



State of Vermont
Department of Taxes
133 State Street
Montpelier, VT 05633-1401

Agency of Administration

TO: The Vermont Legislative Joint Fiscal Committee

FROM: Andrew Stein, Chief Operating Officer, Department of Taxes

DATE: November 16, 2021

SUBJECT: Annual Report on the Tax Computer System Modernization Fund

CC: Craig Bolio, Commissioner of Taxes; Adam Greshin, Commissioner of Finance and Management

In 2007, the State established in law the Tax Computer System Modernization Fund (CMF) to finance the modernization of the Tax Department's aging IT systems (legacy systems). The CMF has been fundamental to the Department's successful IT overhaul and ongoing IT improvements – most notably, the implementation and continuous updates of the Department's integrated IT system, called VTax.

The Department uses VTax to administer all 30-plus tax types under its collection authority.¹ In FY21, VTax helped the Department efficiently and accurately collect more than \$2.3 billion in state revenue. VTax is relied on for almost all activities related to these tax types, including taxpayer registration, return review, fraud detection, refunding, billing, collections, auditing, and revenue accounting. It also features a filing and payment portal for taxpayers, called myVTax. The tax system interfaces with the statewide accounting system (VISION), the Department's scanning system, the BGS Print Shop, the State's bank, and the US Internal Revenue Service's modernized e-file system through which most income tax returns are filed.

VTax has greatly expanded the Department's capabilities, including the capacity to make a broad range of continuous process improvements, quickly implement legislative changes, deliver enhanced service to taxpayers, employ a date-driven approach to administration, and provide robust analytics for better reporting, audit opportunities, and security oversight. During the pandemic, the system was critical to making key due-date changes, implementing a retroactive unemployment insurance exclusion, and administering the roughly \$200 million Emergency Economic Recovery Grant Program. The Department has used the system to assume administration of the health care contribution assessment from the Department of Labor, and the Tax Department is currently working with our VTax vendor, FAST

¹ Property Taxes are collected by municipalities, and the administration of the statewide education property tax is largely administered outside of this system. The Department is currently implementing a new IT system funded by the CMF to help administer that tax and associated programs.





Enterprises, and the Agency of Digital Services to build out the Cannabis Excise Tax and the new Renter Credit.

The CMF has been critical to the Department's enhanced functionality over the past decade, as it has and continues to be the Department's primary funding source for the implementation and maintenance of key IT projects. The CMF is funded by "benefits" of the VTax system, which are dollars generated by heightened collection and compliance activity from the system. In FY20, the Department proposed, and the Legislature passed, a restructuring of how the CMF is funded. As VTax has been fully operational since 2017, the Administration and Legislature agreed that tracking incremental receipts between VTax and the legacy systems was less relevant as the State shifted further away from that transition point. Before the latest restructuring, the CMF retained 30% of incremental receipts due to the enhanced compliance capacity of the VTax system.

On October 2, 2020, Act 154 adjusted the CMF funding formula so that 2% of total revenue collected from billed and offset debts went into the fund. This restructuring retained the original spirit of the funding mechanism, basing benefits solely on compliance revenues that were not paid voluntarily. This restructuring intentionally generates less revenue for the CMF and directs more revenue to General, Education, and other funds. The new structure is also simpler, which saves the Tax Department a significant amount of administrative work in calculating the benefits.

In FY21, the CMF received \$1,664,212.16 in benefit receipts from more than \$47 million generated by compliance actions taken on 13 tax types during last fiscal year. Of the \$1.66 million that went to the CMF in FY21, nearly \$1 million was generated in the first quarter under the previous methodology. The new CMF funding methodology yielded a reduction in benefits of roughly 70% to 80% each of the following quarters.

The \$1.66 million in FY21 CMF revenue is roughly one-third of the \$4.5 million generated in FY20 for the CMF. In larger context, \$0.0007 of every dollar collected by the department in FY21 went to the CMF.

The Department continues to use the CMF to pay for a variety of IT-related expenses that include:

- A portion of annual VTax maintenance costs and enhanced developer support:
 - Approximately 1/3 of the \$1.85 million annual VTax maintenance costs are paid from the CMF to the State's vendor FAST Enterprises.
 - The CMF also pays for four additional FAST developers in FY22 to make a range of system updates to accounting, reporting, compliance, and taxpayer service functions across the Department.
- Implementation costs for the Vermont Property Information Exchange (VTPIE) system:



State of Vermont
Department of Taxes
133 State Street
Montpelier, VT 05633-1401

Agency of Administration

- In April 2020, the Department signed a contract with Axiomatic, LLC, to modernize the computer systems that manage the Statewide Education Property Tax, which includes managing the statewide Grand List, Property Tax Credits, TIF Districts, Current Use, equalization of property values, tax billing, deed recording, and other functions. This update will retire the State's use of the NEMRC software, which has been in place for more than 20 years. The Department is working closely with our partners in the Agency of Digital Services and municipalities. This project is underway and is scheduled for deployment in calendar years 2022 and 2023.
- Chainbridge economic microsimulation software:
 - The Department and the Legislative Joint Fiscal Office incur expenses for purchasing various database updates and modeling options for this economic and revenue simulation/modeling software.
- Implementation costs of various tax changes:
 - In FY22, the Department is using the CMF to pay for implementation costs of the Cannabis Excise Tax, which was passed in Act 164 of 2020.
- Implementation and maintenance costs related to the scanner upgrade project, which was put on pause during the pandemic and is currently being re-initiated.

In summary, the CMF has been critical to the Department's modernization over the last decade. It is crucial to the Department maintaining digital infrastructure that impacts all Vermonters and facilitates the reliable, accurate, nimble, and efficient administration of Vermont's tax system.

