TO:	**The Vermont Legislative Joint Fiscal Committee**
FROM:	**Andrew Stein, Chief Operating Officer, Department of Taxes**
DATE:	**October 30, 2023**
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 the Tax Computer System Modernization Fund (CMF) to finance the modernization of the Tax Department's aging IT systems, called legacy systems. Since then, the Department of Taxes has transformed into a modern, highly efficient, and service-oriented Department. The digital enhancements and process improvements associated with the CMF have benefited nearly all Vermonters and Vermont businesses.

To maintain this progress, the Governor and Legislature last year codified and adjusted the structure of the CMF in Act 78. This new legislation created 32 VSA §3209, which authorizes to the fund "annual transfers from the General Fund and the Education Fund in amounts not to exceed 0.21 percent of total revenue collected in the prior fiscal year by the Department of Taxes." Another notable change to the fund's structure is that instead of receiving multi-year appropriations to pay for IT projects and systems, the fund is now part of the State's annual budgeting process.

The CMF ended Fiscal Year 2023 (FY23) with a balance of $7.8M. The CMF's FY24 appropriation authority is set at $5.2M, and it will receive $4.9M in revenue this fiscal year. This spending-to-revenue differential will slightly reduce the balance of the fund. The Department anticipates the balance will be further reduced in FY25. Department leadership intended to carry a fund balance forward to future fiscal years to help pay for large one-time IT implementations, such as new IT systems, major policy implementations, and a comprehensive update of the Department's integrated tax system, called VTax.

The Department uses VTax to administer the 35-plus tax types under its collection authority.[1] In FY23, VTax helped the Department efficiently and accurately collect more than $2.7 billion in state revenue and efficiently administer a range of benefits, such as the new Child Tax Credit and the Earned Income Tax Credit. It will also be used to administer the new Childcare Contribution. VTax is relied on for almost

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[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.

all activities related to tax administration, including taxpayer registration, return review, fraud detection, refunding, billing, collections, auditing, and revenue accounting. The system also features a filing and payment website 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 Internal Revenue Service's modernized e-file system through which most income tax returns are filed.

In FY25, the CMF will continue to be used for licensing, maintenance, and support of the VTax system, which is supported by the vendor FAST Enterprises, the Department of Taxes, and the Agency of Digital Services (ADS).

In addition to supporting this critical State system, the CMF will be used in FY25 for:

- Implementation and support of the Vermont Property Tax Information Exchange (VTPIE), which is the State's new property tax IT system. This system will be used to support administration of 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 replace 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 ADS and the municipalities. This project is underway and is being deployed in phases through 2024.

- Implementation and support of a new scanning system. The Department is nearing the end of the procurement process with a new scanning system vendor, and we anticipate this project will get off the ground this winter.

- Updates and support of 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. This model is used for a range of income-based policy analyses.