

Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

FISCAL NOTE

Date: May 22, 2019

Prepared by: Graham Campbell

Act 51: An act relating to miscellaneous tax provisions – As Passed by the General Assembly

Summary: This bill proposes to make numerous substantive and administrative changes to Vermont's tax laws. The bill permits the creation of merged property assessment districts to match merged school districts. The bill moves the collection and administration of the fire safety insurance tax, the direct placement insurance tax, and the surplus lines tax from the Department of Financial Regulation to the Department of Taxes. The bill makes numerous other changes, including changes to the current use lien system, the definitions of household income and homestead, tobacco taxes, and higher education investment plans. The bill clarifies the sales tax exemption for veterinary supplies and medication to include prescription medications, durable medical equipment and veterinary supplies. The bill also changes Vermont's corporate income tax apportioning methodology for intangible sales to market-based sourcing, from cost-of-performance).

Fiscal Impact

JFO estimates that this bill will generate an additional \$170,000 in Fiscal Year (FY) 2020 and in future fiscal years. This revenue is split between the following funds.

- General Fund: \$190,000
- Education Fund: -\$20,000

In future fiscal years, the additional revenue for the General Fund is expected to grow to approximately \$910,000 as the revenue impacts of apportionment changes in the corporate income tax are fully realized.

H.514 (Conference) Revenue Impact, in millions				
		Revenue Impacts		
Sections	Provision	FY2020	FY2021	FY2022
Department of Taxes/Miscellaneous Provisions				
1	Tax disclosure exemption for tobacco settlement			
2	Elimination of monthly interest rate for tax over/underpayment			
3	PVR Fee waiver			
4	Clean up of VT Solar Energy Tax Credit language			
5-6	Annual link up to federal statutes for income tax			
7	Corporate minimum tax receipts clarification to include Vermont gross receipts			
8-9	Changes Vermonts apportionment methodology to market-based sourcing	\$0.14	\$0.85	\$0.88
10-11	Extends withholding exemption to lower-tier passthrough affiliates			
12	Adds meals for resale to definition of taxable meal			
13-14	Removal of security requirement for tax appellants			
15	Requires Department of Taxes to analyze tax data to discover public program eligibility			
529 Plans				
16-21	529 plan/credit repayment/definition changes	\$0.06	\$0.06	\$0.06
Education Property Tax				
22	Amendment of homestead definition to include widow/widowers			
23	Definition of household income amended to exclude income of separated spouse, exclusion of debt forgiveness from calculation of household income	-\$0.01	-\$0.01	-\$0.01
24	Allows Tax to order reappraisals with CLA lower than 85 or exceeds 115			
25-27	Merged districts can merge assessment districts			
28	Increases frequency with which Tax Department pays municipalities for homestead adjustment			
29-33	Changes term "property tax adjustment" to "property tax credit"			
Use Value Appraisal Provisions				
34	Exemption for transfer of property in current use for divorces			
34	Replaces the current use lien requirement with a notice of contingent lien be filed, with a lien to be filed when land is developed.			
Other Taxes				
35-38	Shifts certain collection duties from DFR to Tax Department			
39	Clarifies that auto parts used to recondition a motor vehicle are exempt from sales tax			
Repeals				
40	Repeals sections on land use change tax subordination, solar tax credit, and electrical generation tax			
41	Effective dates			
Total Revenue Impact (General Fund)		\$0.19	\$0.91	\$0.94
23	Definition of household income amended to exclude income of separated spouse, exclusion of debt forgiveness from calculation of household income	-\$0.02	-\$0.02	-\$0.02
Total Revenue Impact (Education Fund)		-\$0.02	-\$0.02	-\$0.02

Explanation

Section 7a: Market based sourcing for the Corporate Income Tax

Under Vermont's corporate income tax, C-corporations pay tax on the net income they earn from the economic activity they produce in Vermont. For example, a large multinational company based in California will only pay Vermont corporate income tax on the amount of business it has in Vermont.

To determine what percentage of their business is taxable in Vermont, current law states that their apportionment percentage is determined by a three factor formula:

- Their Vermont-based property as a percentage of their total property nationwide.
- Their Vermont-based payroll as a percentage of their total payroll nationwide.
- Their Vermont-based sales as a percentage of their total sales.

In Vermont, the sales factor is double weighted.

For producers of intangible goods (mostly services), Vermont's current apportionment methodology states that the sales are attributable to the state where the service is produced, not delivered. For example, a New York-based corporation providing online wealth management services to a Vermont customer has attributable sales of zero to Vermont because the service itself (the investing, the portfolio management) is based in New York. This methodology is called Cost of Performance.

This bill shifts to a Market Based Sourcing methodology: the attributable sales are to where the service is delivered, not produced. In the example above, the attributable sales of the online wealth management firm would now be in Vermont since the services were delivered to a customer in Vermont.

JFO estimates this change in methodology will generate \$135,000 in new corporate income tax revenues in FY2020. In subsequent fiscal years, this change will generate up to \$850,000 in additional revenues. All these revenues would be available to the General Fund.

Sources:

- State of Montana, Governor's Office of Budget and Program Planning
- Rhode Island Department of Revenue
- Tennessee General Assembly Fiscal Review Committee