



Vermont Tax Expenditures 2013 Biennial Report

prepared for:

House Committee on Ways and Means
House Committee on Appropriations
Senate Committee on Finance
Senate Committee on Appropriations

January 15, 2013

Pursuant to 32 V.S.A § 312.

Vermont Department of Taxes
Legislative Joint Fiscal Office

TABLE OF CONTENTS

Introduction	1
Individual and Corporate Income Tax Expenditures	
Description of Individual and Corporate Income Tax Expenditures	3
Summary Analysis of Individual Income Tax Expenditures	5
List of FY 2011 Individual Income Tax Expenditures	7
Individual Tax Expenditure Summary FY 2010, FY0 2011 and FY 2014	19
List of FY 2011 Corporate Income Tax Expenditures	21
Corporate Income Tax Expenditure Summary FY 2010, FY0 2011 and FY 2014	25
Sales and Use Tax and Meals and Rooms Tax Expenditures	
Description of Sales and Use and Meals and Rooms Tax Expenditures	27
List of FY 2011 Sales Tax Expenditures	31
Sales Tax Expenditure Summary FY 2010, FY0 2011 and FY 2014	43
List of FY 2011 Meals and Rooms Tax Expenditures	45
Meals and Rooms Tax Expenditure Summary FY 2010, FY0 2011 and FY 2014	51
Property Tax Expenditures	
Description of Property Tax Expenditures	53
List of FY 2011 Property Tax Expenditures	57
Property Tax Expenditure Summary FY 2010, FY0 2011 and FY 2014	66
Bank Franchise and Insurance Premiums Tax Expenditures	
Description of Bank Franchise and Insurance Premiums Tax Expenditures	67
List of FY 2011 Bank Franchise Tax Expenditures	69
List of FY 2011 Insurance Premiums Tax Expenditures	71
Bank Franchise and Insurance Premiums Summary FY 2010, FY0 2011 and FY 2014	73
Motor Fuel and Purchase and Use Tax Expenditures	
Description of Motor Fuel and Purchase and Use Tax Expenditures	75
List of FY 2011 Gasoline and Diesel Tax Expenditures	77
List of FY 2011 Motor Vehicle Purchase and Use Tax Expenditures	78
Motor Fuel and Purchase and Use Tax Expenditure Summary	79
Appendix	83

INTRODUCTION

In 2005 the Vermont Legislature passed Act 75, which charged the Department of Taxes to act in conjunction with the Joint Fiscal Office to prepare a biennial report detailing tax expenditures and their fiscal effect on the major state taxes. This report encompasses expenditures to individual and corporate income, sales and use, meals and rooms, and property taxes. Act 207 (2006) added bank franchise and insurance premiums taxes to the report and are included here. In 2010, the Legislature added a reporting requirement in Act 160 for certain federal expenditures found on IRS Form 1040 Schedule A, as well as the federal standard deduction and federal personal exemption. Additionally, tax expenditures in the motor fuels and motor vehicle purchase and use taxes were added to the report.

Tax Expenditures Defined

Taxes are an essential source of revenue to finance government, but it can be difficult to understand the size of government if judged merely by the amount of revenue raised by taxes and fees. In its simplest form, a tax is an across-the-board levy on a base, such as income or property, to which a specific rate applies and no modifications exist. In practice, however, exclusions from, or modifications to, the base are prevalent.

Tax expenditures are statutory provisions which reduce the amount of revenue that would otherwise be collected in order to encourage particular activity or to limit the tax burden on certain types of individuals. In other words, the tax code is about spending as well as generating revenue. Tax expenditures essentially have the same fiscal effects as direct government appropriations; in this case, by reducing the amount of revenue available to support government programs. However, tax expenditures differ from direct spending programs in one important respect. Direct appropriations for government programs are evaluated annually during the budget process, and the legislature must take affirmative action to continue funding. Additionally, direct spending programs are itemized on the budget and therefore more transparent to the public. Tax expenditures, on the other hand, usually represent permanent foregone revenue and are not evident in the state budget or subject to the same annual review process.

Tax expenditures have come under increasing scrutiny in recent years. Forty-four states and the District of Columbia issue reports measuring tax expenditures to a varying degree. Since tax expenditures are designed to accomplish certain public goals that otherwise might be met through direct expenditures, it is appropriate for states to require the same kind of analysis and review given to budgetary appropriations for government goods and services. In addition to the important considerations of transparency and good policy, budget pressures in Vermont have brought increased scrutiny of these expenditures, as they have in many other states.

Reading the Report

The report is split into sections according to tax type: income (individual, corporate and federal); sales and use and meals and rooms; property; bank franchise and insurance premiums; motor fuels and motor vehicle purchase and use taxes. Each section opens with an introduction describing the type of expenditures, followed by a descriptive list that provides statutory reference and year of enactment, as well as the estimated foregone revenue and a brief description. The tax expenditure data in each tax type are summarized and include data from the prior fiscal year for comparison purposes, as well as an estimate of revenue forgone in FY14.

While some provisions of the tax code provide specific tax exemptions, deductions, and credits, other expenditures are part of the basic structure of a given tax, known as the taxable base. The taxable base is discussed in the introductory sections for each tax type, and the expenditures listed in those sections are best thought of as exceptions to that tax base. The estimates are rounded and based on the best data available. For the income tax sections, the number of taxpayers benefiting from the expenditure is also included. For FY14 estimates, various tax data and economic trends were analyzed to provide a preliminary estimate of future fiscal impact from that expenditure. Were the legislature to consider eliminating any particular tax expenditure, a more detailed analysis would be necessary.

Why Expenditure Estimates Are Not Equivalent to Revenue Loss

As with the federal reporting of tax expenditures by the Joint Committee on Taxation, the authors of this report stress that the estimates of expenditure value provided here are not a substitute for the estimation of revenue gain that would result from elimination of a particular tax expenditure. Each expenditure value is estimated in isolation, without regard to interactions with other provisions in the tax code.

**INDIVIDUAL AND CORPORATE
INCOME TAX EXPENDITURES**

DESCRIPTION OF INDIVIDUAL AND CORPORATE INCOME TAX EXPENDITURES

This chapter of the report covers individual and corporate income tax expenditures: the first section is devoted to the individual income tax, the second section is for the corporate income tax. Both sections are divided into subsections with a focus on specific types of expenditures. The tax value of the expenditure differs depending on whether it is a deduction or exclusion from federal taxable income, a reduction of the Vermont tax prior to applying the income adjustment, income that is exempt and part of the adjustment calculation, or a credit against tax, which may be refundable or nonrefundable. Added to the individual income tax section is a subsection on federal deductions and personal exemptions that reduce federal taxable income, the starting point for calculation of Vermont taxable income.

After the descriptive lists for the two income tax expenditure sections, a table summarizes each of the expenditures. In addition, some summary data on individual income tax expenditures are provided by income cohort, including the total number of returns filed, the number receiving benefits from tax expenditures, and the total amount of and average reduction in tax liability due to those expenditures. There is also a summary table by income class on the three largest tax expenditures with more than 1,000 claimants.

Tax Base

Vermont income taxes are inextricably linked to the federal tax structure, as defined in chapter 151 of Title 32. Most states use federal taxable income or federal adjustable gross income (AGI) as the starting point for calculating state income taxes. Vermont uses the former, although serious efforts to explore shifting Vermont's base to AGI have been undertaken in the past few years by legislative committees and the Blue Ribbon Tax Commission. This report focuses on those exclusions, exemptions, deductions, and credits enacted into the Vermont tax code that modify the federal tax base, as well as the federal expenditures mentioned above.

Tax provisions reflecting federal prohibitions against taxation are considered to be an inherent part of the tax base and therefore not included in this report. Prohibitions can relate to types of income, such as interest income from U.S. government obligations, or to types of entities, such as federally or state chartered credit unions. Vermont has also chosen, in some cases, to exempt particular institutions from income tax—such as banks—and to impose an alternative tax, in this case the bank franchise tax.

Federal Expenditures Included in Report

Estimates are provided in Section 1.600 of the report for allowable federal itemized deductions reported on Federal Form 1040 Schedule A.¹ These deductions flow through to Vermont and thus lower the state's taxable income base. Estimates are derived by matching Vermont and federal income tax returns and calculated individually, that is, assuming elimination of only that particular deduction. Most taxpayers who itemize take multiple deductions, and therefore the number of taxpayers benefitting from each expenditure is not additive. Approximately 100,000 Vermont taxpayers itemize each year.

¹ The limitation on itemized deductions for high-income taxpayers was phased out over four years (2006 - 2009) and eliminated for tax year 2010. The elimination was extended until January 1, 2013 as part of the temporary two-year extension of the federal 2001 tax cuts.

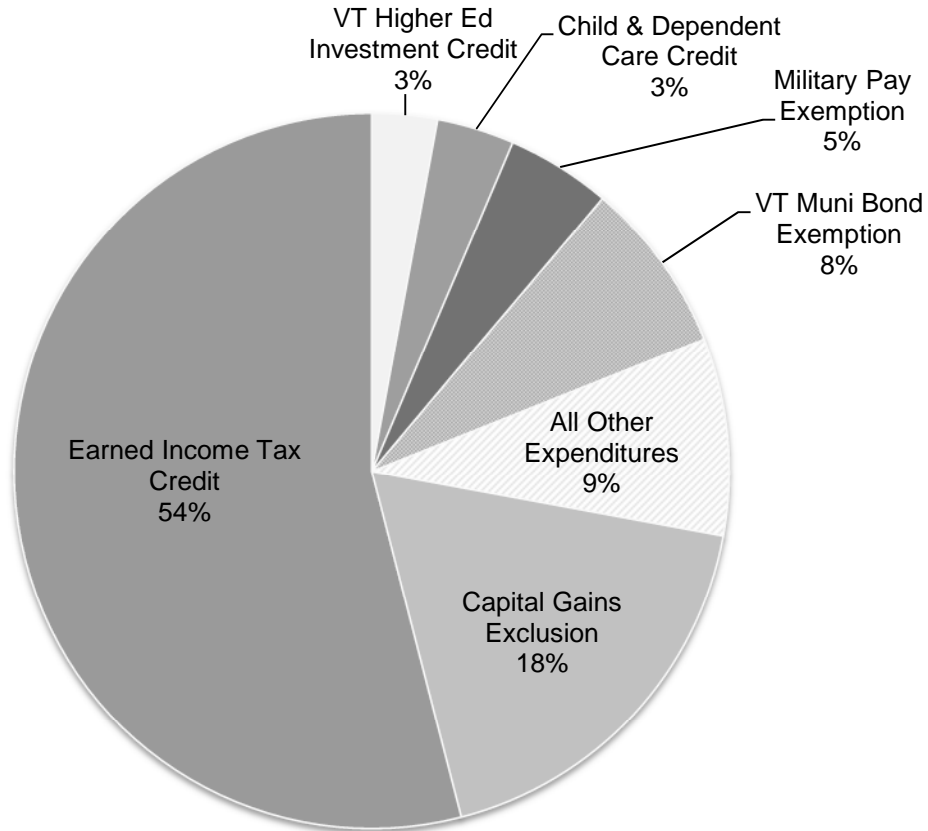
Data Sources

The nature of income tax expenditures in conjunction with Vermont's returns and revenue processing systems and off-line credit tracking spreadsheets provide detailed data that allow a high degree of confidence in the expenditure amounts supplied in this report. Each type of expenditure involves unique estimating problems and a different methodology. The estimated revenue impact for each expenditure is rounded to the nearest hundred dollars, and the number of taxpayers benefiting from the expenditure is rounded to the nearest multiple of ten.

It should be noted that due to the timing and production of this report, the FY 2014 projections for the personal income and corporate income tax expenditures were made prior to the fiscal cliff negotiations in Congress being conducted.

SUMMARY ANALYSIS OF INDIVIDUAL INCOME TAX EXPENDITURES

There are 23 state tax expenditures which may be taken against individual income tax. The benefits accrue to almost one-quarter of all income tax filers who receive at least one type of tax preference. Of the approximately 362,000 returns filed for tax year 2010, there were over 83,000 returns claiming at least one tax expenditure. A number of taxpayers receive more than one benefit. From the list of tax expenditures, three account for 80% of all foregone personal income tax revenue with the remaining 20 credits account for 20% of the foregone revenue.



The highest levels of participation occurred in both ends of the income spectrum. There were almost 44,000 taxpayers receiving an earned income tax credit and the next highest tax expenditure utilization was the capital gains exclusion with almost 17,500 taxpayers benefitting. The child and dependent care credit, Vermont municipal bond income exemption, the Vermont higher education investment tax credit and the military pay exemption all have utilization rates in descending order. More details of personal income tax expenditures are contained in the Appendix.

LIST OF FISCAL YEAR 2011 INDIVIDUAL INCOME TAX EXPENDITURES

1.000 Adjustments to Federal Taxable Income

1.001 Vermont Municipal Bond Income Exemption

Statute: 32 V.S.A. §5811(21)(A)(i)
Enacted: 1986
Estimate: \$3,700,700
Taxpayers: 5,800

Interest income from Vermont state and local government obligations is exempt from taxation in Vermont. However, interest income from non-Vermont state and local obligations is added to the amount of federal taxable income.

1.002 Capital Gains Exclusion

Statute: 32 V.S.A. §5811(21)(B)(ii)
Enacted: 2002; amended 2009, 2010
Estimate: \$8,544,200
Taxpayers: 22,730

Effective for tax years 2011 and after, taxpayers may reduce taxable income by up to \$5,000 in adjusted net capital gain income or 40% adjusted net capital gain income from the sale of certain business assets held for more than three years. As under prior law, the exclusion amount cannot exceed 40% of federal taxable income.

1.100 Subtractions from Vermont Income Tax

1.101 Credit for Child and Dependent Care

Statute: 32 V.S.A. §5822(d)
Enacted: 1967
Estimate: \$1,656,100
Taxpayers: 14,510

A taxpayer is entitled to a nonrefundable tax credit equal to 24% of the federal child and dependent care credit applied against federal tax liability. A taxpayer may claim this credit or the low income child and dependent care credit, but not both.

1.102 Credit for Elderly or Disabled

Statute: 32 V.S.A. §5822(d)
Enacted: 1967
Estimate: \$2,700
Taxpayers: 90

A taxpayer is entitled to a nonrefundable tax credit equal to 24% of the federal credit available to the elderly (age 65 or older) and permanently disabled, which was applied against federal tax liability.

1.103 Investment Tax Credit

Statute: 32 V.S.A. §5822(d)
Enacted: 1967
Estimate: \$886,000
Taxpayers: 90

A taxpayer is entitled to a nonrefundable tax credit equal to 24% of the federal investment tax credit applied against federal tax liability for Vermont-property investment in the following activities: rehabilitation (IRC §47), energy (IRC §48(a)), advanced coal products (IRC §48(a)), and gasification products (IRC 48B(e)).

1.104 Vermont Farm Income Averaging Credit

Statute: 32 V.S.A. §5822(c)(2)
Enacted: 2002
Estimate: \$48,500
Taxpayers: 150

A nonrefundable tax credit is available in the amount of 24% of the reduction in the taxpayer's federal tax liability due to farm income averaging.

1.105 Vermont Business Solar Energy Credit

Statute: 32 V.S.A. §§5822(d); 5930z
Enacted: 2002
Estimate: \$2,387,600
Taxpayers: 30

A taxpayer is entitled to a nonrefundable tax credit of 76% of the Vermont-property portion of the business solar energy tax credit component of the federal investment tax credit applied against the taxpayer's federal tax liability. Unused credits may be carried forward for five years. This credit in combination with the 24% Investment Tax Credit provides a total credit of 100% of the amount of the federal business solar energy credit.

1.200 Adjustments to Vermont Income Tax

1.201 Military Pay

Statute: 32 V.S.A. §5823(a)(2) & (b)(3)
Enacted: 1966
Estimate: \$2,229,700
Taxpayers: 1,700

Exempts all military pay for full-time active duty earned outside Vermont. This also exempts the first \$2,000 of military pay earned for commander certified unit training in Vermont for National Guard or United States Reserve personnel who have a federal AGI under \$50,000. Exemption also applies to funds received through the federal armed forces educational loan repayment program, but only to funds included in the taxpayer's AGI for the taxable year.

1.202 Federal Employment Opportunity Income

Statute: 32 V.S.A. §5823(a)(5)
Enacted: 1979
Estimate: \$33,100
Taxpayers: 60

Exempts income related to wages and salaries not taken as a federal employment credit and included in federal AGI pursuant to IRC 280C. Also exempts income included in federal AGI related to expenses incurred but not covered by the Americans with Disabilities Credit (IRC 44).

1.203 Americans with Disabilities Credit

Statute: 32 V.S.A. §5823(a)(5)
Enacted: 1998
Estimate: \$0
Taxpayers: 0

Exemption applies to eligible expenses incurred by small businesses for the purpose of providing access to persons with disabilities, as provided in Section 44 of the IRC.

1.204 Interest Income from VSAC bonds, Vermont Telecommunications Authority bonds and notes, and federal Build America bonds

Statute: 16 V.S.A. §2825; 30 V.S.A. §8074
Enacted: 1965; 2007
Estimate: \$1,366,800
Taxpayers: 340

Exemption applies to interest and income from these sources when included in a taxpayer's federal AGI.

1.300 Vermont Tax Credits Applied after Income Adjustment

1.301 Charitable Housing Credit

Statute: 32 V.S.A. §5830c
Enacted: 1990
Estimate: \$18,360
Taxpayers: 50

Vermont taxpayers who make an authorized charitable investment in an eligible housing charity are entitled to a nonrefundable credit in the amount equal to the difference between the net income that would have been received at the charitable threshold rate and the actual net income received by, or credited to, the taxpayer. The credit cannot exceed 3% of the average outstanding principal balance of the investment during the taxable year. Unused credits may be carried forward for three years.

1.302 Affordable Housing Credit

Statute: 32 V.S.A. §5930u
Enacted: 2000
Estimate: \$0
Taxpayers: 0

A nonrefundable tax credit may be taken for an affordable rental housing project or owner-occupied affordable housing units, provided the project has been authorized by the Vermont Housing Finance Agency. The amount of the credit is based on a taxpayer's eligible cash contribution and the agency's allocation plan. Total tax credits available to the taxpayer are the amount of the first-year allocation plus the succeeding four years' deemed allocation. (These credits are taken almost exclusively against bank franchise tax and insurance premiums tax.)

1.303 Qualified Sale of Mobile Home Park Credit

Statute: 32 V.S.A. §5828
Enacted: 1998
Estimate: \$0
Taxpayers: 0

The taxpayer is entitled to a nonrefundable credit worth 7% of the taxpayer's gain from the sale of a mobile home park. This is measured by the gain subject to federal income tax. Unused credits may be carried forward for three years.

1.304 Vermont Higher Education Investment Credit

Statute: 32 V.S.A. §5825a
Enacted: 2003 (revised in 2007)
Estimate: \$1,396,300
Taxpayers: 2,690

A taxpayer, including each spouse filing a joint return, is entitled to a nonrefundable credit of 10% for the first \$2,500 contributed for each beneficiary to a Vermont higher education investment plan account. A recipient of this credit is subject to a 10% repayment for any distribution not excluded from federal AGI, up to a maximum of the total credits received.

1.305 Entrepreneurs' Seed Capital Fund Credit

Statute: 32 V.S.A. §5830b
Enacted: 2004
Estimate: \$0
Taxpayers: 0

A taxpayer who contributes to the Seed Capital Fund may claim a nonrefundable credit equal to the lesser of either 4% of the taxpayer's contribution or 50% of the taxpayer's tax liability for the year prior to claiming the credit, provided that the aggregate credit allowable for all taxable years not exceed 20% of the taxpayer's contribution to the initial capitalization of the fund. Unused credits may be carried forward for four years.

1.306 Historic Rehabilitation Tax Credit

Statute: 32 V.S.A. §5930cc(a); see §5930aa – 3930ff
Enacted: 2006
Estimate: \$0
Taxpayers: 0

A taxpayer who is deemed qualified by the Vermont Downtown Development Board and completes a qualified historic rehabilitation project may claim a nonrefundable credit of 10% of those qualified rehabilitation expenditures. Unused credits may be carried forward for nine years. (A substantial number of these credits are taken against bank franchise tax.)

1.307 Façade Improvement Tax Credit

Statute: 32 V.S.A. §5930cc(b); see §5930aa – 5930ff
Enacted: 2006
Estimate: \$0
Taxpayers: 0

Taxpayers are eligible for a nonrefundable credit equal to 25% of expenditures up to \$25,000 on a qualified façade improvement project, as approved by the Vermont Downtown Development Board. Unused credits may be carried forward for nine years. (A substantial number of these credits are taken against bank franchise tax.)

1.308 Code Improvement Tax Credit

Statute: 32 V.S.A. §5930cc(c); see §5930aa – 5930ff
Enacted: 2006
Estimate: \$24,100
Taxpayers: Under 10

Taxpayers are eligible for a nonrefundable credit equal to 50% of costs for qualified code improvement or installation projects, up to the following limits: \$12,000 for a platform lift, \$50,000 for an elevator or sprinkler system, and \$25,000 for combined costs of all other code improvement and installation projects, as approved by the Vermont Downtown Development Board. Unused credits may be carried forward for nine years. (A substantial number of these credits are taken against bank franchise tax.)

1.309 Research and Development Tax Credit

Statute: 32 V.S.A. §5930ii
Enacted: 2009
Estimate: N.A.
Taxpayers: N.A.

A taxpayer is eligible for a nonrefundable credit equal to 30% of the amount of the federal tax credit for eligible R&D expenditures made within Vermont. Unused credits may be carried forward for ten years. The credit takes effect for eligible expenditures made on or after January 1, 2011.

1.310 Wood Products Manufacture Tax Credit

Statute: 32 V.S.A. §5930y
Enacted: 2005
Estimate: \$26,200
Taxpayers: Under 10

A credit of 2% of the wages paid in the taxable year by an employer for services performed in the designated counties having at least 5% of their combined jobs provided by employers that manufacture finished wood products and having the highest combined unemployment rate in the state for at least one month in the previous calendar year.

1.311 EATI Tax Credits (carry-forward only)

Statute: 32 V.S.A. §5930a2
Enacted: 1997; repealed 2006
Estimate: \$232,000
Taxpayers: 20

A suite of tax credits based on payroll increases, research and development investment, workforce development expenditures, or capital investments in facilities and machinery or equipment, and sales of product shipped out of state. The final taxable year in which credits can be earned is 2010; the last year carry-forward credits can be claimed is 2015.

1.312 Downtown Tax Credits (carry-forward only)

Statute: 32 V.S.A. §§5930n-5930r
Enacted: 1998, 2002, repealed 2006
Estimate: \$188,900
Taxpayers: Under 10

Four tax credits designed to assist with rehabilitation and code improvements for older and historic buildings located within designated downtowns and village centers were replaced with three credits (§5930cc) to make the program easier to use and administer.

Credits allocated prior to July 1, 2006 remain subject to the associated statutory provisions but must be claimed by May 24, 2011.

1.400 Refundable Credits

1.401 Low Income Child and Dependent Care Credit

Statute: 32 V.S.A. §5828c
Enacted: 2002
Estimate: \$57,500
Taxpayers: 430

A refundable credit is available for taxpayers with federal AGI under \$30,000, if filing individually, or \$40,000, if married filing jointly. The credit is equal to 50% of the federal child and dependent care credit for child and dependent care services procured in Vermont, so long as the facility providing these services has been certified by the Agency of Human Services.

1.402 Earned Income Tax Credit

Statute: 32 V.S.A. §5828b
Enacted: 1988
Estimate: \$25,565,700
Taxpayers: 44,500

Any taxpayer entitled to a federal earned income tax credit may claim a Vermont EITC in the amount of 32% of the federal credit, proportional to the percentage of total income that was earned or received in Vermont.

1.500 Federal Itemized Deductions

1.501 Medical and Dental Expenses

Statute: 1RC § 213
Enacted: 1942
Estimate: \$2,908,900
Taxpayers: 16,570

A deduction is allowed for all expenses in excess of 7.5% of the taxpayer's adjusted gross income paid during the taxable year for medical care of the taxpayer or their dependents, provided those expenses are not reimbursed. This deduction includes prescribed drugs or insulin, and all amounts paid for the diagnosis, cure, mitigation, treatment or prevention of disease. It may also apply to amounts paid for needed lodging for treatment away from one's residence.

1.502 State and Local Income and Sales Taxes

Statute: IRC § 164
Enacted: 1913
Estimate: \$20,307,000
Taxpayers: 97,150

A deduction is allowed for the total of state, local, and foreign income taxes paid during the taxable year. This deduction can only be taken if the taxpayer chooses to forgo the deduction for general sales taxes. For tax years 2009 and after, Vermont limits the deduction of income taxes claimed on Schedule A to \$5000.

1.503 Real Estate Taxes

Statute: IRC § 164
Enacted: 1921
Estimate: \$13,869,100
Taxpayers: 93,970

A taxpayer is entitled to deduct all state, local, and foreign taxes paid during the taxable year on real estate owned that was not used for business.

1.504 Personal Property Taxes

Statute: IRC § 163(h)
Enacted: 1986
Estimate: \$207,300
Taxpayers benefiting from expenditure: 10,860

State and local personal property taxes paid by a taxpayer are deductible, but only if the taxes were based on value alone and imposed on a yearly basis. Additionally, there are other miscellaneous taxes that are deductible, such as generation-skipping transfer tax imposed on income distributions.

1.505 Home Mortgage Interest Deduction

Statute: IRC § 163(h)
Enacted: 1986
Estimate: \$18,731,600
Taxpayers: 81,510

All interest from a secured debt mortgage may be deducted, presuming the following criteria are met: the taxpayer applying for the deduction is legally liable for the loan and the payment was made on a “qualified residence.” Mortgage interest not reported on Form 1098 may also be deductible, as well as points paid to borrow money and the amount of qualified mortgage insurance premiums paid under a mortgage insurance contract issued after December 1, 2006.

1.506 Investment Interest

Statute: IRC § 163(d)
Enacted: 1917
Estimate: \$690,500
Taxpayers: 2,630

A deduction is allowed for interest that is paid or that accrues due to the holding of property for the purpose of investment during the taxable year. The amount to be deducted cannot exceed the taxpayer’s net investment income for that taxable year. However, any excess interest amount may be carried over as a deduction in the following taxable year.

1.507 Charitable Contributions and Gifts

Statute: IRC § 170
Enacted: 1917
Estimate: \$8,830,700
Taxpayers: 69,750

A deduction is allowed for donations and gifts made to approved organizations, although the applicable deduction amount varies based on the property that is donated. For cash contributions by individuals, a deduction is allowed for up to 50% of the taxpayer's AGI. For property contributions, a deduction can be taken up to 30% of AGI. Any excess charitable contributions may be carried forward for a total of five years.

1.508 Casualty or Theft Losses

Statute: IRC § 165, 198A
Enacted: 1913
Estimate: \$36,400
Taxpayers: 120

A taxpayer is allowed a deduction for any non-business casualty or theft losses during the taxable year that were not compensated for by insurance or otherwise. The loss deduction is limited to the taxpayer's adjusted basis in the property. Each personal casualty or theft loss is limited to the excess of the loss over \$100 for taxable year 2008 (\$500 for taxable year 2009; then \$100 for taxable years 2010 and after). Total losses are deductible only to the extent that the amount for the taxable year exceeds 10% of AGI.

1.509 Job Expenses and Other Miscellaneous Deductions

Statute: IRC § 162
Enacted: 1913
Estimate: \$4,023,100
Taxpayers: 17,550

Unreimbursed employee expenses that are ordinary and necessary for the carrying on of a trade or business, or of being an employee and in excess of 2% of the taxpayer's AGI may be deducted. Examples of valid unreimbursed employee expenses are detailed in IRS Publication 529. A taxpayer may also deduct fees paid for tax return preparation and certain other fees and expenses paid to produce or collect taxable income and manage or protect property held for earning income. Additionally, other miscellaneous deductions may be taken, including gambling losses, to the extent of gambling winnings, casualty and theft losses of income-producing property, certain unrecovered investment in a pension, and impairment-related work expenses of a disabled person.

1.600 Other Federal Expenditures between AGI and Taxable Income

1.601 Standard Deduction

Statute: IRC § 63
Enacted: 1944
Estimate: \$103,240,400²
Taxpayers: 205,590³

A deduction of \$10,900 was allowed in tax year 2008 (adjusted annually for inflation) for married filing joint taxpayers who choose not to itemize their deductions for the taxable year. (The amount for those filing as head of household was \$8,000; for single taxpayers, \$5,450.) The amount is increased for those who are 65 years and older and/or blind. For taxable year 2009 only, the standard deduction could be increased for taxes paid on the purchase of a new motor vehicle, the amount of state and local real estate taxes up to \$500 (\$1000 for married filing jointly), and net disaster loss.

1.602 Personal Exemption

Statute: IRC § 151(a)
Enacted: 1913
Estimate: \$88,739,700
Taxpayers: 294,300

A deduction of \$3,500 was allowed in tax year 2008 (adjusted annually for inflation) for every exemption claimed by a taxpayer whose AGI is below a threshold amount, varied by filing status. For each \$2,500 of AGI over that amount, the exemption dollar amount must be reduced by 2%, with a total reduction of no more than one-third of the final exemption amount.

² The tax expenditure value of the federal standard deduction has been calculated for all taxpayers, regardless of whether they itemize their deductions. Thus, the expenditure value of itemized deductions is the residual deduction amount. This methodology assumes that itemized deductions would not be eliminated such that the amount to be deducted would reduce total deductions for itemized filers below the standard deduction allowable to the taxpayer (see Act No. 1, Sec. H.47. 2009 Special Session). The deduction amount and count includes zero exemption filers who receive some portion or all of the standard deduction.

³ The reported number of taxpayers includes only those who took the standard deduction rather than the itemized deduction. However, since the methodology for calculating the expenditure value (see FN 1) includes the value for *all* taxpayers, regardless of which option they chose, the average value cannot be computed from these two figures. The corresponding portion of the standard deduction expenditure associated with taxpayers who itemize is \$47,553,500.

Vermont Individual Income Tax Expenditures

Item Number	Individual Income Tax Expenditure	FY 2010 actual	FY 2011 actual	FY 2014 projected
1.001	Vermont Municipal Bond Income	3,984,700	3,700,700	4,300,000
1.002	Capital Gains Exclusion	13,533,900	8,544,200	13,000,000
1.101	Credit for Child and Dependent Care	1,638,500	1,656,100	1,710,000
1.102	Credit for Elderly or Disabled	2,500	2,700	2,800
1.103	Investment Tax Credit	83,800	886,000	600,000
1.104	Vermont Farm Income Averaging Credit	42,600	48,500	80,000
1.105	Vermont Business Solar Energy Credit	865,300	2,387,600	200,000
1.201	Military Pay Exemption	1,183,400	1,213,600	1,275,000
1.202	Federal Employment Opportunity Income	11,800	33,100	20,000
1.203	Americans with Disabilities Credit Exemption	200	0	200
1.204	Qualified Bond Interest Income Exemption	0	1,366,800	500,000
1.301	Charitable Housing Credit	37,000	18,360	23,000
1.302	Affordable Housing Credit	0	0	0
1.303	Qualified Sale of Mobile Home Park Credit	0	0	0
1.304	Vermont Higher Education Investment Credit	1,131,700	1,396,300	1,700,000
1.305	Entrepreneurs' Seed Capital Fund Credit	0	0	0
1.306	Historic Rehabilitation Tax Credit	0	0	10,000
1.307	Façade Improvement Tax Credit	0	0	0
1.308	Code Improvement Tax Credit	17,600	24,100	35,000
1.309	Research and Development Tax Credit	N/A.	N/A.	400,000
1.310	Wood Products Manufacture Tax Credit	0	26,200	25,000
1.311	EATI Tax Credits (carry-forward only after 2010)	60,000	232,000	260,000
1.312	Downtown Tax Credits (carry-forward only)	17,600	188,900	45,000
1.401	Low Income Child and Dependent Care Credit	125,900	57,500	70,000
1.402	Earned Income Tax Credit	25,309,300	25,565,700	25,900,000
Total		48,045,800	47,348,360	50,156,000

Federal Individual Income Tax Expenditures

Item Number	Federal Individual Income Tax Expenditure	FY 2010 actual	FY 2011 actual	FY 2014 projected
1.501	Medical & Dental Expenses*	2,706,100	2,908,900	2,200,000
1.502	State & Local Income and Sales Taxes	19,475,500	20,307,000	23,100,000
1.503	Real Estate Taxes	12,939,400	13,869,100	16,000,000
1.504	Personal Property Taxes	432,100	207,300	200,000
1.505	Home Mortgage Interest Deduction	18,864,400	18,731,600	20,300,000
1.506	Investment Interest	694,900	690,500	750,000
1.507	Charitable Contributions & Gifts	7,825,400	8,830,700	10,900,000
1.508	Casualty or Theft Losses	27,100	36,400	42,000
1.509	Job Expenses & Other Misc Deductions	3,514,900	4,023,100	4,800,000
1.601	Standard Deduction	106,067,200	103,240,400	110,000,000
1.602	Personal Exemption	82,693,200	88,739,700	101,700,000
Total		255,240,200	261,584,700	289,992,000

* Taxpayers may deduct the amount by which their total medical care expenses for the year exceed 7.5% of AGI; that percentage rises to 10% for years beginning after 12/31/12.

LIST OF FISCAL YEAR 2011 CORPORATE INCOME TAX EXPENDITURES

2.000 Adjustments to Federal Taxable Income

2.001 Vermont Municipal Bond Income Exemption

Statute: 32 V.S.A. §5811(21)(A)(i)
Enacted: 1986
Estimate: Data unavailable
Taxpayers: Data unavailable

Interest income from Vermont state and local government obligations is exempt from taxation in Vermont. However, interest income from non-Vermont state and local obligations is added to the amount of federal taxable income.

2.100 Vermont Tax Credits

2.101 Charitable Housing Credit

Statute: 32 V.S.A. §5830c
Enacted: 1990
Estimate: \$0
Taxpayers: 0

Vermont taxpayers who make an authorized charitable investment in an eligible housing charity are entitled to a nonrefundable credit in the amount equal to the difference between the net income that would have been received at the charitable threshold rate and the actual net income received by, or credited to, the taxpayer. The credit cannot exceed 3% of the average outstanding principal balance of the investment during the taxable year. Unused credits may be carried forward for three years.

2.102 Affordable Housing Credit

Statute: 32 V.S.A. §5930u
Enacted: 2000
Estimate: \$144,800
Taxpayers: Under 10

A nonrefundable tax credit may be taken for an affordable rental housing project or owner-occupied affordable housing units, provided the project has been authorized by the Vermont Housing Finance Agency. The amount of the credit is based on a taxpayer's eligible cash contribution and the agency's allocation plan. Total tax credits available to the taxpayer are the amount of the first-year allocation plus the succeeding four years' deemed allocation. (These credits are taken almost exclusively against bank franchise tax and insurance premiums tax.)

2.103 Qualified Sale of Mobile Home Park Credit

Statute: 32 V.S.A. §5828
Enacted: 1998
Estimate: \$0
Taxpayers: 0

The taxpayer is entitled to a nonrefundable credit worth 7% of the taxpayers gain from the sale of a mobile home park. This is measured by the gain subject to federal income tax. Unused credits may be carried forward for three years.

2.104 Wood Products Manufacture Tax Credit

Statute: 32 V.S.A. §5930y
Enacted: 2005
Estimate: \$0
Taxpayers: Under 10

A credit of 2% of the wages paid in the taxable year by an employer for services performed in the designated counties having at least 5% of their combined jobs provided by employers that manufacture finished wood products and having the highest combined unemployment rate in the state for at least one month in the previous calendar year.

2.105 Historic Rehabilitation Tax Credit

Statute: 32 V.S.A. §5930cc(a); see §§5930aa - 5930ff
Enacted: 2006
Estimate: \$0
Taxpayers: 0

Credit equals 10% of qualified rehabilitation expenditures as defined in the IRC 26 U.S.C. § 47(c).

2.106 Façade Improvement Tax Credit

Statute: 32 V.S.A. 5930cc(b); see §§5930aa - 5930ff
Enacted: 2006
Estimate: \$0
Taxpayers: 0

Credit equals 25% of qualified expenditures for façade improvements, up to a maximum amount of \$25,000.

2.107 Code Improvement Tax Credit

Statute: 32 V.S.A. 5930cc(c); see §§5930aa - 5930ff
Enacted: 2006
Estimate: \$0
Taxpayers: 0

A qualified applicant is eligible for a tax credit of 50% for qualified expenditures up to a maximum of \$12,000 for installation or improvement of a platform lift, a maximum tax credit of \$50,000 for installation or improvement of a sprinkler system, and a maximum tax credit of \$25,000 for the combined costs of all other qualified code improvements.

2.108 Business Solar Energy Tax Credit

Statute: 32 V.S.A. §5930z
Enacted: 2008
Estimate: \$168,000
Taxpayers: Under 10

A taxpayer is entitled to a 100% credit for the Vermont-property portion of the business solar energy tax credit component of the federal investment tax credit applied against the taxpayer's federal tax liability. Unused credits may be carried forward for five years.

2.109 Machinery and Equipment Tax Credit

Statute: 32 V.S.A. §5930ll
Enacted: 2010
Estimate: N.A.
Taxpayers: N.A

A qualified taxpayer approved by VEPC for a machinery and equipment investment tax credit certification is entitled to a nonrefundable credit in an amount equal to 10% of the total qualified capital expenditures. The total amount of credit authorized by statute is \$8 million, and may not exceed \$1 million in any one tax year. Applies to tax years beginning on January 1, 2012; repealed effective June 1, 2026.

2.110 Research and Development Tax Credit

Statute: 32 V.S.A. §5930ii
Enacted: 2009
Estimate: N.A.
Taxpayers: N.A.

A taxpayer is eligible for a nonrefundable credit equal to 30% of the amount of the federal tax credit for eligible R&D expenditures made within Vermont. Unused credits may be carried forward for ten years. The credit takes effect for eligible expenditures made on or after January 1, 2011.

2.111 EATI Tax Credits (carry-forward only)

Statute: 32 V.S.A. §5930a
Enacted: 1997; repealed 2006
Estimate: \$1,628,200
Taxpayers: Under 10

A suite of tax credits based on payroll increases, research and development investment, workforce development expenditures, or capital investments in facilities and machinery or equipment, and sales of product shipped out of state. The final taxable year in which credits can be earned is 2010; the last year carry forward credits can be claimed is 2015.

2.112 Downtown Tax Credits (carry-forward only)

Statute: 32 V.S.A. §§5930n-5930r
Enacted: 1998, 2002, repealed 2006
Estimate: \$30,400
Taxpayers: Under 10

Four tax credits designed to assist with rehabilitation and code improvements for older and historic buildings located within designated downtowns and village centers were replaced with three credits (§5930cc) to make the program easier to use and administer. Credits allocated prior to July 1, 2006 remain subject to the associated statutory provisions but must be claimed by May 24, 2011.

OTHER EXPENDITURES FOR FISCAL YEAR 2011

2.200 Vermont Employment Growth Incentive (VEGI)

Statute: 32 V.S.A. §5930b
Enacted: 2006
Estimate: \$602,190
Taxpayers: 13

Unlike other credits, deductions, or exemptions to personal income tax, the VEGI program provides a cash incentive, paid in installments, based on new, qualified job and payroll creation in Vermont, to companies authorized by the Vermont Economic Progress Council (VEPC). VEGI was a newly designed non-credit incentive program that began in January 2007, replacing the Economic Advancement Tax Incentive program (EATI). The VEGI incentive amount is earned over a period of up to five years and paid out over a period of up to nine years, provided the company maintains or increases base payroll and meets the necessary targets. The claims process is unrelated to filing personal or business income taxes.

Corporate Income Tax Expenditures

Item Number	Corporate Income Tax Expenditures	FY 2010 actual	FY 2011 actual	FY 2014 projected
2.001	Vermont Municipal Bond Income Exemption	Not estimated	Not estimated	Not estimated
2.101	Charitable Housing Credit	0	0	0
2.102	Affordable Housing Credit	0	144,800	330,000
2.103	Qualified Sale of Mobile Home Park Credit	0	0	0
2.104	Wood Products Manufacture Tax Credit	0	0	360,000
2.105	Historic Rehabilitation Tax Credit	0	0	0
2.106	Façade Improvement Tax Credit	0	0	0
2.107	Code Improvement Tax Credit	0	0	0
2.108	Business Solar Energy Tax Credit	0	168,000	0
2.109	Machinery and Equipment Tax Credit	N.A.	N.A.	0
2.110	Research and Development Tax Credit	N.A.	N.A.	2,600,000
2.111	EATI Tax Credits (carry-forward only)	543,600	1,628,200	350,000
2.112	Downtown Tax Credits (carry-forward only)	0	30,400	50,000
2.200	Vermont Employment Growth Incentive	590,926	602,190	700,000
	Total	543,600	1,971,400	4,390,000

**SALES & USE TAX AND MEALS & ROOMS
TAX EXPENDITURES**

DESCRIPTION OF SALES AND USE AND MEALS AND ROOMS TAX EXPENDITURES

Sales and Use Tax Expenditures

Estimating expenditures in sales and use taxes presents challenges not encountered when reporting income tax expenditures. There is no data on exempted sales, as opposed to income tax credits and deductions, because specific sales tax exemptions are not reported on any tax return. The estimates contained in this report are based on data from a variety of sources for different years and using different methodologies. In some cases there were no available data on which to base an estimate, but where available, sales and use tax expenditure estimates are provided for fiscal year 2011. When using data sources that do not have annual updates, the data have been adjusted for inflation. The estimated revenue impact is rounded to the nearest hundred thousand dollars. It is impractical to estimate the number of affected taxpayers, so this portion of the report does not include that information.

In 2007, Vermont adopted a definition of "retail sale" developed by a consortium of states as part of the Streamlined Sales and Use Tax Agreement. This definition is included in 32 V.S.A. §9701(5): Retail sale or sold at retail means any sale, lease, or rental for any purpose other than for resale, sublease, or subrent.

Section 9741 describes several categories of sales not covered by the sales tax, which are considered expenditures in this report:

- true expenditures that represent policy decisions to protect or give an advantage to certain activities or groups of consumers;
- several product exclusions, including food, clothing, medical devices, and agricultural supplies;
- transactions that fall outside the definition of tangible personal property as the basis for the sales tax and are in statute primarily for clarification, e.g., §9741(35) and (37);
- exemptions for intermediate goods used in the processing of a final product that will be sold at retail, such as the manufacturing exemption, §9741(14), or the newspaper exemption, §9741(15); or
- exemptions for transactions the state deems too difficult to tax, e.g., casual sales.

Some exemptions represent transactions that fall outside the boundaries of the sales tax and are not considered tax expenditures, such as:

- exemptions that represent a choice of alternative tax schemes, such as the meals and rooms tax, which substitutes for extending the sales tax to meals for sale or rooms for rent;
- transactions and sales by organizations that are either nonretail in nature or when the transfer of tangible property is incidental to the delivery of service, such as documents associated with professional services.

Section 9742 specifies transactions that are not covered by the sales tax, and therefore not included in the expenditure report, most of which are nonretail transactions involving the transfer of tangible property in exchange for an intangible interest or upon liquidation or as security for the performance of an obligation. Section 9742 also includes the sawing of lumber excluded from the definition of fabrication and therefore from the sales tax base, the use of waste wood by a manufacturer, and the sale of telecommunications services to an affiliate.

Organizations Not Covered

Certain exemptions are not included as tax expenditures because there would be no lawful mechanism for the state to collect the tax revenue. 32 V.S.A. §9743(1) and (2) describes the exemption of state and federal government from sales and use taxes. The treatment of certain (income) tax-exempt organizations found in §9743(3), (4), and (5), however, does come within the scope of the term "tax expenditure," and those exemptions are included in the body of the report.

Certain Telecommunications Services

Within the definition of telecommunications service, no tax is imposed on "coin-operated telephone service, paging service, private communications service, or value-added non-voice data service" by virtue of 32 V.S.A. § 9771(5). These services are nonretail transactions that do not involve the transfer of tangible personal property and therefore do not qualify as tax expenditures as the term is used herein. "Telecommunications nonrecurring charges" are defined from the term "sales price" and are not part of the tax base by virtue of § 9701(4)(B)(vi).

Vendor Credits

32 V.S.A. § 9701(4)(B) excludes credits on trade-in from the pre-2007 definition of "receipt." After membership in the Streamlined Sales Tax Agreement, trade-ins are excluded from the definition of sales price. There is a special rule for snowmobiles, motorboats, and vessel sales, excluding the price or book value of the first vehicle if a second vehicle is purchased within three months. These vendor credits are not considered tax expenditures for this report.

Use Tax Exemptions

32 V.S.A. § 9744 covers exemptions from use tax. These exemptions include:

- property purchased prior to Vermont's adoption of the sales tax;
- property on which a tax has already been paid upon purchase in another state;
- property purchased outside Vermont while a nonresident; and
- property withdrawn from inventory and donated to a nonprofit.

These exemptions are difficult to track and not considered expenditures for this report.

Meals and Rooms Tax Expenditures

The meals and rooms tax poses similar challenges as the sales and use tax for estimation of tax expenditures. The tax department has no tax return data on which estimates can be based, and the authors of this report relied on various federal and state sources when relevant data could be found. All estimates have been inflation-adjusted in order to provide comparison for fiscal year 2011.

The tax on meals⁴ and rooms was enacted in 1959. The tax on alcoholic beverages was added in 1963. Unlike the sales tax chapter, chapter 225 does not contain an exemption statute. Instead, certain transactions that might otherwise be deemed a taxable meal or occupancy or alcoholic beverage are defined from those (or related) terms. Thus, most of the exemptions or exclusions are found in definitions.⁵

⁴ The definition of "taxable meal" was substantially rewritten in 1993.

⁵ In addition to these statutory exemptions, under the Supremacy Clause of the U.S. Constitution, no state is permitted to directly tax the federal government or any of its agencies or instrumentalities. Therefore, Vermont does not impose meals and rooms tax on charges billed directly to the federal government in its

Meals Tax

A tax is imposed on each “taxable meal.” 32 V.S.A. §9241. A taxable meal is food or beverage furnished by a “restaurant” and non-prepackaged food or beverage furnished by “other than a restaurant,” whether for consumption on or off the premises. 32 V.S.A. §9202(10)(A) and (B). The definition of a taxable meal also excludes “grocery type items” that include most of the food taxpayers purchase for home consumption. The definitions are complex, and this report only includes the exemption for grocery type items “furnished for take out” that include some bakery, delicatessen, and candy products.

Rooms Tax

An operator collects this tax on the rent of each occupancy (occupancy means use or, possession or the right to the use or possession of a hotel room). 32 V.S.A. § 9241(a). "Hotel" is defined broadly in 32 V.S.A. § 9202(3). That definition excludes certain types of accommodations that serve as the basis for some of the expenditures in this report. Other expenditures result from the rent of occupancy to governments and specified businesses.

Tax on Alcoholic Beverages

A tax is imposed on the sale of alcoholic beverages. 32 V.S.A. § 9241(c). Alcoholic beverages that are served under any of the circumstances enumerated in 32 V.S.A. § 9202(10)(D)(ii) are excluded from the definition of “alcoholic beverages.” 32 V.S.A. § 9202(11). Therefore, the tax expenditure estimates for the tax on alcoholic beverages are included in the estimates under the meals tax. The proportion of the expenditure that would be allocated to the tax on alcoholic beverages is expected to be small.

own name (or name of the agency or instrumentality). This exemption does not necessarily extend to employees of the federal government even if charges are incurred on behalf of the government. See *Vermont Department of Taxes Technical Bulletin No. 13* (1998). Nor does the state impose meals and rooms tax on itself. See *James v. Dravo Contracting Co.*, 302 U.S. 134 (1937) (taxing its own operations would be a direct obstruction to the exercise of its sovereign power). Again, this exempts only direct purchases and not employee purchases. See *TB-13, id.*

LIST OF FISCAL YEAR 2011 SALES TAX EXPENDITURES

3.000 Sales Not Covered; Transactions and Entities Not Taxed

3.001 Medical products

Statute: 32 V.S.A. §9741(2)
Enacted: 1969 (amended in 2012)
Estimate: \$45,900,000

This exemption includes several categories of sales for items used in the “treatment intended to alleviate human suffering or to correct . . . human physical disabilities.” The exemption includes sales of both prescription and non-prescription drugs, supplies used for medical treatment, and durable medical equipment that is either used directly by a patient, such as an oxygen system, or used in a hospital or clinic such as x-ray or magnetic resonance imaging systems. The 2012 amendment includes nominally priced dental supplies provided to patients without charge under this exemption.

Data source: Vermont Department of Financial Regulation, Vermont Health Care Expenditure Analysis & Three-Year Forecast

3.002 Agricultural inputs

Statute: 32 V.S.A. §9741(3)
Enacted: 1969
Estimate: \$22,000,000

This exemption includes several categories of sales for items used in the production on farms of tangible personal property. The exemption applies to a list of specific items, including feed, seed, plants, baler twine, silage bags, sheets of plastic for bunker covers or agricultural wrap, and breeding or other livestock. The exemption also includes pesticides, chemicals, and fertilizers but only when used for agriculture.

Data source: New England Agricultural Statistics, Farm Production Expenditures

3.003 Veterinary supplies

Statute: 32 V.S.A. §9741(3)
Enacted: 1969
Estimate: \$1,100,000

The same section of statute that includes agricultural inputs also exempts veterinary supplies that apply in some cases to supplies used in the treatment of non-agricultural animals. The veterinary supplies exemption is intended only for those items used in the treatment of animals at a veterinarian or for health-related items that are not otherwise available from non-veterinarian retailers.

Data Sources: US Census Bureau and American Veterinarian Medicine Association

3.004 Non-business, casual sales

Statute: 32 V.S.A. §9741(4)
Enacted: 1969
Estimate: Data unavailable

Casual sales represent those sales made by individuals not normally in the business of retail sales. This includes garage sales and sales between individuals of single items such as those often seen in newspaper and electronic classified advertisements.

3.005 Fuels for railroads and boats

Statute: 32 V.S.A. §9741(7)
Enacted: 1969
Estimate: Data unavailable

Railroads are exempt under Title 23 and the use of diesel fuel in boats is exempt under the Title 32 exemption for other motor fuels. Non-dyed fuels for on-road motor vehicles are taxed under Title 23.

3.006 Sales of Food

Statute: 32 V.S.A. §9741(13)
Enacted: 1969
Estimate: \$80,900,000

Food that is sold for consumption off the premises where it is sold, including groceries, is exempt from the sales tax. This exemption includes vitamins and dietary supplements.

Data Source: Consumer Expenditure Survey

3.007 Exemption for manufacturers' material and equipment

Statute: 32 V.S.A. §9741(14)
Enacted: 1969 (amended in 2012)
Estimate: \$307,200,000

The manufacturers' exemption includes both the materials incorporated and consumed in the manufacture of tangible personal property and the equipment used in the manufacturing process. The equipment exempt from sales tax includes only that equipment that is used directly and exclusively in the manufacture of tangible personal property. The exemption does not apply to materials used in the construction of real property, even when included as a part of a manufacturing facility. Starting January 1, 2012, the manufacturers' exemption includes machinery that results in secondary packaging of tangible personal property.

Data Source: US Census Bureau, American Fact Finder

3.008 Newspapers

Statute: 32 V.S.A. §9741(15)
Enacted: 1969; amended in 1980
Estimate: \$1,200,000

The sale of newspapers is exempt (including newspapers that are given away and not sold) as are the materials used in the production of newspapers, such as newsprint and ink.

Data source: US Census Bureau, Service Annual Survey

3.009 Packaging and shipping materials

Statute: 32 V.S.A. §9741(16)
Enacted: 1969
Estimate: \$1,200,000

Packages for the sale of retail items are not subject to sales tax to producers and distributors. This includes containers, labels, and packing materials (such as bubble wrap or polystyrene fill). Shipping materials that may be reused are also eligible for this exemption. Reusable shipping materials include pallets and kegs.

Data source: US Census Bureau, Survey of Business Expenses

3.010 Rented furniture for residential use

Statute: 32 V.S.A. §9741(17)
Enacted: 1970
Estimate: Data unavailable

The rental of furniture for residences is exempt from sales tax. The use of furniture that is included in the rental of a furnished apartment is also exempt from tax.

3.011 Admissions to municipal, state, and federal recreation facilities

Statute: 32 V.S.A. §9741(18)
Enacted: 1970
Estimate: \$300,000

The admission fees for federal, state, or municipally owned recreation facilities are exempt from the sales tax on amusements. These facilities include public beaches and swimming pools, dock and mooring use, golf courses, and campsites.

Data sources: Agency of Natural Resources, sample survey of municipal recreation departments, municipal published documents

3.012 Rentals of coin-operated washing facilities, including car washes

Statute: 32 V.S.A. §9741(19)
Enacted: 1970
Estimate: \$1,300,000

Laundry and car washing facilities that customers access through the use of coin-operated machinery are exempt from the sales tax on those coin-based transactions.

Data source: Economic Census of Vermont

3.013 Admission fees to nonprofit museums

Statute: 32 V.S.A. §9741(20)
Enacted: 1970
Estimate: \$1,400,000

The admission fees to museums operated by organizations with a federal tax exempt status are not subject to the sales tax.

Data source: Economic Census of Vermont

3.014 Items sold to fire, ambulance, and rescue squads

Statute: 32 V.S.A. §9741(21)
Enacted: 1970
Estimate: Data unavailable

This exemption is provided to emergency responders as a particular set of users for equipment and supplies that might otherwise be taxable as tangible personal property. In addition, the materials and equipment used in the construction and renovation of buildings and other real property housing the emergency responders are exempt when purchased by contractors.

3.015 Funeral charges

Statute: 32 V.S.A. §9741(22)
Enacted: 1970
Estimate: \$400,000

This exemption includes the purchase of funeral furnishings that are necessary incidents of a funeral, including caskets, vaults, and crematory urns. (The exemption does not include items sold as an accommodation, such as flowers.)

Data source: The value of caskets, vaults, and urns is estimated from data provided by the National Funeral Directors Association

3.016 Property used in commercial, industrial or agricultural research

Statute: 32 V.S.A. §9741(24)
Enacted: 1974
Estimate: Data unavailable

Property purchased and used in commercial, industrial or agricultural research is exempt from the sales tax.

3.017 Agricultural machinery and equipment

Statute: 32 V.S.A. §9741(25)
Enacted: 1974
Estimate: \$2,000,000

The purchase of machinery and equipment used in the production of agricultural goods and livestock is exempt from the sales tax.

Data source: New England Agricultural Statistics, Farm Production Expenditures

3.018 Energy purchases for a residence

Statute: 32 V.S.A. §9741(26)
Enacted: 1977
Estimate: \$51,000,000

Electricity, fuel oil, natural gas, propane, and other fuels are subject to tax as tangible personal property. When these fuels are sold to residences, the fuel supplier or utility is not required to collect the sales tax. A fuel gross receipts tax of 0.5% of the retail sale is applied to heating oil, kerosene, other dyed diesel fuels, natural gas, propane gas, electricity, and coal used to heat a residence or business. (33 V.S.A. § 2503)

Data source: Energy Information Administration

3.019 Energy purchases for farming

Statute: 32 V.S.A. §9741(27)
Enacted: 1977
Estimate: \$3,300,000

When electricity, fuel oil, natural gas, propane and other fuels sold to farmers, the fuel supplier or utility is not required to collect the sales tax.

Data source: Energy Information Administration, Census of Agriculture

3.020 Sales of films to movie theaters

Statute: 32 V.S.A. §9741(28)
Enacted: 1981
Estimate: \$800,000

Movie theaters that charge for admission do not need to pay sales tax on the purchase or licensed use of films from film distributors.

Data source: National Association of Theater Operators

3.021 Aircraft and depreciable parts for commercial use

Statute: 32 V.S.A. §9741(29)
Enacted: 1986
Estimate: Under \$100,000

This exemption is for the purchase of aircraft that are used for commercial use, such as the transport of people and goods for compensation and hire. The exemption also includes the purchase of parts and equipment used in the maintenance and repair of aircraft for commercial or private use.

Data source: Joint Fiscal Office

3.022 Railroad rolling stock and depreciable parts

Statute: 32 V.S.A. §9741(30)
Enacted: 1986
Estimate: Under \$100,000

This exemption includes the purchase of railroad locomotives and cars and the parts and equipment used in their maintenance.

Data source: Division of Property Valuation and Review

3.023 Ferryboats and depreciable parts

Statute: 32 V.S.A. §9741(31)
Enacted: 1988
Estimate: \$100,000

This exemption includes the purchase of ferries used in the transport of people and property for compensation or hire, and the parts and equipment used in their maintenance.

Data source: History of Lake Champlain Ferries 1947–2005.

3.024 Sales of mobile homes and modular housing

Statute: 32 V.S.A. §9741(32)
Enacted: 1989
Estimate: Data unavailable

Forty percent of the sales price of a new mobile home or manufactured home is exempt from the sales tax (the remaining 60% is subject to the sales tax). In the case of a used mobile home or manufactured home when sold as real estate, there is no sales tax. Real estate transactions are subject to the property transfer tax.

3.025 U.S. flag sold to or by exempt veterans' organizations

Statute: 32 V.S.A. §9741(33)
Enacted: 1990
Estimate: Data unavailable

U.S. flags purchased or sold by exempt veteran's organizations are exempt from the sales tax.

3.026 Energy used in manufacturing tangible personal property for sale

Statute: 32 V.S.A. §9741(34)
Enacted: 1993
Estimate: \$15,100,000

Data source: Energy Information Administration

Electricity, fuel oil, natural gas, propane, and other fuels are subject to tax as tangible personal property. When these fuels are sold for use in manufacturing, the fuel supplier or utility is not required to collect the sales tax.

3.027 Property transferred as part of personal service transaction or transfer of intangible property rights

Statute: 32 V.S.A. §9741(35)
Enacted: 1995
Estimate: Data unavailable

Transactions that focus on the sale of personal services such as bookkeeping or hair styling or the transfer of intangible property, such as stocks or marketing logos, may also require the transfer of tangible property. The transaction is exempt from sales tax as long as the value of the tangible personal property transferred is less than 10% of the sales price for the complete transaction.

3.028 Advertising materials

Statute: 32 V.S.A. §9741(36)
Enacted: 1995
Estimate: Data unavailable

Transactions that transfer the right to use advertising materials are exempt from sales tax. Such transactions may include the transfer of a single copy of advertising materials to the purchasing customer.

3.029 Documents that record a professional service

Statute: 32 V.S.A. §9741(37)
Enacted: 1995
Estimate: Data unavailable

Bills, invoices, briefs, agreements, and wills are examples of documents that may be provided to customers without the payment of the sales tax on the price of the transaction.

3.030 Tracked vehicles

Statute: 32 V.S.A. §9741(38)
Enacted: 1997
Estimate: Data unavailable

The sale of tracked vehicles is subject to the sales tax. The exemption applies on sales that would otherwise result in a tax paid above a capped amount. The cap is required by law to be adjusted by the CPI as of July 1 in each even-numbered year. The cap was \$1,200 in FY 2011 and \$1,260 in FY 2012.

3.031 Sales of building materials

Statute: 32 V.S.A. §9741(39)(i) and (ii)
Enacted: 1997
Estimate: Under \$100,000

Sales of building materials within any three consecutive years in excess of \$250,000 in purchase value and incorporated into a downtown redevelopment project, as defined by the Department of Economic, Housing, and Community Development.

Data source: Vermont Economic Progress Council

3.032 Wholesale transactions between telecommunications service providers

Statute: 32 V.S.A. §9741(41)
Enacted: 1997
Estimate: Data unavailable

The sale of telecommunication services from one provider to another telecommunications provider is exempt from the sales tax.

3.033 Scrap construction materials by a third party

Statute: 32 V.S.A. §9741(43)
Enacted: 1998
Estimate: Data unavailable

Scrap construction materials generated during construction or demolition are not subject to sales tax if a third party takes possession of the material with no payment and then either uses the material in construction.

3.034 Property incorporated in railroad line

Statute: 32 V.S.A. §9741(44)
Enacted: 1998
Estimate: Data unavailable

Materials used in the construction, repair, operation, or maintenance of railroad lines are exempt from the sales tax.

3.035 Clothing and footwear

Statute: 32 V.S.A. §9741(45)
Enacted: 1999; all clothing and footwear exempt January 1, 2007
Estimate: \$24,900,000

Clothing, including footwear, is exempt from the sales tax. Accessories and protective equipment are not exempt.

Data source: Bureau of Labor Statistics, Consumer Expenditure Survey, and US Census Bureau

3.036 Property incorporated into a net metering system, an on-premise energy system not connected to the electric distribution system, or a solar hot water heating system

Statute: 32 V.S.A. §9741(46)
Enacted: 1999
Estimate: Under \$100,000

Property incorporated into photovoltaic systems that are not covered by the manufacturing exemption is exempt under this specific subsection of statute. In addition, solar equipment for heating water is exempt.

Data Source: Vermont Public Service Board

3.037 Purchases by and limited purchases from 501(c)(3) organizations

Statute: 32 V.S.A. §9743(3)
Enacted: 1969, amended
Estimate: Data unavailable

Nonprofit organizations purchases are exempt from the sales tax. Some sales by churches, schools, and other organizations are also exempt to a \$20,000 limit. These sales include garage sales and sporting equipment swap sales. Charges for entertainment sponsored by nonprofits also have a limited exemption.

3.038 Building materials and supplies used in construction or, repair of buildings by governmental bodies or 501(c)(3) organizations or development corporations

Statute: 32 V.S.A. §9743(4)
Enacted: 1969
Estimate: Data unavailable

This exemption includes the materials used for most public works projects as well as the construction of structures for nonprofit organizations.

3.039 Amusement charges for 4 events a year for 501(c)(4)-(13) and (19) organizations and political organizations

Statute: 32 V.S.A. §9743(5)
Enacted: 1983
Estimate: Data unavailable

This exemption is limited to 4 events (e.g., musical or theatrical presentations) a year for 501(c)(4)-(13) and (19) organizations and political organizations. The exemption was expanded in 2010 to include amusement charges for events where the risk is shared with for-profit promoters and presenters.

3.040 Amusement charges for events presented by 501(c)(3) organizations

Statute: 32 V.S.A. §9743(7)
Enacted: 1983 (amended 2010)
Estimate: Data unavailable

Nonprofit organizations under IRC 501(c)(3) may charge for live performances without collecting sales tax but only if their proceeds from the past year's events do not exceed \$100,000.

3.041 Limitation of tax on telecommunications services

Statute: 32 V.S.A. §9771a
Enacted: 1997
Estimate: Under \$100,000

No single customer is subject to a sales tax greater than \$10,000 in any one calendar year.

Data source: Department of Taxes

3.042 Reallocation of receipts from tax imposed on sales of construction materials

Statute: 32 V.S.A. §9819
Enacted: 1998
Estimate: Under \$100,000

The sales tax revenues from materials used in construction of qualified projects in designated downtown districts above certain amounts (varying by the size of the community) are allocated to the municipalities that are the location of those projects.

Data source: Department of Taxes

3.043 Sales to nonprofit hospital service corporations

Statute: 8 V.S.A. §4518
Enacted: 1947
Estimate: Data unavailable

Nonprofit hospital service corporations are exempt from the sales and use tax.

3.044 Sales to nonprofit medical service corporations

Statute: 8 V.S.A. §4590
Enacted: 1947
Estimate: Data unavailable

Nonprofit medical service corporations are exempt from the sales and use tax.

3.045 Sales to credit unions

Statute: 8 V.S.A. §30901
Enacted: 1967
Estimate: Data unavailable

Credit unions are exempt from the sales and use tax.

3.046 Sales by licensed auctioneers

Statute: 32 V.S.A. §9741(48)
Enacted: 2011
Estimate: Data unavailable

Sales of tangible personal property are exempt from the sales tax when sold by an auctioneer and the auction is conducted on the premises of the owner of the property.

3.047 Licensed use of prewritten software from remote servers

Statute: 2012 Act 143, Section 52
Enacted: 2012 for the period from January 1, 2007 until June 30, 2013.
Estimate: \$0 (refunds for taxes paid issued in FY 2012)

The Department of Taxes provided refunds for the purchase of the license to use software remotely accessed. Refunds for taxes paid were issued in FY 2012 and FY 2013. The exemption sunsets in FY 2014.

Data source: Department of Taxes

Sales Tax Expenditure Summary

Item Number	Sales Tax Expenditure	FY 2010 actual	FY 2011 actual	FY 2014 projected
3.001	Medical products	43,300,000	45,900,000	51,300,000
3.002	Agricultural inputs	20,400,000	22,000,000	23,100,000
3.003	Veterinary supplies	1,100,000	1,100,000	1,100,000
3.004	Non-business, casual sales	Not estimated	Not estimated	Not estimated
3.005	Fuels for railroads and boats	Not estimated	Not estimated	Not estimated
3.006	Sales of food	79,800,000	80,900,000	85,000,000
3.007	Manufacturers' material and equipment	297,200,000	307,200,000	323,200,000
3.008	Newspapers	1,200,000	1,200,000	1,200,000
3.009	Packaging and shipping materials	1,100,000	1,200,000	1,200,000
3.010	Rented furniture for residential use	Not estimated	Not estimated	Not estimated
3.011	Federal, state, or municipal admissions	300,000	300,000	300,000
3.012	Rentals of coin-operated washing facilities	1,200,000	1,300,000	1,400,000
3.013	Admission fees to nonprofit museums	1,300,000	1,400,000	1,500,000
3.014	Items sold to fire, ambulance, and rescue squads	Not estimated	Not estimated	Not estimated
3.015	Funeral charges	300,000	400,000	400,000
3.016	Property used in research	Not estimated	Not estimated	Not estimated
3.017	Agricultural machinery and equipment	2,000,000	2,000,000	2,100,000
3.018	Energy purchases for a residence	48,800,000	51,000,000	57,000,000
3.019	Energy purchases for farming	3,200,000	3,300,000	3,500,000
3.020	Sales of films to movie theaters	800,000	800,000	800,000
3.021	Aircraft and depreciable parts for commercial use	Under 100,000	Under 100,000	Under 100,000
3.022	Railroad rolling stock and depreciable parts	Under 100,000	Under 100,000	Under 100,000
3.023	Ferryboats and depreciable parts	100,000	100,000	100,000
3.024	Sales of mobile homes and modular housing	Not estimated	Not estimated	Not estimated
3.025	U.S. flag sold to or by exempt veterans' organizations	Not estimated	Not estimated	Not estimated
3.026	Energy used in manufacturing	13,900,000	15,100,000	15,900,000
3.027	Property transferred as part of personal service transaction	Not estimated	Not estimated	Not estimated
3.028	Advertising materials	Not estimated	Not estimated	Not estimated
3.029	Documents that record a professional service	Not estimated	Not estimated	Not estimated
3.030	Tracked vehicles	Not estimated	Not estimated	Not estimated
3.031	Sales of building materials	Under 100,000	Under 100,000	Under 100,000
3.032	Transactions between telecommunications service providers	Not estimated	Not estimated	Not estimated
3.033	Scrap construction materials by a third party	Not estimated	Not estimated	Not estimated
3.034	Property incorporated in railroad line	Not estimated	Not estimated	Not estimated
3.035	Clothing and footwear	24,900,000	24,900,000	26,300,000
3.036	Property incorporated into a net metering system	Under 100,000	Under 100,000	Under 100,000
3.037	Purchases by and limited purchases from 501(c)(3)	Not estimated	Not estimated	Not estimated
3.038	Building materials used in construction/repair governments or 501(c)(3) organizations	Not estimated	Not estimated	Not estimated
3.039	Amusement charges for 4 events per year for 501(c)(4)-(13) and (19) organizations and political organizations	Not estimated	Not estimated	Not estimated
3.040	Amusement charges for events presented by 501(c)(3)s	Not estimated	Not estimated	Not estimated

Sales Tax Expenditure Summary (continued)

Item Number	Sales Tax Expenditure	FY 2010 actual	FY 2011 actual	FY 2014 projected
3.041	Limitation of tax on telecommunications services	Under 100,000	Under 100,000	Under 100,000
3.042	Reallocation of receipts from tax imposed on sales of construction materials	Under 100,000	Under 100,000	Under 100,000
3.043	Sales to nonprofit hospital service corporations	Not estimated	Not estimated	Not estimated
3.044	Sales to nonprofit medical service corporations	Not estimated	Not estimated	Not estimated
3.045	Sales to credit unions	Not estimated	Not estimated	Not estimated
3.046	Sales by licensed auctioneers	Not estimated	Not estimated	Not estimated
3.047	Licensed use of prewritten software accessed remotely	0	0	0
Total		540,900,000	560,100,000	595,400,000

LIST OF FISCAL YEAR 2011 MEALS AND ROOMS TAX EXPENDITURES

4.000 Meals and Alcoholic Beverage Tax

4.001 Grocery-type items furnished for take-out (meals tax only)

Statute: 32 V.S.A. §9202(10)(D)(i)
Enacted: 1959
Estimate: \$6,200,000

Most food purchased from a grocery store is not subject to the meals tax. This exemption is for prepared food but still intended for home use and includes whole pies, cakes, and loaves of bread, single-serving bakery items sold in quantities of three or more, deli and candy sales by weight, whole uncooked pizzas, and larger containers of ice cream, salad dressings, sauces, cider, or milk.

Data source: Economic Census of Vermont, Consumer Expenditure Survey

4.002 Served or furnished on the premises of a nonprofit

Statute: 32 V.S.A. §9202(10)(D)(ii)(I)
Enacted: 1959
Estimate: Data unavailable

Nonprofit organizations may sell meals without a meals tax when those meals are sold on the premises and further the purpose of the organization. The profits from meals sold under this exemption must also be used exclusively for the nonprofit organization.

4.003 Premises of a school

Statute: 32 V.S.A. §9202(10)(D)(ii)(II)
Enacted: 1959
Estimate: \$2,200,000

Schools may sell meals on their own grounds without collecting the meals tax. Contractors may sell meals to school students and staff under this exemption, but restaurants and caterers otherwise subject to the tax may not deliver meals to the schools without collecting the tax.

Data source: Vermont Department of Education

4.004 Premises of Vermont or federal institutions to inmates and employees

Statute: 32 V.S.A. §9202(10)(D)(ii)(III)
Enacted: 1959
Estimate: \$200,000

Meals provided at state or federal institutions are not subject to the meals tax.

Data source: Vermont Department of Corrections

4.005 Hospitals, convalescent and nursing homes

Statute: 32 V.S.A. §9202(10)(D)(ii)(IV)
Enacted: 1959
Estimate: \$1,000,000

Meals provided at locations that have a primary purpose for delivering health care or hospice are not subject to the meals tax.

Data source: Vermont Inpatient Hospital Utilization Report

4.006 Furnished while transporting passengers for hire on train, bus, or airplane (carriers)

Statute: 32 V.S.A. §9202(10)(D)(ii)(V)
Enacted: 1959
Estimate: Data unavailable

Meals provided to passengers in transit delivered by carrier-for-fee businesses are not subject to the meals tax.

4.007 Summer camp for children

Statute: 32 V.S.A. §9202(10)(D)(ii)(VI)
Enacted: 1959
Estimate: Under \$100,000

Meals provided at camps serving children are not subject to the meals tax.

Data source: www.vermontcamps.org

4.008 Nonprofits at fairs, bazaars, picnics, and similar events, but limited to 4 days

Statute: 32 V.S.A. §9202(10)(D)(ii)(VII)
Enacted: 1964
Estimate: Data unavailable

Nonprofit organizations may provide meals at public events without collecting the meals tax, but only for four calendar days during any given year.

4.009 Furnished to an employee of a hotel or restaurant operator as remuneration for his or her employment

Statute: 32 V.S.A. §9202(10)(D)(ii)(VIII)
Enacted: 1963
Estimate: Data unavailable

Meals provided to employees as a part of their compensation are not subject to the meals tax.

4.010 Provided to the elderly pursuant to the Older Americans Act

Statute: 32 V.S.A. §9202(10)(D)(ii)(IX)
Enacted: 1973
Estimate: \$600,000

Meals delivered to the home of eligible elderly individuals and funded by the federal Older Americans Act Nutrition Program are not subject to the meals tax.

Data source: Vermont Department of Disabilities, Aging, and Independent Living

4.011 Purchased with Food Stamps

Statute: 32 V.S.A. §9202(10)(D)(ii)(X)
Enacted: 1987
Estimate: \$200,000

A limited list of restaurant meals are eligible to be paid for with food stamps. The purchase of these meals with food stamps is not subject to the meals tax. This represents only a small portion (about 2%) of the overall sales of food under the food stamp program.

Data source: United States Department of Agriculture

4.012 Served on the premises of a continuing care retirement community

Statute: 32 V.S.A. §9202(10)(D)(ii)(XI)
Enacted: 1988
Estimate: Data unavailable

Meals provided at continuing care retirement communities are not subject to the meals tax.

4.013 Meals provided for nonprofit hospital service corporations

Statute: 8 V.S.A. §4518
Enacted: 1947
Estimate: Under \$100,000

Nonprofit hospital service corporations are exempt from the meals and rooms tax.

4.014 Meals provided for nonprofit medical service corporations

Statute: 8 V.S.A. §4590
Enacted: 1947
Estimate: Under \$100,000

Nonprofit medical service corporations are exempt from the meals and rooms tax.

4.015 Meals provided for credit unions

Statute: 8 V.S.A. §30901
Enacted: 1967
Estimate: Under \$100,000

Credit unions are exempt from the meals and rooms tax.

4.100 Rooms Tax

4.101 Time share rights

Statute: 32 V.S.A. §9202(8)
Enacted: 1992
Estimate: Data unavailable

Owners of time share properties are not subject to the rooms tax for the payment of time share rights at purchase.

4.102 Student housing

Statute: 32 V.S.A. §9202(8)
Enacted: 1964
Estimate: Data unavailable

The rental charges to students attending a school are not subject to the rooms tax.

4.103 Permanent residents

Statute: 32 V.S.A. §9202(6) and (7).
Enacted: 1959
Estimate: Data unavailable

The rental charges to individuals that occupy a room in a hotel for at least 30 days are not subject to the rooms tax.

4.104 Furnished to an employee of a hotel or restaurant operator as remuneration for his or her employment

Statute: 32 V.S.A. §9202(6)
Enacted: 1959
Estimate: Data unavailable

Workers residing in a hotel are not subject to the rooms tax when the accommodation is provided as compensation for employment.

4.105 Summer camp for children

Statute: 32 V.S.A. §9202(6)
Enacted: 1959
Estimate: \$200,000

Overnight accommodations at camps serving children are not subject to the rooms tax.

Data source: www.vermontcamps.org

4.106 Hospital, sanatorium, convalescent home, nursing home, or home for the aged

Statute: 32 V.S.A. §9202(3)(A)
Enacted: 1959
Estimate: Data unavailable

The room charges to occupy a hospital or other institution providing health care are not subject to the rooms tax.

4.107 State or US-operated establishment

Statute: 32 V.S.A. §9202(3)(B)
Enacted: 1959
Estimate: Data unavailable

Rooms available from establishments operated by the state or federal government are not subject to rooms tax. This exemption does not extend to recreational facilities operated by the Department of Forests, Parks and Recreation.

4.108 Rooms on the premises of a nonprofit

Statute: 32 V.S.A. §9202(3)(C)
Enacted: 1959
Estimate: Data unavailable

Nonprofits operating hotels to further their exempt purpose are exempt from collecting the rooms tax.

4.109 Rooms on the premises of a continuing care retirement community

Statute: 32 V.S.A. §9202(3)(D)
Enacted: 1988
Estimate: Data unavailable

A continuing care community is exempt from collecting the rooms tax on the rent of its accommodations.

4.110 Rooms provided to nonprofit hospital service corporations

Statute: 8 V.S.A. §4518
Enacted: 1947
Estimate: Less than \$100,000

Nonprofit hospital service corporations are exempt from the meals and rooms tax.

4.111 Room provided to nonprofit medical service corporations

Statute: 8 V.S.A. § 4590
Enacted: 1947
Estimate: Less than \$100,000

Nonprofit medical service corporations are exempt from the meals and rooms tax.

4.112 Rooms provided to credit unions

Statute: 8 V.S.A. § 30901
Enacted: 1967
Estimate: Less than \$100,000

Credit unions are exempt from the meals and rooms tax.

Meals and Rooms Tax Expenditure Summary

Item Number	Meals & Alcoholic Beverages Tax	FY 2010 actual	FY 2011 actual	FY 2014 projected
4.001	Grocery-type items furnished for take-out	6,100,000	6,200,000	6,400,000
4.002	Served on the premises of a non-profit	Not estimated	Not estimated	Not estimated
4.003	Served on the premises of a school	2,200,000	2,200,000	2,200,000
4.004	Served on the premises of a prison	200,000	200,000	200,000
4.005	Hospitals, convalescent and nursing homes	1,000,000	1,000,000	1,000,000
4.006	Carriers	Not estimated	Not estimated	Not estimated
4.007	Summer camp for children	Under 100,000	Under 100,000	Under 100,000
4.089	Sold by nonprofits at fairs etc. but limited to 4 days	Not estimated	Not estimated	Not estimated
4.009	Furnished to an employee of a hotel or restaurant	Not estimated	Not estimated	Not estimated
4.010	Served pursuant to the Older Americans Act	600,000	600,000	700,000
4.011	Purchased with food stamps	200,000	200,000	300,000
4.012	Served at a continuing care facility	Not estimated	Not estimated	Not estimated
4.013	Nonprofit hospital service corporations	Under 100,000	Under 100,000	Under 100,000
4.014	Nonprofit medical service corporations	Under 100,000	Under 100,000	Under 100,000
4.015	Credit unions	Under 100,000	Under 100,000	Under 100,000
Total		10,300,000	10,400,000	10,800,000

Item Number	Rooms Tax	FY 2010 actual	FY 2011 actual	FY 2014 projected
4.101	Time share rights	Not estimated	Not estimated	Not estimated
4.102	Student housing	Not estimated	Not estimated	Not estimated
4.103	Permanent residents (at least 30 days)	Not estimated	Not estimated	Not estimated
4.104	Hotel or restaurant employee	Not estimated	Not estimated	Not estimated
4.105	Summer camps	200,000	200,000	200,000
4.106	Hospital, sanatorium, convalescent or nursing home	Not estimated	Not estimated	Not estimated
4.107	State or US-operated establishment	Not estimated	Not estimated	Not estimated
4.108	Nonprofit establishments	Not estimated	Not estimated	Not estimated
4.109	Continuing care retirement communities	Not estimated	Not estimated	Not estimated
4.110	Nonprofit hospital service corporation	Under 100,000	Under 100,000	Under 100,000
4.111	Nonprofit medical service corporation	Under 100,000	Under 100,000	Under 100,000
4.112	Credit unions	Under 100,000	Under 100,000	Under 100,000
Total		200,000	200,000	200,000

PROPERTY TAX EXPENDITURES

DESCRIPTION OF PROPERTY TAX EXPENDITURES

Introduction

This section of the tax expenditure study estimates the value of exemptions from the statewide education property tax. Property tax expenditure estimates are based on the education grand list, which is a compilation of the information submitted by 262 local taxing jurisdictions, and information kept by state agencies with respect to state-administered programs such as use value appraisal and PILOT. Property tax exemptions that are only approved for municipal purposes are not included in or estimated as part of this study.

Tax Base

The statewide education tax is imposed on homestead and nonresidential property. With only two exceptions, both categories are made up of real property - that is land and improvements to land - as opposed to personal property, which is portable. Homestead property means a principal dwelling and land; nonresidential property specifically excludes personal property. The two exceptions from the personal property exclusion are "utility cables and line, poles, and fixtures" and "gas distribution lines."

Grand List Data

The statutes prescribe the contents of municipalities' grand lists. 32 V.S.A. §4152. With respect to exempt property, the grand list must include "what the full listed value of the property would be absent the exemption and the statutory authority for granting such exemption and, for properties exempt pursuant to a vote, the year in which the exemption became effective and the year in which the exemption ends." However, municipalities do not uniformly comply with this mandate. In many cases the information is incomplete or difficult to ascertain due to non-standard reporting. Some municipalities listed properties as exempt, but reported zero value. Exempt properties are often difficult to value since they are often constructed for a specific public purpose and are not frequently sold - churches for example. Nevertheless, any study of the impact of exemptions on the statewide grand list depends upon municipalities undertaking valuation of exempt properties. Since the estimates contained in this report rely in large part on grand list information received from municipalities, they necessarily mirror inaccuracies contained in those lists and fail to account for what has been omitted from those lists.

Expenditure Types

A property tax expenditure is almost always a total exemption from tax or an adjustment to the value of the property that results in a lower tax. A majority of the total exemptions are contained in 32 V.S.A. §3802. Value reduction expenditures are contained elsewhere in statute - for instance, the use value appraisal program and tax increment financing provisions. The tax expenditures in the enumerated list are organized according to type; ordinary exemptions; adjustments to property values; session law exemptions; and property taxed under alternate schemes.

Public, Pious, and Charitable Exemptions

Many of the most familiar exemptions – and the ones that have generated the most legal controversy – are contained in 32 V.S.A. §3802(4). The following categories of property are exempt under that section:

- real and personal estate granted, sequestered, or used for **public⁶, pious, or charitable** uses;
- real property owned by **churches** or church societies or conferences and used as **parsonages** and personal property therein used by ministers engaged in full-time work in the care of the churches of their fellowship within the state;
- real and personal estate set apart for **library uses** and used by the public and private circulating libraries, open to the public and not used for profit;
- lands leased by **towns or town school districts** for **educational purposes**;
- lands owned or leased by **colleges, academies, or other public schools** or leased by towns for the support of the gospel (but lands or buildings rented for general commercial purposes and farming and timber land owned or leased by these entities are not exempt);
- lands and buildings owned and used by towns for the **support of the poor** therein (but private buildings on such lands are not exempt).

Although not specifically mentioned by subdivision 3802(4), Vermont case law has established that hospitals may be entitled to a charitable or public use exemption. See *Medical Center of Vermont, Inc. v. City of Burlington*, 131 Vt. 196 (1973).

For purposes of this report, the subdivision 3802(4) exemptions are grouped together. Since municipalities are only required to report the statutory references, any attempt to identify the proper category within the section would likely result in inaccurate information.

Municipal Property

Prior to the enactment of Act 68 in 2003, which classified property as either homestead or nonresidential, there was no explicit statutory exemption for municipal property. However, case law recognized that municipal property enjoys an inherent exemption provided that it is used for a public purpose. In Act 68, the Legislature expressly excluded property owned by a municipality which is located in that municipality and which is used for a municipal purpose from the education property tax base. It is unclear whether the Legislature intended to change the scope of the "inherent" municipal exemption by adopting an explicit and somewhat narrower "municipal purpose" test. However, it is clear that mere ownership of property by a municipality does not imbue the property with a municipal purpose and that under either test something more than ownership is required.

Limitations on "public, pious, or charitable" exemptions

The "public, pious, or charitable" exemption is limited by two other statutes. Under 32 V.S.A. §3832, certain property owned by religious societies,⁷ property of railroad corporations, municipal electric light plants when located outside the owner-town, and certain state property⁸ are taxable. In addition, other municipal property located outside the owner-town, certain leased

⁶ As part of a large body of case law construing this exemption, a three-part test has been developed to determine when property is entitled to tax-exempt status as a "public use" – (1) the property must be dedicated unconditionally to public use; (2) the primary use must directly benefit an indefinite class of persons who are part of the public and must also confer a benefit on society as a result of the benefit conferred on the persons directly served; and (3) the property must be owned and operated on a not-for-profit basis. See *American Museum of Fly Fishing, Inc. v. Town of Manchester*, 151 Vt. 103 (1989).

⁷ "Real estate owned or kept by a religious society other than a church edifice, a parsonage, the outbuildings of the church edifice or parsonage, a building used as a convent, school, orphanage, home or hospital, land adjacent to any of the buildings named in this subsection, kept and used as a parking lot not used to produce income, lawn, playground or garden and the so-called glebe land." 32 V.S.A. § (2)

⁸ State property located in any town other than that in which the institution of which it forms a part is located.

property,⁹ and property used primarily for health or recreational purposes are exempt only if voted exempt by the town. Such a vote exempts the property owner, but does not affect the municipality's payment to the Education Fund. In other words, the tax burden is spread across the municipality's taxpayers. Similarly, under 32 V.S.A. §3840, property owned by fraternal organizations, volunteer fire, ambulance, or rescue companies and used exclusively for the purposes of such organization is exempt only if voted exempt by the municipality. Such an exemption may be voted for 10 years initially and then for 5-year renewal periods.

College Property

There are several laws that pertain to college property. They are arcane and require some explanation. First, subdivision 3802(4) exempts "lands owned or leased by colleges, academies or other public schools", but not "lands or buildings rented for general commercial purposes, [] farming or timber lands owned or leased" by a college, academy, or other public school. However, school or college lands sequestered to such use prior to January 28, 1911 are exempt. Then Section 3831 qualifies this exemption for property acquired by a college, university, or fraternity after April 1, 1941. It provides that such property is taxable at the value set by the listers prior to acquisition. This is the case even if the property is improved as long as it is not used for commercial and investment purposes. Thus, property acquired *prior to 1941* is exempt unless used for commercial, farming, or timber purposes. Property acquired *after April 1, 1941* is taxable at its acquisition value. Property used for commercial, farming, and timber purposes is taxable at fair market value *unless* sequestered to that use prior to January 28, 1911 – in which case it is exempt.

Property Tax Adjustments

Property tax adjustments are provided to owners of homestead property with qualifying household income levels. An education property tax "adjustment" is provided for the difference between the property tax on the housesite and the education tax amount determined as a percentage of household income. For 2007 and subsequent years, property tax adjustments are applied as a credit to the property tax bill and the homestead owner receives a net bill. Other components of the education funding system provide property tax relief for municipal taxes and the property taxes paid by renters, but neither of these programs is included as an education property tax expenditure.

Tax Increment Financing Districts

Tax increment financing (TIF) is a legislatively authorized tax scheme whereby the property tax imposed on properties within a defined district is diverted from general purposes and is used to pay debt incurred to construct infrastructure for the district.

Municipalities are authorized to establish TIF districts under subchapter 5 of chapter 53 of Title 24. Two TIF districts existed at the time the statewide education tax was adopted – one in Newport City and one in Burlington. These districts were "grandfathered" by Act 60, which means that the tax dollars that would otherwise fund education may continue to be used to pay down debt on bonds issued to cover TIF infrastructure costs without the necessity of State approval.

Since the adoption of the statewide property tax, TIF districts must be approved by the Vermont Economic Progress Council (VEPC) in order to affect the education property tax grand list.

⁹ This subsection includes real and personal estate owned or kept by an orphanage, home, or hospital, including diagnostic and treatment center not used for the purpose of such institution but leased to others for income or profit.

Approval is contingent upon meeting the statutory process requirements and criteria set out in 32 V.S.A. § 5404a(h).

There is one other TIF district, which is located in Winooski. It was authorized by special legislation (2000 Act No. 159, not codified).

Use Value Appraisal

Since 1978 the use value appraisal program (Current Use) has allowed the valuation and taxation of farm and forest land to be based on its agricultural or forest use instead of its value in the marketplace. While there have been many changes to the program over time, the program continues to allow reduced valuation of property enrolled, resulting in a reduction in taxes.

Methodology

The starting point for estimating expenditure values was the exemptions information provided by the municipalities on the abstracts of grand lists (411 forms). The exempt parcel information extracted from the 411 reports was classified according to category, usually the statutory citation.

LIST OF FISCAL YEAR 2011 PROPERTY TAX EXPENDITURES

5.000 Property Tax Exemptions

5.001 Nonprofit Medical Service Corporations

Statute: 8 V.S.A. §4518 and §4590
Enacted: 1939
Estimate: \$132,000
of parcels: 1

One nonprofit medical service corporation qualifies for this exemption.

5.002 Local Development Corporations

Statute: 10 V.S.A. § 236
Enacted: 1973
Estimate: \$100,000
of parcels: 33

Unoccupied portions of buildings and industrial parks owned by local development authorities are exempt.

5.003 Vermont Housing Finance Agency

Statute: 10 V.S.A. § 641 (a)
Enacted: 1973
Estimate: \$63,000
of parcels: 20

All property of the agency is public property and exempt from all taxes.

5.004 Vermont State Colleges

Statute: 16 V.S.A. § 2178
Enacted: 1961; amended 2005.
Estimate: \$1,304,000
of parcels: 27

Property used for educational and not commercial purposes is exempt.

5.005 University of Vermont

Statute: 16A APPX V.S.A. § 1-15
Enacted: 1802
Estimate: \$10,064,000
of parcels: 145

Property used for educational purposes is exempt.

5.006 Libraries

Statute: 22 V.S.A. § 109
Enacted: prior to 1947
Estimate: \$911,000
of parcels: 146

If the institution is a free and public library, the library and other property is forever exempt.

5.007 Housing Authorities

Statute: 24 V.S.A. § 4020
Enacted: 1961
Estimate: \$1,322,000
of parcels: 56

The property of a housing authority is declared public property and is exempt.

5.008 Federal and State Government Property

Statute: 32 V.S.A. § 3802(1)
Enacted: some version of this exemption existed when Vermont became a State in 1791; it was last amended in 1977 when the last clause (regarding repossessed or voluntarily conveyed housing) was added
Estimate: \$3,390,000 (federal); and \$4,079,000 (state)
of parcels: 444 (federal); 355 (state)

This includes Agency of Natural Resources-owned land and state-owned buildings for which PILOT (payment in lieu of taxes) payments are made. Some federal land, including the Green Mountain National Forest, is not included in this estimate.

5.009 Congressionally Chartered Organizations

Statute: 32 V.S.A. § 3802(2)
Enacted: 1957
Estimate: \$555,000
of parcels: 111

Congress issued federal charters from 1791 until 1992 and over 100 organizations have this status. Congress does not oversee or supervise organizations with the charter, and the designation was largely honorific. Congress suspended federal charters because of the unmerited public assumption that the charter signifies federal approval of the organization's activities. (CRS Report, April 8, 2004)

There are two main groups of congressionally chartered organizations, including veterans, fraternal or patriotic groups such as the American Red Cross, National Academy of Sciences, or Girl and Boy Scouts, and corporate entities such as the Federal Reserve Bank, Fannie Mae, Freddie Mac, and the Tennessee Valley Authority.

5.010 Public, pious, and charitable property

Statute: 32 V.S.A. §§3802(4) 3832, 3840, 5404(a)
Enacted: Some version of § 3802(4) existed when Vermont became a State in 1791; a version of §3832 was enacted in 1880
Estimate: \$44,006,000
of parcels: 2,272

Subdivision 3802(4) exemptions are grouped together because municipalities are only required to report the statutory reference and not differentiate between the various exemption types.

5.011 College fraternities and societies

Statute: 32 V.S.A. §3802(5) (Note: this exemption is limited by 32 V.S.A. §3831)
Enacted: 1906
Estimate: \$160,000
of parcels: 10

Property held for the benefit of college fraternities and societies and corporations owning such property are exempt. The exemption shall not apply to property held for investment purposes.

5.012 Young Men's and Women's Christian Associations

Statute: 32 V.S.A. §3802(6)
Enacted: 1906 (YMCA) and 1963 (YWCA)
Estimate: \$173,000
of parcels: 9

YMCA and YWCA property is exempt if it is used for the purposes of the organization and the income is used entirely for such purposes.

5.013 Cemeteries

Statute: 32 V.S.A. § 3802(7); 18 V.S.A. §§5317, 5376
Enacted: some version of this exemption existed when Vermont became a State in 1791
Estimate: \$640,000
of parcels: 869

5.014 Owned by agricultural societies

Statute: 32 V.S.A. §3802(9)
Enacted: 1902
Estimate: \$393,000
of parcels: 13

The property is exempt if it is used annually for agricultural fairs.

5.015 \$10,000 exemption of appraised value of a residence for a veteran

Statute: 32 V.S.A. § 3802(11) and 32 V.S.A. § 6066(i)
Enacted: prior to 1910; amended 2011
Estimate: \$291,000
of parcels: 2,188

The exemption is for a veteran of any war or who has received an American Expeditionary Medal. The exemption also applies to the veteran's spouse, widow, widower, or child, if one or more of them are receiving disability compensation for at least 50 percent disability, death compensation, dependence and indemnity compensation, or pension for disability paid through any military department or the Veteran's Administration.

Because over 60% of the owners who receive this exemption pay education property taxes based on income, the statute was amended in 2011 to specify that the property tax adjustment shall be calculated without regard to the \$10,000 exemption.

5.016 Property exclusively installed and operated for the abatement of water pollution

Statute: 32 V.S.A. § 3802(12)
Enacted: 1961
Estimate: Data unavailable and/or included in the municipal exemption estimate

This property is exempt as long as it meets with the approval of the Secretary of the Agency of Natural Resources.

5.017 Humane societies

Statute: 32 V.S.A. § 3802(15)
Enacted: 1976
Estimate: \$74,000
of parcels: 13

Property owned by a charitable, nonprofit organization devoted to the welfare, protection, and humane treatment of animals is exempt.

5.018 FQHC and RHCs

Statute: 32 V.S.A. § 3802(16)
Enacted: 1999
Estimate: \$246,000
of parcels: 22

Property owned by a federally qualified health center or a free-standing, federally designated rural health clinic is exempt.

5.019 Ski Lifts and Snowmaking Equipment (Fixtures)

Statute: 32 V.S.A. § 5401(10)(D)
Enacted: 2002 (applicable to grand lists for 2004 and after)
Estimate: \$1,606,000
of parcels: 40

Personal property, machinery, inventory, and equipment, including ski lifts and snow-making equipment, is exempt.

5.020 Municipally owned

Statute: 32 V.S.A. § 5401(10)(F)
Enacted: 1997
Estimate: \$13,934,000
of parcels: 4,298

Prior to the enactment of Act 68 in 2003, which classified property as either homestead or nonresidential, there was no explicit statutory exemption for municipal property. However, case law recognized that municipal property enjoys an inherent exemption provided that it is used for a public purpose. In Act 68, the Legislature expressly excluded property owned by a municipality located in that municipality and is used for a municipal purpose from the education property tax base.

5.021 Whey Processing Fixtures

Statute: 32 V.S.A. § 5401(10)(G)
Enacted: 2001
Estimate: \$281,000
of parcels: 2

Nonresidential property does not include machinery and equipment used directly in the processing of whey.

5.022 Municipalities Hosting Large Power Plants

Statute: 32 V.S.A. § 5402(d)
Enacted: § 4502(d) – 2004; §5402a – 1999 (but special taxing provisions have applied since 1998)
Estimate: \$791,000

The nonresidential and the residential education property tax rates (adjusted appropriately for the CLA and district spending) are applied at $\frac{3}{4}$ of the base amount in the Town of Vernon, the only municipality that qualifies.

5.100 Adjustments to Property Values

5.101 Use Value Appraisal Program

Statute: Chapter 124 of Title 32
Enacted: 1977
Estimate: \$40,192,000 (Education Fund portion only)
of parcels 16,308

Commonly known as the “current use program,” the existing program has been frequently changed, and the statutes amended. The estimated expenditure value does not include the appropriation for municipal reimbursement of taxes which was an additional \$12,289,000 for a total program cost of \$52.5 million in FY 2011.

5.102 Qualified Housing

Statute: 32 V.S.A. § 5404a(a)(6)
Enacted: 2004
Estimate: \$871,000
of parcels: 615

Residential rental units that are subject to specific rent restrictions may qualify for an exemption of 10% of the value of the parcel.

5.103 Tax Increment Financing Districts

Statute: 32 V.S.A. § 5404a(f)
Enacted: 1997, amended multiple times (1998 Act No. 71; 2000 Act No. 159; 2006 Act No. 184; 2008 Act No. 190; 2009 Act No. 54)
Estimate: \$1,966,000

TIF allows a municipality to retain and utilize a portion of the education property tax revenue from an approved district for improvements related to the district.

5.104 Property Tax Adjustments

Statute: Chapter 154 of Title 32
Enacted: 1997 (Note: Chapter 153, providing for payment of property tax rebates and credits, was enacted in 1969 and repealed in 1997 but the rebate program was incorporated into the new Chapter 154)
Estimate: \$150,100,000

Homestead property taxpayers may reduce their property tax liability by recalculating their education property tax as a percentage of household income. This figure is for the education property tax adjustment portion alone; it does not include the amounts reimbursed to homestead taxpayers under \$47,000 for municipal property tax adjustment, or renters in the circuit breaker program.

5.200 Session Law Exemptions

5.201 Permanent Session Law Exemptions (never codified)

Statute: Various
Enacted: Multiple dates
Estimate: \$31,000

The Legislature has enacted a number of property-specific permanent exemptions from education property tax. The ones that can be identified have been grouped together.

<u>Property Name</u>	<u>City/Town</u>	<u>Legal Reference</u>
Holton Home	Brattleboro	2008 Act No.190 and 1892 Act No.213
Moose Lodge	Rutland City	1945 Act No.204
Italian American Club	Rutland City	1939 Act No.250
American Legion	Rutland City	1921 Act No.31
Knights of Columbus	Rutland City	1921 Act No.262
Masonic Building Assoc.	Brattleboro	1910 Act No.370
Masonic Temple	Rutland City	1900 Act No.244

5.202 Skating Rinks (temporary)

Statute: 2008 Act No.190 Sec. 40 (FY09 and FY10); Amended 2010 Act No. 160 Sec. 22 (FY11); Amended 2011 Act No. 45 Sec. 13f (FY12 at 50%)
Enacted: 2008; amended 2010 and 2011
Estimate: \$28,000
of parcels: 4

Property operated as a skating rink, on a nonprofit basis which provided facilities to local public schools for a sport officially recognized by the Vermont Principals' Association.

5.203 Recreation Facilities (temporary)

Statute: 2008 Act No.190 Sec. 101 (FY09 only); 2009 Special Session Act No. 1 Sec. H.49 (FY10 and FY11); Amended 2011 Act No. 45 Sec. 13fe (FY12 at 50%)
Enacted: 2008; amended 2009 and 2011
Estimate: \$71,000
of parcels: 2

Buildings and land owned and occupied by a 501(c)(3) health, recreation, and fitness organization, one of which is designated by the Springfield Hospital and the other designated by the North Country Hospital, to promote exercise and healthy lifestyles for the community and to serve citizens of all income levels in this mission.

5.204 VEPC Approved Stabilization Agreements

Statute: 32 V.S.A. §5404a
Enacted: 1997
Estimate: \$51,000
of parcels: 2

Municipalities that entered into property tax stabilization agreements for improvements to commercial or industrial property were allowed to apply to VEPC for additional state education property tax stabilizations for up to 10 years.

5.300 Property Taxed Under Alternate Scheme

5.301 Large Power Plants

Statute: 32 V.S.A. §5401(10)(B)
Enacted: 1997; amended 2003 and 2012
Alternative Tax: 32 V.S.A §5402a (repealed effective 7/1/12)

The Vermont Yankee Nuclear power facility is exempt from the education property tax. Instead, the electrical energy generating tax in the amount of \$0.0025 per kWh of electrical energy produced is applied. This tax began on July 1, 2012. Prior to the current tax, between 2004 and 2012, the facility was charged alternate, tiered, electric generating plant education property tax based on the megawatt hours of generation. Between 1997 and 2004, the education property tax was set as a percentage of the “appraised value” of the facility. The appraised value was defined as “its original cost less depreciation as reported to the public service board for rate regulation purposes” or net book value.

5.302 Railroad Property

Statute: 32 V.S.A. §3803(1)
Enacted: 1882
Alternative Tax: 32 V.S.A. §8211

An alternative tax is assessed on the appraised value of property and corporate franchise of each railroad company. The revenue is split between the state’s general fund and the town where the railroad property is located.

5.303 Telephone Property Tax

Statute: 32 V.S.A. §3803(2)
Enacted: 1882
Alternative Tax: 32 V.S.A. §§8521 and 8522

A company may elect either a telephone property tax of 2.37% of net book value or an alternative tax based on gross operating revenue. This is a general fund tax source, rather than the education fund where property taxes and their alternatives are typically deposited.

5.304 Wind-Powered Electric Generating Facilities

Statute: 32 V.S.A. § 5401(10)(J)(i)
Enacted: 2008; amended 2012
Alternative Tax: 32 V.S.A. § 5402c(a)

The buildings and fixtures (not the land) of wind-powered electric generating facilities that are one megawatt and over are exempt from education property tax. The alternate tax is \$0.003 per kWh of electrical energy produced. The alternative tax was amended (2012 Act No. 127 Sec. 5) to apply to facilities that generate at least one megawatt instead of the original five megawatts. Smaller facilities are exempt.

5.305 Renewable Energy Plant Generating Electricity from Solar Power

Statute: 32 V.S.A. § 5401(10)(J)(ii)
Enacted: 2012
Alternative Tax: 32 V.S.A. § 8701

The fixtures and personal property (not land) of a solar electric renewable energy plant are exempt from the education property tax. Plants larger than 10 kWh are subject to a uniform capacity tax of \$4.00 per kWh of plant capacity. Smaller facilities are exempt from both the property tax and the generation tax. The exemption for small facilities is repealed in 10 years on January 1, 2023.

Property Tax Expenditure Summary

Item Number	Property Tax Expenditure	FY 2011 actual	FY 2012 actual	FY 2014 projected
5.001	Nonprofit Medical Service Corporations	132,000	133,000	135,000
5.002	Local Development Corporations	100,000	98,000	99,000
5.003	Vermont Housing Finance Agency (VHFA)	63,000	80,000	81,000
5.004	Vermont State Colleges	1,304,000	1,232,000	1,249,000
5.005	University of Vermont	10,064,000	10,164,000	10,301,000
5.006	Libraries	911,000	925,000	937,000
5.007	Housing Authorities	1,322,000	1,389,000	1,408,000
5.008	Federal and State Government Property	7,469,000	7,359,000	7,458,000
5.009	Congressionally Chartered Organizations	555,000	590,000	598,000
5.010	Public, pious, and charitable property	46,006,000	47,134,000	47,770,000
5.011	College fraternities and societies	160,000	161,000	163,000
5.012	YMCA and YWCAs	173,000	220,000	223,000
5.013	Cemeteries	640,000	641,000	650,000
5.014	Owned by agricultural societies	393,000	442,000	448,000
5.015	\$10,000 for veterans	291,000	292,000	296,000
5.016	Water pollution abatement property	Data unavailable		N/A
5.017	Humane societies	74,000	75,000	76,000
5.018	FQHC and RHCs	246,000	255,000	258,000
5.019	Ski lifts and snowmaking equipment	1,606,000	1,423,000	1,442,000
5.020	Municipally owned	13,934,000	14,219,000	14,411,000
5.021	Whey processing fixtures	281,000	164,000	166,000
5.022	Municipalities hosting large power plants	791,000	971,000	1,102,000
5.101	Use Value Appraisal Program	40,192,000	40,668,000	41,217,000
5.102	Qualified Housing	871,000	1,009,000	1,023,000
5.103	Tax Increment Financing Districts	1,996,000	2,140,000	3,040,000
5.104	Property Tax Adjustments	150,100,000	151,100,000	142,600,000
5.201	Permanent Session Law Exemptions	31,000	57,000	58,000
5.202	Skating Rinks	28,000	9,000	N/A
5.203	Recreation Facilities	71,000	27,000	N/A
Totals		279,804,000	282,977,000	277,151,000

**BANK FRANCHISE AND INSURANCE
PREMIMUMS TAX EXPENDITURES**

DESCRIPTION OF BANK FRANCHISE AND INSURANCE PREMIUMS TAX EXPENDITURES

Bank Franchise Tax Expenditures

Financial institutions doing business in Vermont are taxed on the average monthly deposits held in Vermont by the corporation. There are two categories of tax expenditures reported here. The first section addresses deposits in state-chartered credit unions that are not subject to the tax. In 2008, there were 21 credit unions chartered by the state that did not pay the bank franchise tax and eight federally chartered credit unions, which are exempt from the franchise tax based on federal law.

The second category of expenditures includes tax credits for investments in eligible housing projects, in downtown and village centers, and the state's seed capital fund. Credits can be awarded to financial institutions for direct investment or, in the case of the downtown and village center credits, indirectly through bank credit certificates.

Insurance Premiums Tax Expenditures

Insurance companies doing business in Vermont are taxed on the premiums and assessments written on business in the state. The National Association of Insurance Commissioners (NAIC) has standardized the reporting of insurance premiums, and Vermont returns are based on the NAIC reporting structure. Both the NAIC reporting (Schedule T) and the Vermont Insurance Premium Tax Return (IP-1) allow insurance companies to take certain deductions for purposes of calculating the Vermont premiums tax. The Vermont form does not require itemization of these deductions, and no data are available for this report.

Certain organization types are exempt from paying the Insurance Premiums tax. Insurance companies that are fraternal organizations (8 V.S.A §4500), hospital services organizations (§4518), or medical services organizations (§4590) are exempt from paying the tax.

There are a limited number of Vermont tax credits available to insurance companies to offset tax liability—for affordable housing, for investment in rehabilitation of downtown and village buildings, and for the state's seed capital fund.

Annuity considerations are exempt from the Insurance Premiums tax as interpreted from 32 V.S.A. §8551. These considerations are reported on the NAIC Schedule T but only reported on the Vermont IP-1 tax return by insurance companies domiciled in other states where the annuity considerations are taxed. The tax expenditure value of annuity considerations is calculated from information provided by the Department of Financial Regulation from Schedule T.

LIST OF FISCAL YEAR 2011 BANK FRANCHISE TAX EXPENDITURES

6.000 Exemptions from Tax on Deposits

6.001 Credit Unions

Statute: 8 V.S.A. §2085
Enacted: 1967
Estimate: \$1,297,000

Deposits and shares in Vermont state-chartered credit unions are not subject to taxation.

6.100 Bank Franchise Tax Credits

6.101 Affordable Housing Credit

Statute: 32 V.S.A. §5930u
Enacted: 2000
Estimate: \$1,377,300

A credit is available for affordable rental housing projects or owner-occupied affordable housing units, provided the project has been authorized by the Vermont Housing Finance Agency. The amount of the credit is based on a taxpayer's eligible cash contribution and the agency's allocation plan. Total tax credits available to the taxpayer are the amount of the first-year allocation plus the succeeding four years' deemed allocation.

6.102 Downtown and Village Center Program Tax Credits

Statute: 32 V.S.A. §5930cc
Enacted: 2006 (replacing similar credits from 1997)
Estimate: \$894,300

Three available credits for improvements in a designated downtown or village center:
Historic rehabilitation – 10% of qualified rehabilitation expenditures
Façade improvement – 25% of qualified expenditures (maximum = \$25,000)
Code improvement – 50% of qualified expenditures.

6.103 Entrepreneurs' Seed Capital Fund Credit

Statute: 32 V.S.A. §5830b
Enacted: 1986; amended 2006
Estimate: \$0

A credit is available for a taxpayer who contributes to the fund in an amount equal to the lesser of either 4% of the taxpayer's contribution or 50% of the taxpayer's tax liability for the year prior to claiming the credit, provided that the aggregate credit allowable for all taxable years not exceed 20% of the taxpayer's contribution to the initial capitalization of the fund.

6.104 Charitable Housing Credit

Statute: 32 V.S.A. §5830c
Enacted: 1990
Estimate: \$0

Credit for the difference between interest income that would have been received at the charitable threshold rate and actual interest income received. The rate effective each July 1 is 2% below Bank Prime Loan Rate for March.

LIST OF FISCAL YEAR 2011 INSURANCE PREMIUMS TAX EXPENDITURES

7.000 Insurance Premiums Tax Credits

7.001 Affordable Housing Credit

Statute: 32 V.S.A. §5930u
Enacted: 2000
Estimate: \$440,000

A credit is available for affordable rental housing projects or owner-occupied affordable housing units, provided the project has been authorized by the Vermont Housing Finance Agency. The amount of the credit is based on a taxpayer's eligible cash contribution and the agency's allocation plan. Total tax credits available to the taxpayer are the amount of the first-year allocation plus the succeeding four years' deemed allocation.

7.002 Downtown and Village Center Program Tax Credits

Statute: 32 V.S.A. §5930cc
Enacted: 2006 (replacing similar credits from 1997)
Estimate: \$0

Three available credits for improvements in a designated downtown or village center:
Historic rehabilitation – 10% of qualified rehabilitation expenditures
Façade improvement – 25% of qualified expenditures (maximum = \$25,000)
Code improvement – 50% of qualified expenditures.

7.003 Entrepreneurs' Seed Capital Fund Credit

Statute: 32 V.S.A. §5830b
Enacted: 2004, amended 2006
Estimate: \$0

A credit is available for a taxpayer who contributes to the fund in an amount equal to the lesser of either 4% of the taxpayer's contribution or 50% of the taxpayer's tax liability for the year prior to claiming the credit, provided that the aggregate credit allowable for all taxable years not exceed 20% of the taxpayer's contribution to the initial capitalization of the fund.

7.100 Exemptions from the Premiums Tax

7.101 Annuity Considerations

Statute: 8 V.S.A. §3718
Enacted: 1967
Estimate: \$9,462,000

No tax shall be due as from annuity considerations

7.102 Fraternal Societies

Statute: 8 V.S.A. §4500
Enacted: 1959
Estimate: Less than \$100,000

Fraternal organizations are exempt from the premiums tax.

7.103 Hospital and Medical Service Organizations

Statute: 8 V.S.A. §§4518, 4590
Enacted: 1939
Estimate: \$8,909,000

Hospital services and medical services organizations are exempt from the premiums tax.

Bank Franchise Tax Expenditure Summary

Item Number	Bank Franchise Tax	FY 2010 actual	FY 2011 actual	FY 2014 projected
6.001	Credit Unions	1,143,300	1,297,000	1,543,000
6.101	Affordable Housing Tax Credit	1,229,100	1,377,300	1,250,000
6.102	Downtown and Village Center Tax Credits	576,100	894,300	950,000
6.103	Entrepreneurs' Seed Capital Fund Credit	0	0	0
6.104	Charitable Housing Credit	0	0	0
Total		2,948,500	3,568,600	3,743,000

Insurance Premiums Tax Expenditure Summary

Item Number	Insurance Premiums Tax	FY 2010 actual	FY 2011 actual	FY 2014 projected
7.001	Affordable Housing Tax Credit	364,300	440,000	150,000
7.002	Downtown and Village Center Tax Credits	0	0	0
7.003	Entrepreneurs' Seed Capital Fund Credit	0	0	0
7.101	Annuity Considerations	10,276,000	9,462,000	10,400,000
7.102	Fraternal Societies	Under 100,000	Under 100,000	Under 100,000
7.103	Hospital and Medical Service Organizations	10,584,000	8,909,000	8,900,000
Total		21,224,300	24,651,200	19,450,000

MOTOR FUEL AND PURCHASE AND USE
TAX EXPENDITURES

DESCRIPTION OF GASOLINE AND DIESEL FUEL AND MOTOR VEHICLE PURCHASE AND USE TAX EXPENDITURES

Gasoline Tax

There are no end-user exemptions to the gasoline tax.

Diesel Fuel Tax and Transportation Infrastructure Bond (TIB) Fund Assessment

23 V.S.A. §3003 imposes on the sale of diesel fuel (1) a tax of \$0.25 per gallon, (2) a petroleum distributor license fee of \$0.01 per gallon which is deposited in the petroleum cleanup fund, and (3) a transportation infrastructure bond (TIB) fund assessment of \$0.03 per gallon. This analysis treats exemptions from the tax, fee, and assessment as all being tax expenditures and herein the term “tax” is all inclusive.

As specified in 23 V.S.A. §3003(d)(1), the following uses are exempted from the diesel fuel tax, the license fee, and TIB assessment:

- Off-road uses for agricultural purposes
- use by a vehicle registered as a farm truck
- off-road uses by any vehicle
- uses by state or municipal entities (including school districts, fire districts)
- use by a nonprofit public transit agency

Diesel fuel purchases by government entities and public transit agencies are excluded from this analysis.

The DMV electronic database is limited to information on the number of taxable and tax exempt gallons sold and does not break down the aggregate numbers by user type. Therefore, this report does not estimate the tax expenditure value of the individual exemptions but instead provides one aggregate estimate for all the exemptions in 23 V.S.A. §3003(d)(1). The tax expenditure estimates are derived by using data from several sources to estimate the quantity of dealer to dealer sales and the quantity of diesel fuel purchases by state and local government entities and public transit agencies, which are not considered to be tax expenditures. These totals were then subtracted from DMV’s gross figure for tax-exempt gallons.

Motor Vehicle Purchase and Use Tax

Motor Vehicle Purchase & Use Tax – Specific Exemptions

Exemptions from the P&U tax are specified in 32 V.S.A §8911. The exemption for state and local government entities is excluded from the analysis.

The DMV database includes transactions exempted from the P&U tax in 7 categories. Information is available on the vehicle type, make, model, and year, but not the sales price. The expenditure estimate is derived by multiplying the number of transactions in each category by the average P&U tax paid per taxable transaction.

Motor Vehicle Purchase & Use Tax – Trade-In Value Exemption

32 V.S.A §8902(4) and (5) define the purchase price subject to the P&U tax as, in general terms, being equal to the gross price paid minus the value of any trade-in involved in the transaction (broadly defined to include separate sales). It has been argued that a trade-in allowance constitutes a tax expenditure. It has also been argued that a trade-in allowance is necessary to avoid double taxation. In 2005, at the request of the House Ways & Means Committee, the Joint Fiscal Office provided revenue estimates for several options involving the elimination of the trade-in allowance, in whole or in part. The figures were an estimate of the additional P&U tax revenue that would have been generated had the trade-in allowance not existed in the fiscal year involved (adjusted for estimated demand effects). The estimate for a zero trade-in allowance was updated and is included in this report. Whether this revenue constitutes a tax expenditure or rather double taxation is a separate question.

LIST OF FISCAL YEAR 2011 GASOLINE AND DIESEL FUEL TAX EXPENDITURES

8.000 Gasoline and Diesel Fuel Tax Expenditures

8.001 Gasoline Tax

There are no end-user exemptions from the gasoline tax.

8.002 Diesel Tax

Statute: 23 V.S.A. §3003

Enacted: 1982

Estimate: \$11,200,000

Note: The TIB assessment on diesel fuel was effective for only part of FY2009 which largely explains the increase in the estimate from FY 2009 to FY 2011.

**LIST OF FISCAL YEAR 2011 MOTOR VEHICLE PURCHASE AND USE
TAX EXPENDITURES**

9.000 Motor Vehicle Purchase and Use Tax Expenditures

9.001 Religious or charitable institutions or volunteer fire companies

Statute: 32 V.S.A. §8911 (3)
Enacted: 1960, amended 1987, 2006
Estimate: \$107,000

9.002 Non-registered vehicles

Statute: 32 V.S.A. §8911 (5)
Enacted: 1960, amended 1987, 2006
Estimate: Data unavailable

9.003 Gifts

Statute: 32 V.S.A. §8911 (8)
Enacted: 1960, amended 1987, 2006
Estimate: \$2,410,000

9.004 IRC Sec. 351

Statute: 32 V.S.A. §8911 (10)
Enacted: 1960, amended 1987, 2006
Estimate: \$15,000

Note: "IRC Sec. 351" refers to transfers by an owner to a business controlled by the owner pursuant to Internal Revenue Code Sec. 351.

9.005 Handicapped

Statute: 32 V.S.A. §8911 (12)
Enacted: 1960, amended 1987, 2006
Estimate: \$25,000

9.006 Veterans

Statute: 32 V.S.A. §8911 (14)
Enacted: 1960, amended 1987, 2006
Estimate: \$27,000

9.007 General exemption of trade-in value

Statute: 32 V.S.A. §8902(4) and (5)
Enacted: 1960, amended 1967
Estimate: \$22,900,000

Gasoline and Diesel Fuel Tax Expenditures

Item Number	Expenditure	FY 2011 actual	FY 2012 actual	FY 2014 projected
8.001	Gasoline tax	0	0	0
8.002	Diesel fuel	11,200,000	14,000,000	13,400,000
Totals		11,200,000	14,000,000	13,400,000

Motor Vehicle Purchase & Use Tax Expenditures

Item Number	Expenditure	FY 2011 actual	FY 2012 actual	FY 2014 projected
9.001	Religious, charitable	107,000	157,000	150,000
9.002	Non-registered vehicles	No data	No data	No data
9.003	Gifts	2,410,000	2,710,000	2,970,000
9.004	IRC Sec. 351	15,000	12,000	20,000
9.005	Handicap	25,000	31,000	30,000
9.006	Veterans	27,000	32,000	30,000
9.007	Trade-In allowance	22,900,000	24,400,000	27,000,000
Totals		25,484,000	27,342,000	30,200,000

APPENDIX

APPENDIX A – Statutory Charge

32 V.S.A. § 312. Tax expenditure report

§ 312. Tax expenditure report

(a) For purposes of this section, "tax expenditure" shall mean the actual or estimated loss in tax revenue resulting from any exemption, exclusion, deduction, or credit applicable to the tax.

(b) Tax expenditure reports. Biennially, as part of the budget process, beginning January 15, 2009, the department of taxes and the joint fiscal office shall file with the house committees on ways and means and appropriations and the senate committees on finance and appropriations a report on tax expenditures in the personal and corporate income taxes, sales and use tax, and meals and rooms tax, insurance premium tax, bank franchise tax, education property tax, diesel fuel tax, gasoline tax, motor vehicle purchase and use tax, and such other tax expenditures for which the joint fiscal office and the tax department jointly have produced revenue estimates. Legislative council shall also be available to assist with this tax expenditure report. The report shall include, for each tax expenditure, the following information:

(1) A description of the tax expenditure.

(2) The most recent fiscal information available on the direct cost of the tax expenditure in the past two years.

(3) The date of enactment of the expenditure.

(4) A description of and estimate of the number of taxpayers directly benefiting from the expenditure provision.

(c) [Deleted.] (Added 2005, No. 75, § 26; amended 2005, No. 207 (Adj. Sess.), § 23, eff. May 31, 2006; 2007, No. 190 (Adj. Sess.), § 24, eff. June 6, 2008; 2009, No. 160 (Adj. Sess.), § 1, eff. June 4, 2010; 2011, No. 45, § 36k, eff. May 24, 2011.)

APPENDIX B – Individual Income Tax Expenditure Summary

Tax Expenditure Summary - FY 2011 Vermont Individual Income Tax Returns

Taxable Income Class (Federal AGI)	Total # of Returns	Total # Receiving at Least One Benefit	Percent of Returns	Total \$ Amount of Tax Expenditure	Average \$ Amount of Tax Expenditure
Negative	4,980	500	10.0%	387,320	775
None/Missing	2,410	20	0.8%	5,090	255
.01 - 4,999	26,410	5,490	20.8%	774,650	141
5,000 - 9,999	26,890	8,900	33.1%	3,169,660	356
10,000 - 14,999	24,020	8,580	35.7%	5,214,130	608
15,000 - 19,999	22,660	5,810	25.6%	5,503,600	947
20,000 - 24,999	21,080	5,490	26.0%	4,784,670	872
25,000 - 29,999	19,680	5,270	26.8%	3,387,690	643
30,000 - 34,999	17,590	4,750	27.0%	2,057,800	433
35,000 - 39,999	15,050	3,360	22.3%	1,071,040	319
40,000 - 44,999	13,250	2,410	18.2%	491,640	204
45,000 - 49,999	11,270	1,680	14.9%	247,710	147
50,000 - 59,999	20,080	2,820	14.0%	497,320	176
60,000 - 74,999	24,160	4,490	18.6%	887,060	198
75,000 - 99,999	27,240	6,180	22.7%	1,426,500	231
100,000 - 124,999	14,260	4,000	28.1%	1,154,460	289
125,000 - 149,999	7,130	2,300	32.3%	905,620	394
150,000 - 199,999	6,330	2,400	37.9%	1,252,850	522
200,000 - 299,999	3,870	1,740	45.0%	1,531,360	880
300,000 - 499,999	1,860	950	51.1%	1,534,020	1,615
500,000 - 999,999	790	490	62.0%	2,425,800	4,951
1,000,000 +	330	210	63.6%	5,715,490	27,217
Total Vermont	311,340	77,840	25.0%	44,425,480	571
Total Out of State	50,680	5,260	10.4%	4,217,220	802
Grand Total	362,020	83,100	23.0%	48,642,700	585

Three Largest Value Tax Expenditures - Fiscal Year 2011 Vermont Individual Income Tax Returns

Taxable Income Class (Federal AGI)	Total Tax Expenditures		Vermont Muni Bond Income		Capital Gains 40% Exclusion		Earned Income Tax Credit		All Others
	Number	Total	Number	Total	Number	Total	Number	Total	Total
Negative	500	387,320	30	121,960	0	170	470	11,200	253,990
None/Missing	20	5,090	0	1,450	0	1,820	20	820	1,000
.01 - 4,999	5,490	774,650	60	6,190	230	7,260	5,190	758,490	2,710
5,000 - 9,999	8,900	3,169,660	90	5,490	250	12,140	8,540	3,146,270	5,760
10,000 - 14,999	8,580	5,214,130	110	13,300	450	17,810	7,900	5,164,950	18,070
15,000 - 19,999	5,810	5,503,600	130	20,910	450	20,760	5,070	5,405,580	56,350
20,000 - 24,999	5,490	4,784,670	120	20,430	570	28,420	4,650	4,627,030	108,790
25,000 - 29,999	5,270	3,387,690	150	23,560	630	33,000	4,400	3,203,460	127,670
30,000 - 34,999	4,750	2,057,800	170	49,280	670	37,810	3,840	1,826,340	144,370
35,000 - 39,999	3,360	1,071,040	140	33,890	620	40,490	2,370	871,710	124,950
40,000 - 44,999	2,410	491,640	170	37,480	670	45,140	1,150	273,890	135,130
45,000 - 49,999	1,680	247,710	180	46,410	650	50,700	280	27,630	122,970
50,000 - 59,999	2,820	497,320	360	105,010	1,280	113,430			278,880
60,000 - 74,999	4,490	887,060	550	170,460	1,880	198,070			518,530
75,000 - 99,999	6,180	1,426,500	760	298,510	2,610	379,760			748,230
100,000 - 124,999	4,000	1,154,460	550	275,430	1,830	354,230			524,800
125,000 - 149,999	2,300	905,620	360	217,570	1,170	322,790			365,260
150,000 - 199,999	2,400	1,252,850	490	347,280	1,350	448,750			456,820
200,000 - 299,999	1,740	1,531,360	510	438,290	1,080	638,220			454,850
300,000 - 499,999	950	1,534,020	350	420,460	590	699,840			413,720
500,000 - 999,999	490	2,425,800	220	462,910	320	636,700			1,326,190
1,000,000 +	210	5,715,490	120	474,830	150	3,833,860			1,406,800
Total Vermont	77,840	44,425,480	5,620	3,591,100	17,450	7,921,170	43,880	25,317,370	7,595,840
Total Out of State	5,260	4,217,220	190	109,590	2,820	621,720	630	248,310	3,237,600
Grand Total	83,100	48,642,700	5,810	3,700,690	20,270	8,542,890	44,510	25,565,680	10,833,440

High Participation Expenditures (>1,000) - Fiscal Year 2011 Vermont Individual Income Tax Returns

Taxable Income Class (Federal AGI)	Child and Dependent Care		Vermont Higher Education Investment Plan		Military Pay Exemption		
	Description	Number	Total	Number	Total	Number	Total
Negative	0	10	0	530	0	0	0
None/Missing	0	0	0	1,000	0	0	0
.01 - 4,999	0	0	0	0	0	1,510	
5,000 - 9,999	0	0	10	4,050	20	620	
10,000 - 14,999	20	970	20	4,210	120	10,270	
15,000 - 19,999	190	11,100	10	7,380	140	28,870	
20,000 - 24,999	420	45,130	10	4,180	150	41,540	
25,000 - 29,999	480	60,970	20	4,390	120	40,060	
30,000 - 34,999	590	75,160	20	3,330	140	59,140	
35,000 - 39,999	480	60,600	30	8,960	100	36,770	
40,000 - 44,999	530	60,670	40	9,800	110	45,300	
45,000 - 49,999	550	63,300	40	10,170	90	46,330	
50,000 - 59,999	1,130	129,290	100	38,320	120	98,420	
60,000 - 74,999	2,080	261,620	190	62,730	110	119,480	
75,000 - 99,999	2,830	370,000	440	153,360	120	184,330	
100,000 - 124,999	1,660	212,580	460	190,130	60	87,630	
125,000 - 149,999	790	93,180	330	174,910	30	72,240	
150,000 - 199,999	640	74,490	390	237,020	30	87,550	
200,000 - 299,999	300	34,930	310	248,090	10	38,990	
300,000 - 499,999	110	13,070	140	127,130	0	4,810	
500,000 - 999,999	50	4,540	70	62,780	0	4,140	
1,000,000 +	10	1,430	20	27,400	0	0	
Total Vermont	12,860	1,573,040	2,650	1,379,870	1,470	1,008,000	
Total Out of State	1,530	83,040	40	19,090	250	1,222,810	
Grand Total	14,390	1,656,080	2,690	1,398,960	1,720	2,230,810	

