

Summary of Tax Department recommendations for S.250

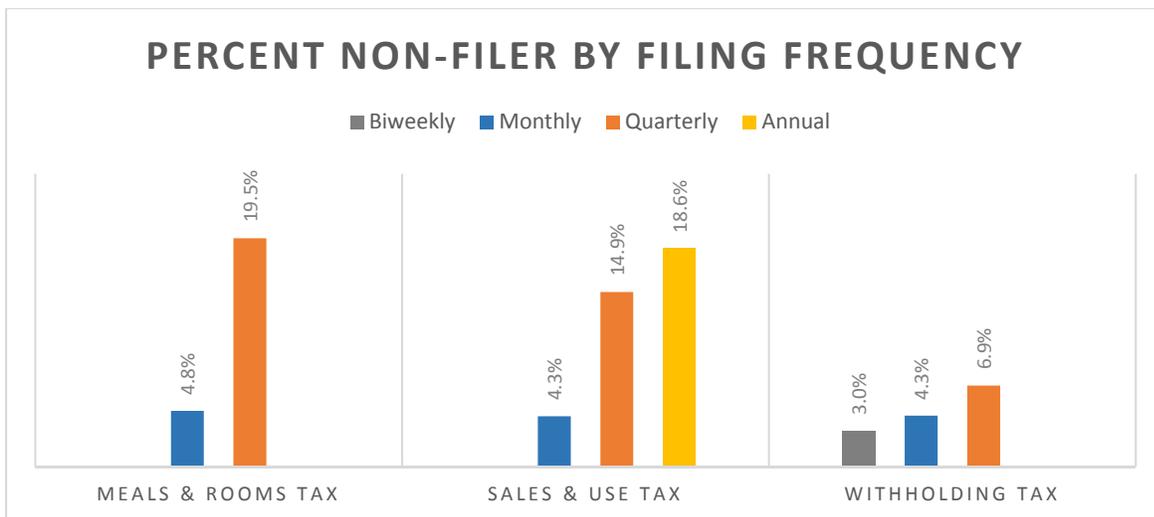
House Committee on General, Housing and Military Affairs

Meals and Rooms Tax – Increasing Threshold for Quarterly Requirement (Sec. 11 of Draft No. 3.1)

Background: The Meals and Rooms Tax (along with Sales and Use) is a “trust tax,” meaning that the tax is paid by a consumer and held “in trust” for the State of Vermont by the business that collects it. This is a significant point of distinction from other tax types because the trust taxes owed by a business are actually State money already. (Withholding Tax is the third VT trust tax, where the employers hold and remit tax on behalf of employees.)

The Tax Department would not support this change for the following reasons:

- As illustrated in the table below, MRT has the highest delinquency rates (or non-filer rates) of any trust tax. Additionally, quarterly-filed accounts have a much higher delinquency rate across tax types. The more frequently a business files, the higher the compliance.



Non-filers as a share of total accounts for the December 2015 filing period.

- Delinquencies create work for both the Tax Department and businesses. The proposed \$3,000 quarterly threshold is too much for businesses to carry for three months on their books. A delinquent business is more likely to have payment issues, which lands them with the Tax Collections unit.
- This change would undo much work that our Taxpayer Services Division has done around establishing appropriate filing frequency.
- This change would impact a wide range of taxpayers who are already familiar with their filing requirements. Beyond bars and restaurants, MRT payers include grocery and convenience stores, vending machines, hotels, rental cottages, condos, and campsites.
- This tax type was just added to our VTax system in November. This change would require retraining the system, updating the tax forms, and doing another outreach campaign to taxpayers who just transitioned to a new system.

Note: There would be a one-time revenue impact associated with transitioning taxpayers from monthly to quarterly filing. Two months of revenue would be remitted in FY18 rather than FY17 from this group.

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Malt and Vinous Beverage Tax – Establishing Less Frequent Filing Requirements (Sec. 8 of Draft No. 3.1)

- **Annual Filing Frequency.** Tax does not support the creation of an annual filer threshold for MV Beverage Tax. The Tax Department is trying to move away from annual filing as much as possible, since our experience with other tax types demonstrates that filing only once per year leads to a high rate of delinquency. We recommend removing section (2)(A) which establishes the annual filing frequency, and adjusting section (2)(B) accordingly.
- **Quarterly Filing Frequency.** Tax is OK with the establishment of a quarterly filing frequency in section (2)(B). However, we request that the threshold for quarterly filing set at \$500 per quarter. This would allow about 20 of our 70 taxpayers to move to quarterly filing. (As currently drafted, the quarterly filing threshold is set as >\$10,000 per year.)
Note: There is a small, one-time revenue impact by having this tax paid less frequently since less revenue would be remitted in FY17 from the new quarterly filers.

Taxation of Free Samples of Alcoholic Beverages (Proposed language from Tax)

The Department proposed changes that would clarify that samples of alcoholic beverages provided for immediate consumption are subject to the Meals and Rooms Tax. This means that no tax will be collected when a business provides a sample of an alcoholic beverage for free.

MV Beverage Tax in manufacturer-to-manufacturer transfers (Sec. 3 of prior draft)

The Department would like additional time to consult with internal and external stakeholders so that we can draft language that (1) can be administered and enforced, (2) avoids conflict arising from ambiguities, (3) achieves exactly what the businesses requesting this change want, and (4) minimizes the impact of a change for the current distribution chain used by breweries. We ask for an additional year to research the subject and consult with stakeholders. We would approve of a legislative mandate to investigate the issue.