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Vermont Legislative Research Service
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# Downtown Areas and Sales Tax Strategies

States can offer sales tax incentives to their downtown areas in a variety of ways. This report looks at Vermont's current downtown area programs, Vermont's sales tax policy, the question of how local option sales taxes affect local sales, and the sales tax incentive policies of other states, such as Texas, Missouri, and Louisiana.

## Downtown Areas of Vermont

Downtown areas and villages in Vermont play a large economic role for the
downtown areas, such as decreasin business, high unemployment, and a lack of investments,

| Table 2: Vermont Jurisdictions that Use Local Option Sales Tax.[14] | | |
|---|---|---|
| Burlington | Dover | Killington |
| Manchester | Middlebury | Rutland Town |
| South Burlington | Stratton | Williston |
| Winhall | | |

Source: Vermont Department of Taxes, "Business Taxes: Local Option."

| Table 3: Potential Advantages of Local Option Taxes.[28] | | Table 4: Potential Disadvantages of Local Option Taxes.[29] |
|---|---|---|
| Grant revenue flexibility to local governments | | Increase combined state-local tax rates |
| Provide additional funds for programs and services without tapping state funds | | Limit state flexibility to raise tax rates in the future |
| Allow diversification of local revenue base | | Cause competition among local governments |
| Allow tax burden shift to nonresidents | | |

Other States and General Sales Tax Policies

Texas: The Texas Economic Development Sales Tax

The Texas Economic Development Sales Tax allows specific districts the option of increasing local sales tax rates up to .5% and to use the revenue from this increase

Missouri: The Missouri Local Option Economic Development Sales Tax

Much like Texas, Missouri allows citizens to authorize an additional sales tax of up to .5% dedicated entirely for economic development initiatives within their municipality.

Locations within certified Cultural Districts are conferred two distinct tax incentives aimed at "revitalizing a community by creating a hub of cultural activity."[46] The first grants income tax credits for the rehabilitation of historic structures within a district.[47] The second tax incentive allows specifically defined artwork to be sold within certified Cultural Districts free of sales tax.[48] Artwork is tax exempt so long as it is original, one-of-a-kind, visual, made by an artist, and not intended for mass production.[49] This benefits artists selling their own hand-made paintings, sculptures, ceramics, or other forms of visual art within Cultural Districts, and encourages similar artists to relocate to these areas. The law explicitly states that performing art, musical

## Sales Tax Holidays

A sales tax holiday is a period of time where specified products, determined by the state, are exempt from state and, sometimes, local sales tax. In 2011 there were 25 different sales tax holidays in 17 different states ranging in length from 2-7 days.[55] Each state determines specific goods that will be granted the exemption. Examples include school supplies, luxury clothing, hurricane preparedness equipment, computers, environmentally beneficial appliances and guns. In the wake of Hurricane Irene, the Senate Finance Committee has introduced bill S. 250 which, if passed would implement a state sales tax holiday on August 28, 2012, on weatherization products purchased between August 26 and September 1, 2012, and on mobile homes purchased between August 28, 2011 and June 30, 2012.[56]

## Conclusion

Vermont currently has a downtown program which includes tax credits for businesses. Other states, including Texas and Missouri, have implemented downtown sales tax initiatives that have favored an increase in local sales tax as opposed to a decrease. Vermont has a somewhat similar one percent local option tax that three—Burlington, Middlebury, and Rutland—jurisdictions with designated downtown areas collect. Louisiana's preliminary results with a "Cultural Districts Program" intended to create business in sales tax free areas are encouraging, but not definitive. There are diverse strategies for sales tax programs at the state level and there is a lack of consensus of what way is best. Research on the effect of local sales tax options have found an effect of those taxes on sales for certain types of goods and certain types of local sales taxes, effects that are contingent upon the distance consumers have to travel to purchase goods taxed at the lower rates.

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