



**Tax Expenditures Transition Report on
Personal and Corporate Income Taxes
Sales and Use Taxes**

prepared for:

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

January 15, 2007

Pursuant to 2005, No. 75, Sec. 27(a)(2)

**Susan Mesner, Tax Department
Sara Teachout, Joint Fiscal Office
Molly Bachman, Tax Department**

TABLE OF CONTENTS

| | |
|---|----|
| Introduction | 1 |
| What are Tax Expenditures | 1 |
| Defining the Basic Tax Structure | 2 |
| Description of the Data | |
| Income Tax | 2 |
| Sales and Use Tax | 3 |
| Flowchart | 4 |
| List Of Tax Year 2004 Personal Income Tax Expenditures | 5 |
| List Of Tax Year 2004 Corporate Income Tax Expenditures | 13 |
| Income Tax Expenditure Summary | 18 |
| Summary of Credits Taken Against Several Tax Types | 20 |
| List Of Fiscal Year 2005 Sales Tax Expenditures | 21 |
| Sales Tax Expenditure Summary | 28 |
| Other Exemptions from Sales and Use Tax | 30 |
| Act No. 75, Sec. 26 & 27 | 32 |

INTRODUCTION

Act 75 (2005) charges the Department of Taxes and Joint Fiscal Office to work cooperatively to prepare a biennial report on tax expenditures in the individual and corporate income, sales and use, meals and rooms, and property taxes beginning January 15, 2009. Act 207 (2006) added bank franchise and insurance premiums tax expenditures to the report. The first of three transitional tax expenditure reports on individual and corporate income taxes was produced last year. This phase two report updates the income tax expenditures and adds expenditure estimates for sales and use tax exemptions.

Income tax expenditure estimates in the current report are for tax year 2004, the most recent year the Department of Taxes has complete data. Act 75 calls for the revenue impact to be estimated by most recent fiscal year, but a tax expenditure report highlights differences between accounting and budgetary concepts and tax returns processing. A report by fiscal year would represent a minimum of two tax filing years for income tax expenditures, and the JFO and Tax agreed to report income tax expenditures by tax year to reflect the data associated with one particular tax year. Sales and use tax expenditure estimates, which are based on data from a variety of sources and inflation adjusted when necessary, are for fiscal year 2005.

The report is organized into two sections, the first covering income taxes and the second, sales and use taxes. Each section contains a detailed list of tax expenditures, which includes a brief description of each expenditure, the statutory authorization and date of enactment, the number of taxpayers affected if available, and estimated revenue impact, as well as a summary list of expenditures by tax type.

What Are Tax Expenditures?

Taxes are an essential source of revenue for all state governments, but the manner in which they are imposed varies considerably from state to state. In its simplest form, a tax is an across-the-board levy on a base, such as income or retail sales, to which a specific rate applies and for which no modifications exist. In practice, most state tax codes incorporate a number of exclusions, exemptions, deductions, credits, and deferrals designed to encourage certain taxpayer activity or to limit the tax burden on certain types of individuals or endeavors. Known as "tax expenditures," these provisions reduce the amount of tax revenues that would be collected if no modifications existed. In this sense, the fiscal effects of a tax expenditure are identical to a direct government expenditure.

Some tax expenditures involve a permanent loss of revenue, and thus are comparable to a payment by the government; others allow a deferral of revenue to the future, and thus are comparable to an interest-free loan to the taxpayer. Since tax expenditures are designed to accomplish certain public goals that otherwise might be met through direct appropriation, it is appropriate for states to require the same kind of analysis and review of tax expenditures that the appropriations budget receives.

Tax expenditures are created to provide economic assistance to certain groups of workers, consumers or producers. This report estimates those expenditures that the Vermont Legislature can alter and does not evaluate their equity or desirability from a public policy standpoint.

Defining The Basic Tax Structure

Some provisions of the tax code represent tax expenditures as described above, while others are part of the basic structure of a given tax. The "basic structure" is the set of rules that defines the taxable base; a tax expenditure is an exception to those rules.

State income taxes are linked to the federal tax structure, and Title 32 of the Vermont Statutes make repeated references to definitions of federal taxable income on which Vermont's individual and corporate income taxes are based. For that reason, the concept of "tax expenditures" for purposes of this report begins with federal taxable income and does not consider the myriad deductions, exclusions, and deferrals that reduce the federal tax base. Only those exclusions, exemptions, deductions, credits, and deferrals enacted into the Vermont tax code that modify the federal tax base are identified and analyzed.

Tax provisions reflecting federal prohibitions against state taxation are also considered part of the basic tax structure and therefore not considered in this report. Prohibitions can relate to types of income, such as interest income from U.S. government obligations or railroad retirement income, or to types of entities, such as non-profit corporations or governmental bodies. Some exclusions or exemptions arise from legislative decisions to levy taxes under an alternative scheme, e.g., the insurance premiums tax and bank franchise tax in lieu of income tax, and the motor vehicle purchase and use tax in lieu of sales tax. Exemptions from the sales tax are estimated in the body of the report but noted as being taxed separately. Banks and insurance companies are not considered "taxable corporations" and thus not treated as expenditures in the income tax portion of the report.

The report does not include all tax reduction provisions in statute. For instance, the credit for income tax paid to another state, although not directly required by federal law, is almost uniformly allowed as a mechanism to avoid double taxation of income. Section 9743 (1) and (2) of Title 32, which exempts the State and federal government from sales and use taxes, are not included because they codify the limitations on the State's authority to tax the federal government and the policy that prevents the State from taxing itself.

Description Of The Data

INCOME TAX The design of Vermont's income tax forms, revenue processing systems, and off-line credit tracking spreadsheets provide a level of detail that allows a high degree of confidence in the revenue estimates for expenditures in individual and corporate income taxes. The expenditure estimates use data from individual and corporate tax returns for tax year 2004, as well as all spreadsheets maintained by Taxpayer Services to track various credits. The summary list beginning on page 18 has comparative expenditure data for tax years 2003 and 2004. A flowchart on page 4 shows the calculation of the Vermont individual income tax and provides a framework for organizing the various exemptions, deductions, and credits. Expenditures are reported by tax type. If a credit or exemption is available to both corporate and individual income taxpayers, it is listed under each tax type and accompanying estimates pertain only to that particular tax. A new list has been added on page 20, which summarizes the

expenditure value for those credits that can be taken against multiple tax types and also includes credits taken against the bank franchise tax.

The calculation of expenditures in the income taxes involves first the identification of each expenditure within the flow of the tax calculation (see flowchart). The value of the expenditure differs depending on whether an expenditure is a deduction or exclusion from federal taxable income, an exclusion from the Vermont tax prior to applying the income adjustment, exempt income that is part of the income adjustment calculation, or a refundable or non-refundable credit against income tax. Each type of expenditure involves unique estimating problems and a different methodology.

The estimated revenue impact for each expenditure is rounded to the nearest thousand dollars and the number of taxpayers benefiting from the expenditure is rounded to the nearest ten. In only one instance is there no available data to estimate the impact.

SALES AND USE TAX Exemptions from the sales tax are based on a broad definition of "sales." Until January 2007, the definition of "sale, selling or purchase" at §9701(6) was "any transfer of title or possession or both, exchange or barter, rental, lease or license to use or consume, . . ." The Streamlined Sales and Use Tax Agreement, to which Vermont became a member effective January 1, 2007, uses a similar definition for "retail sale."

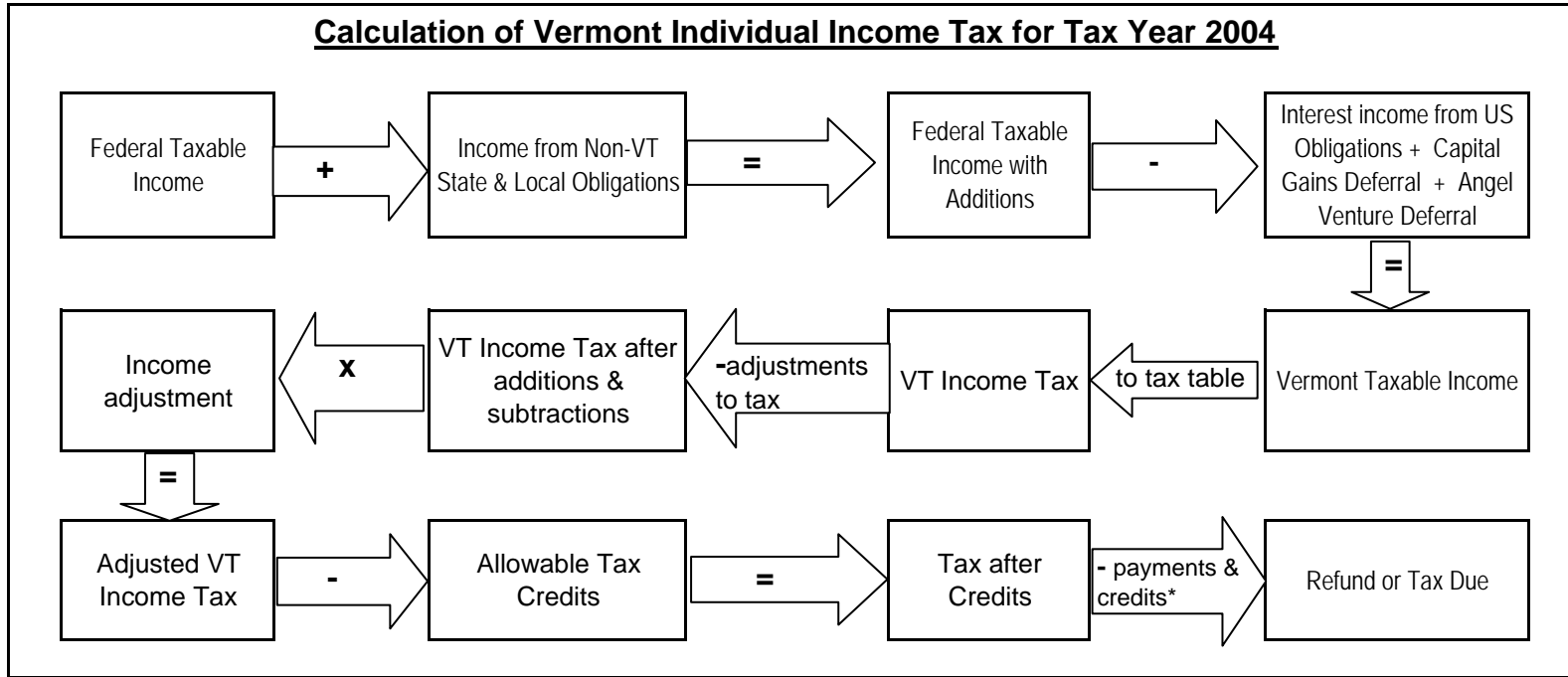
Estimating expenditures in sales and use taxes presents entirely different challenges than income tax expenditures. Unlike income tax credits and deductions, the tax department has no data for sales tax exemptions since these are not separately identified on any tax return. The estimates contained in this report are based on data from a variety of sources for different years and using different methodologies. In some cases there was no available data on which to base an estimate. The only available data for some exemptions were several years old, but all estimates have been inflation-adjusted in order provide comparative estimates for fiscal year 2005.

Sales and use tax exemptions fall into six general categories:

- true expenditures that represent policy decisions to protect or advantage certain activities or groups of consumers;
- transactions that fall outside the definition of the sales tax base and are in statute primarily for clarification, e.g., §9741 (35) and (37);
- exemptions that represent a choice of alternative tax schemes, such as the Meals & Rooms tax rather than extending the sales tax to meals for sale or rooms for rent;
- 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);
- exemptions for transactions the State deems too difficult to tax, e.g., §9741 (4); or
- transactions and sales by organizations that are either non-retail in nature or involve the transfer of tangible property in exchange for intangible interest.

The estimated revenue impact for each expenditure is rounded to the nearest hundred thousand dollars. In most cases it was impossible to estimate the number of affected taxpayers, so the sales and use tax portion of the report does not include this information.

Calculation of Vermont Individual Income Tax for Tax Year 2004



* Payment & credits: withholding, estimated payments, VT earned income tax credit, homeowner property tax rebate, renter rebate, real estate withholding, nonresident payments by business entity, refundable low income child & dependent care credit

LIST OF TAX YEAR 2004 PERSONAL INCOME TAX EXPENDITURES

1.000 Additions and Subtractions from Federal Taxable Income

- 1.001 Vermont Municipal Bond Income Exemption
Interest income from state and local government obligations is added to taxable income, but an exemption is made for interest income from Vermont state and local government obligations.

Statute: 32 V.S.A. §5811(21)(A)(i)
Enacted: 1986
Estimate: \$3,917,000
Taxpayers benefiting from expenditure: 6,730

- 1.002 Capital Gains 40% Exclusion
Forty percent of adjusted net capital gain income, as defined in Section 1(h) of the Internal Revenue Code, is excluded from taxable income. The remaining 60% is taxed as ordinary income.

Statute: 32 V.S.A. §5811(21)(B)(ii)
Enacted: 2002
Estimate: \$34,091,000
Taxpayers benefiting from expenditure: 36,190

- 1.003 Angel Venture Capital Gain Deferral
Qualified taxpayers are eligible for deferral of capital gain income under §5811(21)(B)(ii) resulting from eligible venture capital investment made by the taxpayer during the taxable year. Upon disposition of interest in the qualified business, a taxpayer is required to include the amount of deferred income in that year's taxable income.

Statute: 32 V.S.A. §5930v & §5811(21)(B)(iii) & (A)(iii)
Enacted: 2003
Estimate: \$2,000
Taxpayers benefiting from expenditure: Less than 10

1.100 Subtractions from VT Income Tax

- 1.101 Credit for Child and Dependent Care
Twenty-four percent of the amount of federal credit allowed under section 21 of the IRC for employment-related expenses for a qualifying individual. A credit in this section is in lieu of the Low Income Child & Dependent Care Credit available under subsection 5828c (see *item 1.401*).

Statute: 32 V.S.A. §5822(d)
Enacted: 1976
Estimate: \$1,534,000
Taxpayers benefiting from expenditure: 13,750

- 1.102 Credit for Elderly or Disabled
Twenty-four percent of the amount of federal credit allowed under section 22 of the IRC.

Statute: 32 V.S.A. §5822(d)
Enacted: 1967
Estimate: \$7,000
Taxpayers benefiting from expenditure: 130

- 1.103 Investment Tax Credit
Twenty-four percent of the amount of federal credit allowed for investment in the following activities: rehabilitation (IRC §47); energy (IRC §48(a)); advanced coal projects (IRC §48A); gasification projects (IRC §48B(e)).

Statute: 32 V.S.A. §5822(d)
Enacted: 1967
Estimate: \$37,000
Taxpayers benefiting from expenditure: 60

- 1.104 Alternative Minimum Tax Credit
A credit in the amount of twenty-four percent of the federal credit against regular tax liability for the prior year minimum tax liability, as allowed under section 53 of the IRC. Repealed for tax years 2004 and after.

Statute: 32 V.S.A. §5811(4)
Enacted: 1988 (repealed for tax years 2004 and after)
Estimate: N.A.
Taxpayers benefiting from expenditure: N.A.

- 1.105 VT Farm Income Averaging Credit
A credit in the amount of twenty-four percent of the reduction in federal tax liability due to farm income averaging using Federal Form 1040 Schedule J.

Statute: 32 V.S.A. §5822(c)(2)
Enacted: 2002
Estimate: \$66,000
Taxpayers benefiting from expenditure: 150

1.200 Adjustments to Vermont Income Tax

- 1.201 Military pay
1) Exempts military pay for full-time active duty earned outside Vermont. 2) Exempts the first \$2,000 of military pay for in-state unit training to National Guard and U.S. Reserve personnel if adjusted gross income is less than \$50,000. 3) Exempts funds received through the federal armed forces education loan repayment program under 10 U.S.C. chapters 109 and 1609, to the extent the funds are included in adjusted gross income.

Statute: 32 V.S.A. §5823 (a)(2) & (b)(3)

Enacted: 1966
Estimate: \$1,006,000
Taxpayers benefiting from expenditure: 1,880

- 1.202 Lottery prizes from Vermont state-run lottery
Exempts income from the VT State Lottery, Tri-State Lottery, and, after July 1, 2003, Powerball.

Statute: 31 V.S.A. §664 & 674(S); 32 V.S.A. § 5823 (b)(6)
Enacted: 1996
Estimate: \$487,000
Taxpayers benefiting from expenditure: 560

- 1.203 Federal Employment Opportunity income
Exempts that portion of wages that is required to be included as adjusted gross income as provided in section 280C of the IRC, which relates to federal tax credit incentive work programs.

Statute: 32 V.S.A. §5823 (a)(5)
Enacted: 1979
Estimate: \$8,000
Taxpayers benefiting from expenditure: 70

- 1.204 State payments for support of developmentally disabled person(s)
Exempts the amount paid by the state to a family for the support of an eligible person with a developmental disability as defined in section 8722(2) of V.S.A. Title 18, to the extent that amount was included in adjusted gross income.

Statute: 32 V.S.A. §5823 (a)(6)
Enacted: 1996
Estimate: \$4,000
Taxpayers benefiting from expenditure: 20

- 1.205 Americans with Disabilities Credit
Exempts that portion of expenses that are required to be included as adjusted gross income as provided in section 44 of the IRC, which relates to the federal disabled access credit.

Statute: 32 V.S.A. §5823 (a)(5)
Enacted: 1998
Estimate: Less than \$500
Taxpayers benefiting from expenditure: Less than 10

- 1.206 Nonresident commercial film income
Exempts income of a nonresident from a dramatic performance in a commercial film production, to the extent such income is exempt in the taxpayer's home state.

Statute: 32 V.S.A. §5823 (b)(3) & (b)(4)(C)
Enacted: 1998
Estimate: \$2,000

Taxpayers benefiting from expenditure: Less than 10

1.300 Vermont Credits

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

Statute: 32 V.S.A. §5830c
Enacted: 1990
Estimate: \$11,000
Taxpayers benefiting from expenditure: 30

- 1.302 Affordable Housing Credit
Credit for 25% of qualified basis of housing project.

Statute: 32 V.S.A. §5930u
Enacted: 2000
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 1.303 Commercial Film Production Credit
Credit equals difference between the tax on earned income by an individual for a dramatic performance in a commercial film production in Vermont at the highest personal income tax rate in the individual's state of residence and the Vermont income tax.

Statute: 32 V.S.A. §5826
Enacted: 1998
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 1.304 Qualified Sale of Mobile Home Park Credit
Credit equals 7% of gain on sale of mobile home park that is subject to federal income tax for the taxable year.

Statute: 32 V.S.A. §5828
Enacted: 1998
Estimate: Less than \$9,000
Taxpayers benefiting from expenditure: Less than 10

- 1.305 Employee Training Credit
Credit for training expenses up to \$400 per qualified employee.

Statute: 32 V.S.A. §5930t
Enacted: 1998
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 1.306 Rehabilitation of Certified Historic Buildings Credit
Credit equals 10% of qualified rehabilitation expenditures for a building located in a downtown development district or 5% of qualified rehabilitation expenditures on projects located within a designated village center.
- Statute: 32 V.S.A. §5930n
Enacted: 1998
Estimate: \$51,000
Taxpayers benefiting from expenditure: 10
- 1.307 Older or Historic Building Rehabilitation Credit
Credit equals 25% of up to \$100,000 in qualified expenditures for rehabilitation of buildings constructed prior to January 1, 1983 and located within downtown development districts.
- Statute: 32 V.S.A. §5930p
Enacted: 1998
Estimate: \$56,000
Taxpayers benefiting from expenditure: 10
- 1.308 Platform Lifts, Elevators, and Sprinkler Systems Credit
Credit equals 50% of qualified expenditures for buildings located within downtown development districts; maximum for platform lifts is \$12,000; maximum for elevator or sprinkler system is \$25,000.
- Statute: 32 V.S.A. §5930q
Enacted: 2002
Estimate: \$10,000
Taxpayers benefiting from expenditure: Less than 10
- 1.309 Commercial Code Improvements Credit
Credit equals 50% of qualified expenditures, up to \$5,000, for capital improvement or fixtures, or both, in a commercial building located in a designated village center to comply with state requirements for fire prevention, life safety and accessibility.
- Statute: 32 V.S.A. §5930r
Enacted: 2002
Estimate: \$0
Taxpayers benefiting from expenditure: None
- 1.310 Financial Services Tax Credit
Credit equals the ratio of Vermont payroll allocable to financial services provided for non-VT clients.
- Statute: 32 V.S.A. §5922
Enacted: 1996
Estimate: \$26,000
Taxpayers benefiting from expenditure: 10

- 1.311 EATI Payroll Tax Credit
A business may be authorized for a credit of up to 5-10 % of its increased payroll costs, defined as salaries and wages for full-time employees, above its costs of salaries and wages from the preceding tax year, depending on the amount of annual sales of the business.
- Statute: 32 V.S.A. §5930c
Enacted: 1998
Estimate: \$127,000
Taxpayers benefiting from expenditure: 30
- 1.312 EATI Research & Development Tax Credit
A business may be authorized for a credit of up to 10% of qualified research and development expenditures. Qualified R&D expenditures have the same meaning as qualified research and development expenditures included in 26 USC 41(b).
- Statute: 32 V.S.A. §5930d
Enacted: 1998
Estimate: \$58,000
Taxpayers benefiting from expenditure: Less than 10
- 1.313 EATI Capital Investment Tax Credit
A business may be authorized for a credit of up to 5 - 10 % of its total capital investments in, or capital lease of, plants, facilities, and machinery and equipment, depending on the number of full-time employees. (Formerly call the Small Business Tax Credit.)
- Statute: 32 V.S.A. §5930g
Enacted: 1998
Estimate: \$217,000
Taxpayers benefiting from expenditure: 30
- 1.314 EATI Workforce Development Tax Credit
A business may be authorized for a credit amount of up to 20% of qualified training, education and workforce development expenditures or 25% of qualified expenditures for the benefit of individuals who are participating in "Reach-Up" or other economic self-sufficiency programs.
- Statute: 32 V.S.A. §5930e
Enacted: 1998
Estimate: Less than \$0
Taxpayers benefiting from expenditure: None
- 1.315 EATI Export Tax Credit
A business that makes sales outside Vermont may be authorized for a credit equal to the income tax calculated under the existing state apportionment formula and an alternative formula which double-weights the sales factor and disregards throwback provisions.
- Statute: 32 V.S.A. §5930f

Enacted: 1998
Estimate: \$116,000
Taxpayers benefiting from expenditure: Less than 10

- 1.316 EATI High-Tech Business Credit
Credit amount is 6% of qualifying investments in machinery and equipment with credit maximum of \$100,000, and up to 6% of investment for renovation of existing VT facility, and the Workforce Development credit.

Statute: 32 V.S.A. §5930k
Enacted: 2002
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 1.317 EATI Sustainable Technology R&D Tax Credit
A business may be authorized for a credit of up to 30% of qualified research and development expenditures. Qualified R&D expenditures have the same meaning as qualified research and development expenditures included in 26 USC 41(b).

Statute: 32 V.S.A. §5930w
Enacted: 2003
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 1.318 EATI Sustainable Technology Export Credit
A business that makes sales outside Vermont may be authorized for a credit equal to the income tax calculated under the existing state apportionment formula and an alternative formula which triple-weights the sales factor and disregards throwback provisions.

Statute: 32 V.S.A. §5930x
Enacted: 2003
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 1.319 Vermont Higher Education Investment Credit
A taxpayer, including each spouse filing a joint return, is eligible for a credit of five percent of the first \$2,000 per beneficiary contributed by the taxpayer during the taxable year to a Vermont higher education investment plan account.

Statute: 32 V.S.A. §5925a
Enacted: 2003
Estimate: \$102,000
Taxpayers benefiting from expenditure: 550

- 1.320 Vermont Seed Capital Fund Credit
A credit may be taken for a taxpayer's contribution to the Vermont Seed Capital Fund and is the lesser of 10 percent of the contribution or 50 percent of the taxpayer's liability for that taxable year. The credit is available for the year of

the investment and the four years following, however, the total credit is limited to 50% of the taxpayer's contribution.

Statute: 32 V.S.A. §5830b

Enacted: 2004

Estimate: \$0

Taxpayers benefiting from expenditure: None

1.400 Refundable Credits

1.401 Low Income Child & Dependent Care Credit

A resident with adjusted gross income less than \$30,000 (or \$40,000 for married, filing joint) is eligible for a refundable credit equal to 50% of the federal credit allowed under section 21 of the IRC if the services provided are in a registered home or licensed facility certified by the agency of human services. A credit in this section is in lieu of the Child and Dependent Care Credit available under subsection 5822 (d) (*see item 1.101*).

Statute: 32 V.S.A. §5828c

Enacted: 2002

Estimate: \$80,000

Taxpayers benefiting from expenditure: 580

1.402 Earned Income Tax Credit

Thirty-two percent of the federal credit for earned income allowed under section 32 of the IRC. The amount of the credit was increased from 25% in 2000.

Statute: 32 V.S.A. §5828b

Enacted: 1988

Estimate: \$17,811,000

Taxpayers benefiting from expenditure: 35,770

LIST OF TAX YEAR 2004 CORPORATE INCOME TAX EXPENDITURES

2.000 Additions and Subtractions from Federal Taxable Income

- 2.001 Vermont Municipal Bond Income Exemption
Exemption for interest income from Vermont state and local government obligations. Interest income from non-Vermont obligations is included in taxable income.

Statute: 32 V.S.A. §5811(21)(A)(i)
Enacted: 1986
Estimate: N.A.
Taxpayers benefiting from expenditure: N.A.

2.100 Vermont Credits

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

Statute: 32 V.S.A. §5830c
Enacted: 1990
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 2.102 Affordable Housing Credit
Credit for 25% of qualified basis of housing project.

Statute: 32 V.S.A. §5930u
Enacted: 2000
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 2.103 Qualified Sale of Mobile Home Park Credit
Credit equals 7% of gain on sale of mobile home park that is subject to federal income tax for the taxable year.

Statute: 32 V.S.A. §5828
Enacted: 1998
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 2.104 Manufacturer's Investment Credit
Credit equal to the qualified capital expenditures of a qualified manufacturer, totaling at least \$4 million for plant, equipment and machinery. No new credits were allowed after June 30, 1995, but credits in carryforward status can be applied against tax liability for tax years ending on or before June 30, 2005.

Statute: 32 V.S.A. §5930
Enacted: 1993
Estimate: \$1,406,000
Taxpayers benefiting from expenditure: Less than 10

- 2.105 Employee Training Credit
Credit for training expenses up to \$400 per qualified employee. Repealed effective May 31, 2006.

Statute: 32 V.S.A. §5930t
Enacted: 1998
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 2.106 New Jobs Credit
Credit available to qualified employers certified by the secretary of administration in the amount of not less than \$2000 and not more than \$3000 for each qualified new job created; employer may claim 10% of certified credit amount in each of 10 tax years ending on or before June 30, 2005. Repealed effective March 8, 2006.

Statute: 32 V.S.A. §5929
Enacted: 1993
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 2.107 Rehabilitation of Certified Historic Buildings Credit
Credit equals 10% of qualified rehabilitation expenditures for a building located in a downtown development district or 5% of qualified rehabilitation expenditures on projects located within a designated village center.

Statute: 32 V.S.A. §5930n
Enacted: 1998
Estimate: \$2,000
Taxpayers benefiting from expenditure: Less than 10

- 2.108 Older or Historic Building Rehabilitation Credit
Credit equals 25% of up to \$100,000 in qualified expenditures for rehabilitation of buildings constructed prior to January 1, 1983 and located within downtown development districts.

Statute: 32 V.S.A. §5930p
Enacted: 1998
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 2.109 Platform Lifts, Elevators, and Sprinkler Systems Credit
Credit equals 50% of qualified expenditures for buildings located within downtown development districts; maximum for platform lifts is \$12,000; maximum for elevator or sprinkler system is \$25,000.

Statute: 32 V.S.A. §5930q
Enacted: 2002
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 2.110 Commercial Code Improvements Credit
Credit equals 50% of qualified expenditures, up to \$5,000, for capital improvement or fixtures, or both, in a commercial building located in a designated village center to comply with state requirements for fire prevention, life safety and accessibility.

Statute: 32 V.S.A. §5930r
Enacted: 2002
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 2.111 Financial Services Tax Credit
Credit equals the ratio of Vermont payroll allocable to financial services provided for non-VT clients.

Statute: 32 V.S.A. §5922
Enacted: 1996
Estimate: \$1,898,000
Taxpayers benefiting from expenditure: Less than 10

- 2.112 EATI Payroll Tax Credit
A business may be authorized for a credit of up to 5-10 % of its increased payroll costs, defined as salaries and wages for full-time employees, above its costs of salaries and wages from the preceding tax year, depending on the amount of annual sales of the business.

Statute: 32 V.S.A. §5930c
Enacted: 1998
Estimate: \$401,000
Taxpayers benefiting from expenditure: 20

- 2.113 EATI Research & Development Tax Credit
A business may be authorized for a credit of up to 10% of qualified research and development expenditures. Qualified R&D expenditures have the same meaning as qualified research and development expenditures included in 26 USC 41(b).

Statute: 32 V.S.A. §5930d
Enacted: 1998
Estimate: \$583,000
Taxpayers benefiting from expenditure: Less than 10

- 2.114 EATI Capital Investment Tax Credit
A business may be authorized for a credit of up to 5 - 10 % of its total capital investments in, or capital lease of, plants, facilities, and machinery and

equipment, depending on the number of full-time employees. (Formerly call the Small Business Tax Credit.)

Statute: 32 V.S.A. §5930g
Enacted: 1998
Estimate: \$1,595,000
Taxpayers benefiting from expenditure: 20

- 2.115 EATI Workforce Development Tax Credit
A business may be authorized for a credit amount of up to 20% of qualified training, education and workforce development expenditures or 25% of qualified expenditures for the benefit of individuals who are participating in "Reach-Up" or other economic self-sufficiency programs.

Statute: 32 V.S.A. §5930e
Enacted: 1998
Estimate: \$110,000
Taxpayers benefiting from expenditure: Less than 10

- 2.116 EATI Export Tax Credit
A business that makes sales outside Vermont may be authorized for a credit equal to the income tax calculated under the existing state apportionment formula and an alternative formula which double-weights the sales factor and disregards throwback provisions.

Statute: 32 V.S.A. §5930f
Enacted: 1998
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 2.117 EATI High-Tech Business Credit
Credit amount is 6% of qualifying investments in machinery and equipment with credit maximum of \$100,000, and up to 6% of investment for renovation of existing VT facility, and the Workforce Development credit.

Statute: 32 V.S.A. §5930k
Enacted: 2002
Estimate: \$301,000
Taxpayers benefiting from expenditure: Less than 10

- 2.118 EATI Sustainable Technology R&D Tax Credit
A business may be authorized for a credit of up to 30% of qualified research and development expenditures. Qualified R&D expenditures have the same meaning as qualified research and development expenditures included in 26 USC 41(b).

Statute: 32 V.S.A. §5930w
Enacted: 2003
Estimate: \$0
Taxpayers benefiting from expenditure: None

- 2.119 EATI Sustainable Technology Export Credit
A business that makes sales outside Vermont may be authorized for a credit equal to the income tax calculated under the existing state apportionment formula and an alternative formula which triple-weights the sales factor and disregards throwback provisions.

Statute: 32 V.S.A. §5930x

Enacted: 2003

Estimate: \$0

Taxpayers benefiting from expenditure: None

Tax Years 2003 - 2004 Income Tax Expenditure Summary

| Income Tax Expenditure | Item Number | Enacted | 2003 Tax Year | Number of Taxpayers | 2004 Tax Year | Number of Taxpayers |
|--|-------------|---------|------------------|------------------------|------------------|------------------------|
| PERSONAL INCOME TAX | | | | | | |
| Additions and Subtractions from Federal Taxable Income | | | | | | |
| Vermont Municipal Bond Income Exemption | 1.001 | 1986 | \$3,909,000 | 6,060 | \$3,917,000 | 6,730 |
| Capital Gains 40% Exclusion | 1.002 | 2002 | \$19,309,000 | 26,150 | \$34,091,000 | 36,190 |
| Angel Venture Capital Gain Deferral | 1.003 | 2003 | Less than \$500 | Less than 10 | \$2,000 | Less than 10 |
| Subtractions from VT Income Tax | | | | | | |
| Credit for Child and Dependent Care | 1.101 | 1976 | \$1,466,000 | 13,160 | \$1,534,000 | 13,750 |
| Credit for Elderly or Disabled | 1.102 | 1967 | \$6,000 | 120 | \$7,000 | 130 |
| Investment Tax Credit | 1.103 | 1967 | \$136,000 | 240 | \$37,000 | 60 |
| Alternative Minimum Tax Credit (1) | 1.104 | 1988 | \$341,000 | 820 | N.A. | N.A. |
| VT Farm Income Averaging Credit | 1.105 | 2002 | \$17,000 | 70 | \$66,000 | 150 |
| Adjustments to Vermont Income Tax | | | | | | |
| Military pay | 1.201 | 1966 | \$603,000 | 1,430 | \$1,006,000 | 1,880 |
| Lottery prizes from Vermont state-run lottery (2) | 1.202 | 1996 | \$160,000 | 530 | \$487,000 | 560 |
| Federal Employment Opportunity income | 1.203 | 1979 | \$5,000 | 30 | \$8,000 | 70 |
| State payments for support of developmentally disabled person(s) | 1.204 | 1996 | \$2,000 | 10 | \$4,000 | 20 |
| Americans with Disabilities Credit | 1.205 | 1998 | Less than \$500 | Less than 10 | Less than \$500 | Less than 10 |
| Nonresident commercial film income | 1.206 | 1998 | Less than \$500 | Less than 10 | \$2,000 | Less than 10 |
| Vermont Credits | | | | | | |
| Charitable Housing Credit | 1.301 | 1990 | \$14,000 | 40 | \$11,000 | 30 |
| Affordable Housing Credit | 1.302 | 2000 | Less than \$500 | Less than 10 | \$0 | None |
| Commercial Film Production Credit | 1.303 | 1998 | \$0 | None | \$0 | None |
| Qualified Sale of Mobile Home Park Credit | 1.304 | 1998 | Less than \$500 | Less than 10 | \$9,000 | Less than 10 |
| Employee Training Credit | 1.305 | 1998 | \$0 | None | \$0 | None |
| Rehabilitation of Certified Historic Buildings Credit | 1.306 | 1998 | \$64,000 | Less than 10 | \$51,000 | 10 |
| Older or Historic Building Rehabilitation Credit | 1.307 | 1998 | \$30,000 | Less than 10 | \$56,000 | 10 |
| Platform Lifts, Elevators, and Sprinkler Systems Credit | 1.308 | 2002 | \$4,000 | Less than 10 | \$10,000 | Less than 10 |
| Commercial Code Improvements Credit | 1.309 | 2002 | \$5,000 | Less than 10 | \$0 | None |
| Financial Services Tax Credit | 1.310 | 1996 | \$25,000 | 10 | \$26,000 | 10 |
| EATI Payroll Tax Credit | 1.311 | 1998 | \$115,000 | 20 | \$127,000 | 30 |
| EATI Research & Development Tax Credit | 1.312 | 1998 | \$298,000 | Less than 10 | \$58,000 | Less than 10 |
| EATI Capital Investment Tax Credit | 1.313 | 1998 | \$191,000 | 30 | \$217,000 | 30 |
| EATI Workforce Development Tax Credit | 1.314 | 1998 | Less than \$500 | Less than 10 | \$0 | None |

Tax Years 2003 - 2004 Income Tax Expenditure Summary

| Income Tax Expenditure | Item Number | Enacted | 2003 Tax Year | Number of Taxpayers | 2004 Tax Year | Number of Taxpayers |
|---|-------------|---------|------------------|------------------------|------------------|------------------------|
| PERSONAL INCOME TAX | | | | | | |
| EATI Export Tax Credit | 1.315 | 1998 | \$157,000 | Less than 10 | \$116,000 | Less than 10 |
| EATI High-Tech Business Credit | 1.316 | 2002 | \$0 | None | \$0 | None |
| EATI Sustainable Technology R&D Tax Credit | 1.317 | 2003 | \$0 | None | \$0 | None |
| EATI Sustainable Technology Export Credit | 1.318 | 2003 | \$0 | None | \$0 | None |
| VT Higher Education Investment Credit (3) | 1.319 | 2003 | N.A. | N.A. | \$102,000 | 550 |
| Seed Capital (4) | 1.320 | 2004 | N.A. | N.A. | \$0 | None |
| Refundable Credits | | | | | | |
| Low Income Child & Dependent Care Credit | 1.401 | 2002 | \$43,000 | 220 | \$80,000 | 580 |
| Earned Income Tax Credit | 1.402 | 1988 | \$17,424,000 | 35,460 | \$17,811,000 | 35,770 |
| CORPORATE INCOME TAX | | | | | | |
| Additions and Subtractions from Federal Taxable Income | | | | | | |
| Vermont Municipal Bond Income Exemption | 2.001 | 1986 | N.A. | N.A. | N.A. | N.A. |
| Vermont Credits | | | | | | |
| Charitable Housing Credit | 2.101 | 1990 | \$0 | None | \$0 | None |
| Affordable Housing Credit | 2.102 | 2000 | \$5,000 | Less than 10 | \$0 | None |
| Qualified Sale of Mobile Home Park Credit | 2.103 | 1998 | \$0 | None | \$0 | None |
| Manufacturer's Investment Credit | 2.104 | 1993 | \$816,000 | Less than 10 | \$1,406,000 | Less than 10 |
| Employee Training Credit (5) | 2.105 | 1998 | \$0 | None | \$0 | None |
| New Jobs Credit (6) | 2.106 | 1993 | \$0 | None | \$0 | None |
| Rehabilitation of Certified Historic Buildings Credit | 2.107 | 1998 | \$5,000 | Less than 10 | \$2,000 | Less than 10 |
| Older or Historic Building Rehabilitation Credit | 2.108 | 1998 | \$0 | None | \$0 | None |
| Platform Lifts, Elevators, and Sprinkler Systems Credit | 2.109 | 2002 | \$0 | None | \$0 | None |
| Commercial Code Improvements Credit | 2.110 | 2002 | \$0 | None | \$0 | None |
| Financial Services Tax Credit | 2.111 | 1996 | \$1,537,000 | Less than 10 | \$1,898,000 | Less than 10 |
| EATI Payroll Tax Credit | 2.112 | 1998 | \$542,000 | 20 | \$401,000 | 20 |
| EATI Research & Development Tax Credit | 2.113 | 1998 | \$120,000 | Less than 10 | \$583,000 | Less than 10 |
| EATI Capital Investment Tax Credit | 2.114 | 1998 | \$501,000 | 20 | \$1,595,000 | 20 |
| EATI Workforce Development Tax Credit | 2.115 | 1998 | \$0 | None | \$110,000 | Less than 10 |
| EATI Export Tax Credit | 2.116 | 1998 | \$153,000 | Less than 10 | \$0 | None |
| EATI High-Tech Business Credit | 2.117 | 2002 | \$251,000 | Less than 10 | \$301,000 | Less than 10 |
| EATI Sustainable Technology R&D Tax Credit | 2.118 | 2003 | \$0 | None | \$0 | None |
| EATI Sustainable Technology Export Credit | 2.119 | 2003 | \$0 | None | \$0 | None |

SUMMARY OF CREDITS TAKEN AGAINST SEVERAL TAX TYPES (7)**2004 Tax Year ONLY**

| | Individual | Corporate | Bank Franchise | Total |
|---|-------------------|------------------|-----------------------|--------------|
| Charitable Housing Credit | \$11,000 | \$0 | \$0 | \$11,000 |
| Affordable Housing Credit | \$0 | \$0 | \$243,000 | \$243,000 |
| Qualified Sale of Mobile Home Park Credit | \$9,000 | \$0 | N.A. | \$9,000 |
| Employee Training Credit | \$0 | \$0 | N.A. | \$0 |
| Rehabilitation of Certified Historic Buildings Credit | \$51,000 | \$2,000 | \$17,000 | \$70,000 |
| Older or Historic Building Rehabilitation Credit | \$56,000 | \$0 | \$84,000 | \$140,000 |
| Platform Lifts, Elevators, and Sprinkler Systems Credit | \$10,000 | \$0 | \$61,000 | \$71,000 |
| Commercial Code Improvements Credit | \$0 | \$0 | \$0 | \$0 |
| Financial Services Tax Credit | \$26,000 | \$1,898,000 | N.A. | \$1,924,000 |
| EATI Payroll Tax Credit | \$127,000 | \$401,000 | N.A. | \$528,000 |
| EATI Research & Development Tax Credit | \$58,000 | \$583,000 | N.A. | \$641,000 |
| EATI Capital Investment Tax Credit | \$217,000 | \$1,595,000 | N.A. | \$1,812,000 |
| EATI Workforce Development Tax Credit | \$0 | \$110,000 | N.A. | \$110,000 |
| EATI Export Tax Credit | \$116,000 | \$0 | N.A. | \$116,000 |
| EATI High-Tech Business Credit | \$0 | \$301,000 | N.A. | \$301,000 |
| EATI Sustainable Technology R&D Tax Credit | \$0 | \$0 | N.A. | \$0 |
| EATI Sustainable Technology Export Credit | \$0 | \$0 | N.A. | \$0 |

NOTES

For further explanation of estimated expenditure values, see "Description of the Data" on pp. 2-3.

Number of taxpayers rounded to nearest 10

Estimates rounded to nearest \$1,000

(1) Repealed for tax years 2004 and after

(2) Repealed in 2004 for tax years beginning on or after January 1, 2005

(3) Effective January 1, 2004

(4) Effective January 1, 2004

(5) Repealed effective May 31, 2006

(6) Repealed effective March 8, 2006

(7) Credit Summary only for those credits against multiple tax types; no credits taken against Insurance Premiums Tax in 2003 or 2004

LIST OF FISCAL YEAR 2005 SALES TAX EXPENDITURES

3.000 Sales Not Covered

3.001 Prescription and non-prescription drugs and durable medical equipment

Statute: 32 V.S.A. § 9741 (2)
Enacted: 1969
Estimate: \$32,500,000

Data source: Vermont Department of Banking, Insurance, Securities and Health Care Administration, 2004 Vermont Health Care Expenditure Analysis & Three Year Forecast

3.002 Agricultural inputs (feeds, seed, plants, fertilizer etc.)

Statute: 32 V.S.A. § 9741 (3)
Enacted: 1969
Estimate: \$15,500,000

Data source: New England Agricultural Statistics, 2004 Farm Production Expenditures

Note: Exemption does not apply to retail sales but only inputs to agricultural production

3.003 Non-business, casual sales

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

3.004 Sales of malt beverages

Statute: 32 V.S.A. § 9741 (5)
Enacted: 1969; repealed 2003, effective January 1, 2007
Estimate: \$6,800,000

Data source: Joint Fiscal Office

Note: Distributors taxed under chapter 15 of Title 7

3.005 Gasoline and diesel sales

Statute: 32 V.S.A. § 9741 (7)
Enacted: 1969; Amended in 1981
Estimate: \$51,400,000

Data source: Vermont Agency of Transportation and U.S. Department of Transportation

Note: Motor fuels, except jet fuel, are taxed under chapter 28 of Title 23

3.006 Rents for rooms

Statute: 32 V.S.A. § 9741 (9)
Enacted: 1969
Estimate: \$19,800,000

Data source: Vermont Department of Taxes

Note: Room rents are taxed under chapter 225 of Title 32

3.007 Sales of meals

Statute: 32 V.S.A. § 9741 (10)
Enacted: 1969
Estimate: \$43,600,000

Data source: Vermont Department of Taxes

Notes: Sales of meals are taxed under chapter 225 of Title 32

3.008 Sales of motor vehicles

Statute: 32 V.S.A. § 9741 (12)
Enacted: 1969
Estimate: \$109,200,000

Data source: Department of Motor Vehicles

Note: Motor vehicle purchase and use is taxed under chapter 219 of Title 32

3.009 Sales of food

Statute: 32 V.S.A. § 9741 (13)
Enacted: 1969; Amended in 1987
Estimate: \$66,500,000

Data source: 2004 Consumer Expenditure Survey

3.010 Property that is part of the manufacturing process

Statute: 32 V.S.A. § 9741 (14)
Enacted: 1969
Estimate: \$274,500,000

Data source: 2002 Survey of Business Expenses

3.011 Newspapers and property that is part of the manufacturing process of newspapers

Statute: 32 V.S.A. § 9741 (15)
Enacted: 1969; Amended in 1980
Estimate: \$1,600,000

Data source: 2002 Service Annual Survey

3.012 Packaging and shipping materials used by a manufacturer or distributor

Statute: 32 V.S.A. § 9741 (16)
Enacted: 1969
Estimate: \$1,100,000

Data source: 2002 Survey of Business Expenses

3.013 Furniture rentals or furnished apartments for residential use

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

3.014 Federal, state or municipal admission fees

Statute: 32 V.S.A. § 9741 (18)
Enacted: 1970
Estimate: Under \$100,000

Data source: Agency of Natural Resources

3.015 Rentals of coin-operated washing facilities for personal use including car washes

Statute: 32 V.S.A. § 9741 (19)
Enacted: 1970
Estimate: \$1,100,000

Data source: 2002 Economic Census of Vermont

3.016 Admission fees to nonprofit museums

Statute: 32 V.S.A. § 9741 (20)
Enacted: 1970
Estimate: \$1,100,000

Data source: 2002 Economic Census of Vermont

3.017 Equipment, supplies and building materials sold to volunteer fire departments, ambulance companies and rescue squads

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

- Estimate: Data unavailable
- 3.018 Funeral charges
- Statute: 32 V.S.A. § 9741 (22)
Enacted: 1970
Estimate: \$1,400,000
- Data source: 2002 Economic Census of Vermont
- 3.019 Property used in commercial, industrial or agricultural research
- Statute: 32 V.S.A. § 9741 (24)
Enacted: 1974
Estimate: Data unavailable
- 3.020 Agricultural machinery and equipment
- Statute: 32 V.S.A. § 9741 (25)
Enacted: 1974
Estimate: \$1,900,000
- Data source: New England Agricultural Statistics, 2004 Farm Production Expenditures
- 3.021 Electricity, oil, gas and other fuels for a residence
- Statute: 32 V.S.A. § 9741 (26)
Enacted: 1977
Estimate: \$43,900,000
- Data source: Energy Information Administration
- 3.022 Electricity, oil, gas and other fuels for farming
- Statute: 32 V.S.A. § 9741 (27)
Enacted: 1977
Estimate: \$2,500,000
- Data source: Energy Information Administration
- 3.023 Sales of films where admission is subject to amusement tax
- Statute: 32 V.S.A. § 9741 (28)
Enacted: 1981
Estimate: Data unavailable
- 3.024 Aircraft and depreciable parts for commercial use
- Statute: 32 V.S.A. § 9741 (29)
Enacted: 1986

- Estimate: Data unavailable
- 3.025 Railroad rolling stock and depreciable parts
- Statute: 32 V.S.A. § 9741 (30)
Enacted: 1986
Estimate: Less than \$100,000
- Data source: Property Valuation and Review
- 3.026 Ferryboats and depreciable parts
- Statute: 32 V.S.A. § 9741 (31)
Enacted: 1988
Estimate: Data unavailable
- 3.027 40% of receipts from sales of mobile homes and modular housing when sold as tangible personal property
- Statute: 32 V.S.A. § 9741 (32)
Enacted: 1989
Estimate: Data unavailable
- 3.028 U.S. flag sold to or by exempt veterans' organizations
- Statute: 32 V.S.A. § 9741 (33)
Enacted: 1990
Estimate: Data unavailable
- 3.029 Electricity, oil, gas and other fuels used in manufacturing tangible personal property for sale
- Statute: 32 V.S.A. § 9741 (34)
Enacted: 1993
Estimate: \$10,300,000
- Data source: Energy Information Administration
- 3.030 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
- 3.031 Advertising materials transferred in conjunction with advertising services
- Statute: 32 V.S.A. § 9741 (36)
Enacted: 1995
Estimate: Data unavailable

- 3.032 Documents that record a professional service
- Statute: 32 V.S.A. § 9741 (37)
 Enacted: 1995
 Estimate: Data unavailable
- 3.033 Tracked vehicles (capped at \$1,100)
- Statute: 32 V.S.A. § 9741 (38)
 Enacted: 1997
 Estimate: Data unavailable
- 3.034 Sales of building materials
- Statute: 32 V.S.A. § 9741 (39)
 Enacted: 1997
 Estimate: \$150,000
- Data source: Vermont Economic Progress Council
- 3.035 Wholesale transactions between telecommunications service providers
- Statute: 32 V.S.A. § 9741 (41)
 Enacted: 1997
 Estimate: Data unavailable
- 3.036 Scrap construction materials by a third party
- Statute: 32 V.S.A. § 9741 (43)
 Enacted: 1998
 Estimate: Data unavailable
- 3.037 Property incorporated in railroad line
- Statute: 32 V.S.A. § 9741 (44)
 Enacted: 1998
 Estimate: Data unavailable
- 3.038 Clothing and footwear under \$110 (excluding athletic or protective clothing)
- Statute: 32 V.S.A. § 9741 (45)
 Enacted: 1999
 Estimate: \$21,300,000
- Data source: U.S. Census Bureau
- 3.039 Property incorporated into a net metering system, an energy system on a premises not connected to the electric distribution system, or a solar hot water heating system
- Statute: 32 V.S.A. § 9741 (46)

- Enacted: 1999
Estimate: Data unavailable
- 3.040 New personal computers and software used in Vermont high-tech business
- Statute: 32 V.S.A. § 9741 (47)
Enacted: 2002
Estimate: Less than \$100,000
- Data source: Vermont Economic Progress Council
- 3.041 501(c)(3) organizations to the extent of their purchases, amusement charges, and, if prior year sales did not exceed \$20,000, other sales; 501(c)(5) organizations when presenting agricultural fairs
- Statute: 32 V.S.A. § 9743 (3)
Enacted: 1969
Estimate: Data unavailable
- 3.042 Building materials and supplies used in construction, 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
- 3.043 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
- 3.044 Tax on telecommunications services is limited to \$10,000 in any one calendar year
- Statute: 32 V.S.A. § 9771a
Enacted: 1997
Estimate: Less than \$100,000
- Data source: Department of Taxes
- 3.045 Reallocation of receipts from tax imposed on sales of construction materials
- Statute: 32 V.S.A. § 9819
Enacted: 1998
Estimate: Less than \$100,000
- Data source: Department of Taxes

Fiscal Year 2005 Sales Tax Expenditure Summary

| Sales Tax Expenditure | Item Number | Year Enacted | 2005 Fiscal Year |
|--|----------------|-----------------|---------------------|
| Prescription and non-prescription drugs and durable medical equipment | 3.001 | 1969 | \$32,500,000 |
| Agricultural inputs (feeds, seed, plants, fertilizer etc.) | 3.002 | 1969 | \$15,500,000 |
| Non-business, casual sales | 3.003 | 1969 | Not estimated |
| Sales of malt beverages | 3.004 | 1969 | \$6,800,000 |
| Gasoline and diesel sales | 3.005 | 1969 | \$51,400,000 |
| Rents for rooms | 3.006 | 1969 | \$19,800,000 |
| Sales of meals | 3.007 | 1969 | \$43,600,000 |
| Sales of motor vehicles | 3.008 | 1969 | \$109,200,000 |
| Sales of food | 3.009 | 1969 | \$66,500,000 |
| Property that is part of the manufacturing process | 3.010 | 1969 | \$274,500,000 |
| Newspapers and property that is part of the manufacturing process of newspapers | 3.011 | 1969 | \$1,600,000 |
| Packaging and shipping materials used by a manufacturer or distributor | 3.012 | 1969 | \$1,100,000 |
| Furniture rentals or furnished apartments for residential use | 3.013 | 1970 | Not estimated |
| Federal, state or municipal admission fees | 3.014 | 1970 | Under \$100,000 |
| Rentals of coin-operated washing facilities for personal use including car washes | 3.015 | 1970 | \$1,100,000 |
| Admission fees to nonprofit museums | 3.016 | 1970 | \$1,100,000 |
| Equipment, supplies and building materials sold to volunteer fire departments, ambulance companies and rescue squads | 3.017 | 1970 | Not estimated |
| Funeral charges | 3.018 | 1970 | \$1,400,000 |
| Property used in commercial, industrial or agricultural research | 3.019 | 1974 | Not estimated |
| Agricultural machinery and equipment | 3.020 | 1974 | \$1,900,000 |
| Electricity, oil, gas and other fuels for a residence | 3.021 | 1977 | \$43,900,000 |
| Electricity, oil, gas and other fuels for farming | 3.022 | 1977 | \$2,500,000 |
| Sales of films where admission is subject to amusement tax | 3.023 | 1981 | Not estimated |
| Aircraft and depreciable parts for commercial use | 3.024 | 1986 | Not estimated |
| Railroad rolling stock and depreciable parts | 3.025 | 1896 | Under \$100,000 |
| Ferryboats and depreciable parts | 3.026 | 1988 | Not estimated |
| 40% of receipts from sales of mobile homes and modular housing when sold as tangible personal property | 3.027 | 1989 | Not estimated |
| U.S. flag sold to or by exempt veterans' organizations | 3.028 | 1990 | Not estimated |
| Electricity, oil, gas and other fuels used in manufacturing tangible personal property for sale | 3.029 | 1993 | \$10,300,000 |
| Property transferred as part of personal service transaction or transfer of intangible property rights | 3.030 | 1995 | Not estimated |
| Advertising materials transferred in conjunction with advertising services | 3.031 | 1995 | Not estimated |
| Documents that record a professional service | 3.032 | 1995 | Not estimated |
| Tracked vehicles (capped at \$1,100) | 3.033 | 1997 | Not estimated |
| Sales of building materials | 3.034 | 1997 | \$150,000 |
| Wholesale transactions between telecommunications service providers | 3.035 | 1997 | Not estimated |
| Scrap construction materials by a third party | 3.036 | 1998 | Not estimated |

Fiscal Year 2005 Sales Tax Expenditure Summary

| Sales Tax Expenditure | Item Number | Year Enacted | 2005 Fiscal Year |
|--|----------------|-----------------|---------------------|
| Property incorporated in railroad line | 3.037 | 1998 | Not estimated |
| Clothing and footwear under \$110 (excluding athletic or protective clothing) | 3.038 | 1999 | \$21,300,000 |
| Property incorporated into a net metering system, an energy system on a premises not connected to the electric distribution system, or a solar hot water heating system | 3.039 | 1999 | Not estimated |
| New personal computers and software used in Vermont high-tech business | 3.040 | 2002 | Under \$100,000 |
| 501(c)(3) organizations to the extent of their purchases, amusement charges, and, if prior year sales did not exceed \$20,000, other sales; 501(c)(5) organizations when presenting agricultural fairs | 3.041 | 1969 | Not estimated |
| Building materials and supplies used in construction, repair of buildings by governmental bodies or 501(c)(3) organizations or development corporations | 3.042 | 1969 | Not estimated |
| Amusement charges for 4 events a year for 501(c)(4)-(13) and (19) organizations and political organizations | 3.043 | 1983 | Not estimated |
| Tax on telecommunications services is limited to \$10,000 in any one calendar year | 3.044 | 1997 | Under \$100,000 |
| Reallocation of receipts from tax imposed on sales of construction materials | 3.045 | 1998 | Under \$100,000 |

OTHER EXEMPTIONS FROM SALES AND USE TAX

Transactions Not Covered

In addition to sales exempted from tax under 32 V.S.A. § 9741, section 9742 specifies transactions that are not covered by the sales tax. Most of the transactions listed in § 9742 are not tax expenditures as that term is used in this report; rather they are non-retail transactions that involve the transfer of tangible property in exchange for an intangible interest or upon liquidation or as security for the performance of an obligation. It also excludes the sawing of lumber from the definition of fabrication and therefore from the sales tax base. The final transactions specified are use of waste wood by a manufacturer and the sale of telecommunications services to an affiliate.

| Statute | Enacted | Description |
|-------------|---------|--|
| § 9742 (2) | 1969 | Transfer of tangible property to a corporation solely in consideration for the issuance of its stock pursuant to merger or consolidation |
| § 9742 (3) | 1969 | Distribution of property as part of a corporate liquidation |
| § 9742 (4) | 1969 | Distribution of property as part of a partnership liquidation |
| § 9742 (5) | 1969 | Transfer of property at the time of corporate organization |
| § 9742 (6) | 1969 | Contribution of property as consideration for partnership interest |
| § 9742 (7) | 1969 | Sale of tangible personal property as security for performance of obligation of vendor |
| § 9742 (8) | 1971 | Sawing of lumber is not fabrication |
| § 9742 (9) | 1984 | Manufacturer's use of its own waste wood for fuel |
| § 9742 (10) | 1997 | Sale of telecommunications service to affiliate |

Organizations Not Covered

Section 9743 codifies the limitations on the State's authority to tax the United States of America and the policy that prevents the State from taxing itself with respect to sales of services or property not ordinarily sold by private persons. Its 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.

| Statute | Enacted | Description |
|------------|---------|--|
| § 9743 (1) | 1969 | State of Vermont, its agencies, instrumentalities etc. - Always as purchaser and as seller when the property or service is a kind not ordinarily sold by private persons or when it is an amusement charge |
| § 9743 (2) | 1969 | USA - Always as purchaser, user and as seller when it sells services or property of a kind not ordinarily sold by private citizens |

Two exemptions in § 9741 are in statute for similar reasons--they codify the limitations on the State's authority to tax and the policy that prevents the State from taxing itself.

| Statute | Enacted | Description |
|------------|---------|---|
| § 9741 (1) | 1969 | Sales not within the taxing power of the state due to the U.S. Constitution |
| § 9741 (6) | 1969 | Sales of spirituous liquors |

Certain Telecommunication 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 non-retail 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 out of the term “sales price” and are not part of the tax base by virtue of 32 V.S.A. § 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 3 months.

Use Tax Exemptions

32 V.S.A. § 9744 covers exemptions from use tax. Property purchased prior to Vermont’s adoption of the sales tax on June 1, 1969, property on which a tax has already been paid upon purchase in another state and property purchased outside of Vermont while a nonresident is not subject to use tax. The state could not reasonably impose use tax on these generic categories of purchases. 32 V.S.A. § 9744 does contain one specific exemption from use tax – for property withdrawn from inventory and donated to a nonprofit. There is no basis for estimating how often this exemption is claimed, but it is assumed to be infrequent.

| Statute | Enacted | Description |
|----------------|----------------|--|
| § 9744(a)(1) | 1969 | Property used by purchases prior to June 1, 1969 |
| § 9744(a)(2) | 1969 | Property purchased by user while nonresident |
| § 9744(a)(3) | 1969 | Property on which a tax has already been paid upon purchase in another state |
| § 9744(a)(4) | 1985 | Property withdrawn from inventory and donated to nonprofit corporation |

Act 75, Sec. 26. 32 V.S.A. § 312 is added to read:

§ 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 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, sales and use, and meals and rooms tax returns, and education property tax grand lists and such other tax expenditures for which the joint fiscal office and the tax department jointly have produced revenue estimates. 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.

Sec. 27. TRANSITION REPORTS

(a) The department of taxes shall file with the House Committees on Ways and Means and Appropriations, and with the Senate Committees on Finance and Appropriations reports on the following:

(1) By January 15, 2006, tax expenditures reported under the personal and corporate income tax with the information required by 32 V.S.A. § 312 for the most recent fiscal year available and such other tax expenditures for which the joint fiscal office and the tax department jointly have produced revenue estimates.

(2) By January 15, 2007, tax expenditures reported under the personal and corporate income tax and sales and use tax, with the information required by 32 V.S.A. § 312 for the most recent fiscal year available and such other tax expenditures for which the joint fiscal office and the tax department jointly have produced revenue estimates.

(3) By January 15, 2008, tax expenditures reported under the personal and corporate income tax, sales and use tax, meals and rooms tax, and education property tax, with the information required by 32 V.S.A. § 312 for the most recent fiscal year available and such other tax expenditures for which the joint fiscal office and the tax department jointly have produced revenue estimates.

(b) For each of the joint fiscal committee’s September 2005, 2006, and 2007 meetings, the joint fiscal office and the tax department shall file a joint report identifying specific tax expenditures or categories of expenditures in addition to those reported to the tax department for which revenue estimates shall be included in the next report or subsequent reports filed with the legislative committees.

Approved: June 23, 2005