extension will cost approximately $650,000 per year in 2035 and 2036, and $1.3 million in total.

Forecasting costs to the Education Fund this far in advance is challenging and these estimates reflect the costs if projects in the TIF district are completed on schedule. Costs could be lower if increment generating projects or improvements in the TIF districts are delayed and the amount of increment generated in the near term is less than expected. Other factors could also influence these estimates, including changes in grand list values and changes to property tax rates If property values or tax rates increase, the costs of these increment retention period extensions will increase; conversely, decreases in either of these variables would decrease the cost of the extensions to the Education Fund.