



The  
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James M. Jeffords Center's  
*Vermont Legislative Research Service*



## **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 their surrounding communities. Frequently, a community's second or third largest employer is the local downtown area. In Vermont, close to one fifth of economic activity and jobs are based in downtown areas.<sup>1</sup>

In response to social, economic, and technological changes that have had adverse effects on downtown areas, such as decreases in business, high unemployment, and a lack of investments, the Vermont Downtown Program was established in 1994.<sup>2</sup> The program's goal is to provide "technical assistance and training to communities in order to help them develop the skills and strategies for their downtown revitalization efforts."<sup>3</sup> The Vermont Downtown Program is a part of a larger organization, National Main Street Center, which is a division of the National Trust for Historic Preservation.<sup>4</sup> The National Trust for Historic Preservation has worked to revitalize and redevelop over 1,400 communities and downtowns across the country.<sup>5</sup>

In order to receive the benefits of the Vermont Downtown Program, a downtown area must be officially designated. To qualify as a designated downtown area, towns must complete an application that includes a "comprehensive revitalization strategy" that involves a long-term commitment to "enhancing economic opportunities, preserving historic buildings, and

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<sup>1</sup> Vermont Division for Historic Preservation, "Downtown Program," accessed February 22, 2012, <http://www.historicvermont.org/programs/downtown.html>.

<sup>2</sup> Vermont Division for Historic Preservation, "Downtown Program."

<sup>3</sup> Vermont Division for Historic Preservation, "Downtown Program."

<sup>4</sup> Vermont Division for Historic Preservation, "Downtown Program."

<sup>5</sup> Vermont Division for Historic Preservation, "Downtown Program."

improving public spaces and infrastructure in the commercial districts.”<sup>6</sup> The application must also be able to demonstrate that the revitalization has strong community-based support.<sup>7</sup> Benefits of downtown designation include tax credits, loans, and grants from various state agencies.<sup>8</sup> See Table 1 for a list of downtown designated areas in Vermont.

Table 1: Vermont Municipalities with Downtown Designation. <sup>9</sup>		
Barre	Middlebury	St. Albans
Bellows Falls	Montpelier	St. Johnsbury
Bennington	Morristown	Vergennes
Bradford	Newport City	White River Junction
Brandon	Poultney	Windsor
Brattleboro	Randolph	Winooski
Bristol	Rutland	
Burlington	Springfield	

**Source: Vermont Division of Historic Preservation, "Designated Downtowns," accessed February 15, 2012.**

### Vermont Sales Tax

Vermont currently collects sales tax at a uniform state level of six percent and allows a one percent local option tax.<sup>10</sup> A local option sales tax adds one percent to all taxable items sold in a town or county that opts into the program, to fund local projects. The Meals & Rooms Tax, which includes restaurant or hotel spending, is taxed by the state at nine percent (plus a one percent local option where applicable).<sup>11</sup> Alcoholic beverages are taxed statewide at ten percent (plus a one percent local option where applicable).<sup>12</sup>

Ten Vermont jurisdictions have picked up a one percent Local Option Sales Tax on all three levels of sales tax, as seen in Table 2.<sup>13</sup> Montpelier voters voted down a Local Option Sales Tax in March of 2012.

<sup>6</sup> Vermont Division for Historic Preservation, "Downtown Program."

<sup>7</sup> Vermont Division for Historic Preservation, "Downtown Program."

<sup>8</sup> Vermont Division for Historic Preservation, "Downtown Program."

<sup>9</sup> Vermont Division of Historic Preservation, "Designated Downtowns," accessed February 15, 2012, <http://www.historicvermont.org/programs/designated.html>.

<sup>10</sup> Vermont Department of Taxes, "Business Taxes- Local Option," accessed March 15, 2012, <http://www.state.vt.us/tax/businesslocaloption.shtml>.

<sup>11</sup> Vermont Department of Taxes, "Business Taxes- Local Option."

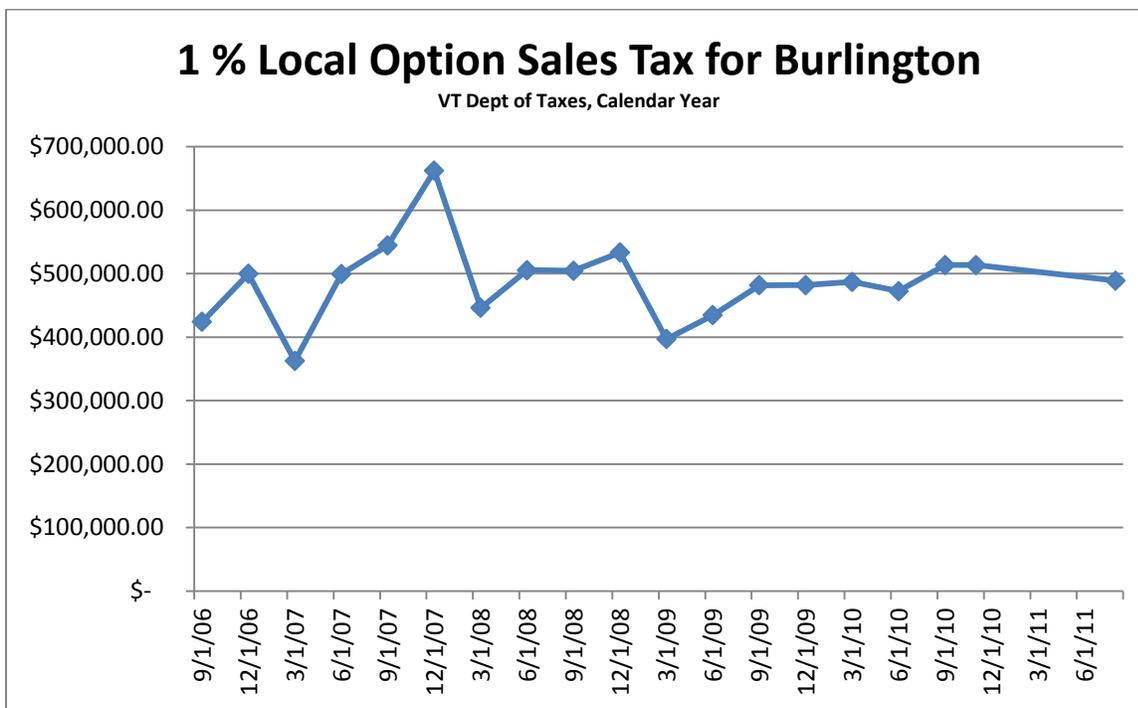
<sup>12</sup> Vermont Department of Taxes, "Business Taxes- Local Option."

<sup>13</sup> Vermont Department of Taxes, "Business Taxes- Local Option."

Table 2: Vermont Jurisdictions that Use Local Option Sales Tax. <sup>14</sup>		
Burlington	Dover	Killington
Manchester	Middlebury	Rutland Town
South Burlington	Stratton	Williston
Winhall		

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

The Vermont Department of Taxes administers and collects the Local Option Tax. After a business collects and reports the tax, the state distributes the revenue collected from the Local Option Tax to the jurisdiction in which it was collected.<sup>15</sup> Burlington, the largest city in Vermont, is one of three downtown designated areas to also collect a one percent local option tax. Figure 1 indicates that an average of \$486,947 dollars in local option tax profits per fiscal quarter is returned to the city of Burlington.<sup>16</sup> Figure 2 lays out the city of Burlington’s total sales tax collection, showing summer months to be the most lucrative annually. The figure also shows that Burlington’s gross receipts have averaged at \$205,378 per month in taxable sales over the last four years.<sup>17</sup>



**Figure 1: One Percent Local Option Sales Tax for Burlington, Vermont**

<sup>14</sup> Vermont Department of Taxes, "Business Taxes- Local Option."

<sup>15</sup> Vermont Department of Taxes, "Business Taxes- Local Option."

<sup>16</sup> Information provided by Ron Redmond, Executive Director, Church Street Marketplace District, March 14, 2012.

<sup>17</sup> Ron Redmond, Executive Director, Church Street Marketplace District.

Source: Information provided by Ron Redmond, Executive Director—Church Street Marketplace District, March 14, 2012.

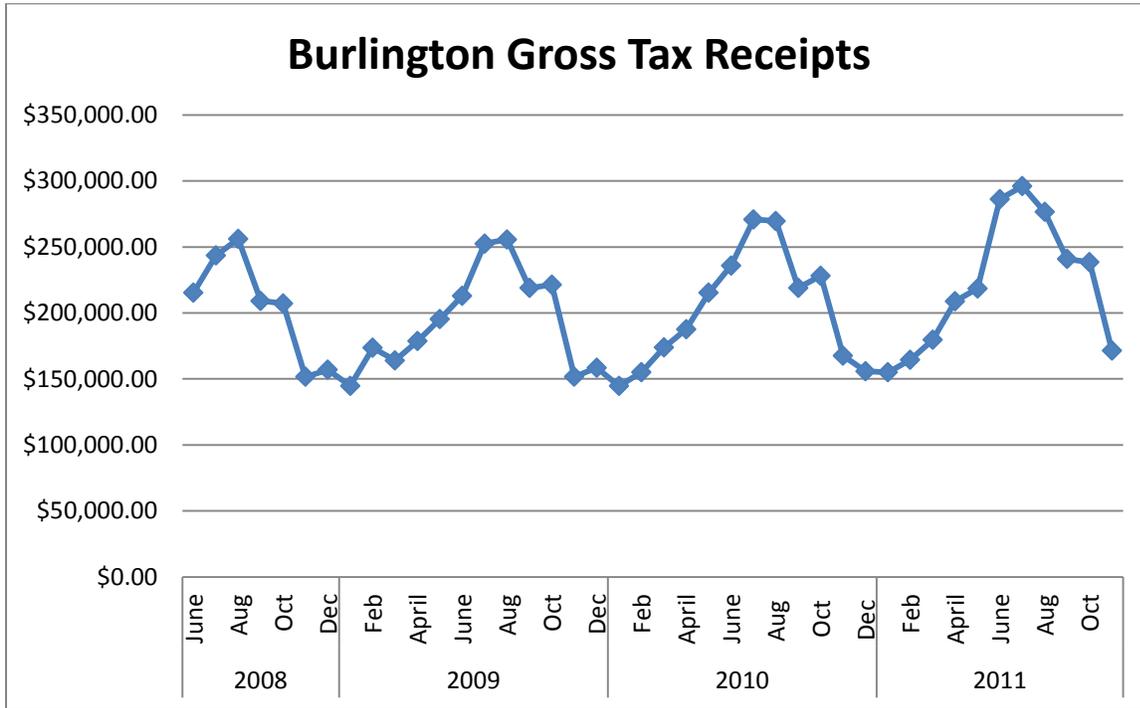


Figure 2: Burlington Gross Tax Receipts

Source: Information provided by Ron Redmond, Executive Director—Church Street Marketplace District, March 14, 2012.

In Vermont, some items are specifically exempt from sales and use tax at the state and local level. These exempt items include food, medicines and drugs, clothing and footwear, newspapers, and many agricultural necessities.<sup>18</sup>

The sales tax of designated downtown areas is not collected separately from the overall local city or town tax. Instead, sales tax of a designated downtown area is collected as an indistinguishable part of the local city or town sales tax.<sup>19</sup> For this reason, sales tax collection numbers exclusively for a particular designated downtown area in Vermont are not presently available, though, with local businesses assistance it could potentially be compiled.

<sup>18</sup> Vermont Department of Taxes, "Guide to Vermont Business Taxes," January 2007, accessed March 15, 2012, <http://www.state.vt.us/tax/pdf.word.excel/business/guidetobustaxes.pdf>, p.17.

<sup>19</sup> Vermont Department of Taxes, "Guide to Vermont Business Taxes."

## The Local Option Sales Tax: Differentials and the Effect on Local Sales

The research on general sales tax differentials finds that

[b]ecause distance traveled, total expenditure, and product characteristics combine to influence purchasing decisions, their interaction complicates deciphering their influence on the product's sensitivity to geographical dimensions. Expensive and infrequently purchased goods and services are potentially more sensitive to sales tax rate differences than regularly procured products that insignificantly diminish a consumer's budget.<sup>20</sup>

A number of researchers have examined the local option sales taxes, specifically. One study showed an effect of tax differentials on purchase of food sales, but not on apparel or general sales.<sup>21</sup> Another found an effect on expensive consumer durables, but not on food and apparel; this study also found that the effect of tax differentials was dependent upon the distance between jurisdictions.<sup>22</sup> Another study found a modest effect of tax differentials on sales, but no effect on the number of businesses in the community.<sup>23</sup> And, finally, according to a study published in 2010 in *Public Finance Review*, "results suggest that the nature of the local option sales tax may influence the response to the rate difference."<sup>24</sup> In other words, the research found an effect of some local option sales taxes on sales (mainly general sales taxes), but not others (local option sales taxes dedicated to the arts and community improvements). Importantly, this research also demonstrated the importance of the distance between jurisdictions as an important conditioning factor on the impact of local option sales taxes.<sup>25</sup>

More generally, the National Conference of State Legislatures (NCSL) highlights the potential advantages and disadvantages of local option sales taxes, and the issues policymakers ought to consider when considering a local option sales tax.<sup>26</sup> Policymakers evaluating a local option tax are urged to keep in mind the following: local accountability and flexibility, voter approval requirements, limits on state revenue options, administrative and compliance costs, uniformity, balance, fiscal disparities, responsiveness to economic growth, state wide versus enumerated local option taxes, inter-local competition, federal deductibility, and future tax system modification.<sup>27</sup> Tables 3 and 4 below contain information on the advantages and disadvantages of local option taxes.

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<sup>20</sup> Gary C. Cornia, Scott Grimshaw, Ray Nelson and Lawrence Walters, "The Effect of Local Option Sales Tax on Local Sales," *Public Finance Review*, modified July 27, 2010, accessed April 9, 2012, <http://pfr.sagepub.com/content/38/6/659.full.pdf+html>, pp. 5-6.

<sup>21</sup> Ronald C. Fisher, *State and Local Public Finance* (Boston: Irwin Publishing, 2006).

<sup>22</sup> William F. Fox, "Tax structure and the location of economic activity along state borders," *National Tax Journal*, 39 (1986):387-401.

<sup>23</sup> John L. Mikesell and C. Kurt Zorn, "Impact of the sales tax rate on its base: Evidence from a small town" *Public Finance Quarterly*, 14 (1986):329-338.

<sup>24</sup> Cornia et al., "The Effect of Local Option Sales Tax on Local Sales," p.20.

<sup>25</sup> Cornia et al., "The Effect of Local Option Sales Tax on Local Sales."

<sup>26</sup> National Conference of State Legislatures, "Local Option Taxes", last modified January 2008, accessed April 9, 2012, <http://www.ncsl.org/issues-research/budget/local-option-taxes.aspx>.

<sup>27</sup> National Conference of State Legislatures, "Local Option Taxes."

Table 3: Potential Advantages of Local Option Taxes. <sup>28</sup>	Table 4: Potential Disadvantages of Local Option Taxes. <sup>29</sup>
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	Increase administrative and compliance costs
Place some taxing and spending decisions closer to residents	No guarantee that total tax burden will not increase
Maintain local autonomy	Difficult to remove because of revenue impact on local governments

**Source: National Conference of State Legislatures 2006, "Local Option Taxes."**

Currently thirty-eight states permit a local option sales tax.<sup>30</sup> Table 5 gives a list of the states and those that authorize local option taxes.<sup>31</sup>

Table 5: States that allow for a local option sales tax. <sup>32</sup>			
Alabama	Alaska	Arizona	Arkansas
California	Colorado	Florida	Georgia
Idaho	Illinois	Iowa	Kansas
Louisiana	Minnesota	Mississippi	Missouri
Montana	Nebraska	Nevada	New Jersey
New Mexico	New York	North Carolina	North Dakota
Ohio	Oklahoma	Oregon	Pennsylvania
South Carolina	South Dakota	Tennessee	Texas
Utah	Vermont	Virginia	Washington
Wisconsin	Wyoming		

**Source: National Conference of State Legislatures, "Local Option Taxes."**

<sup>28</sup> National Conference of State Legislatures, "Local Option Taxes."

<sup>29</sup> National Conference of State Legislatures, "Local Option Taxes."

<sup>30</sup> National Conference of State Legislatures, "Local Option Taxes."

<sup>31</sup> National Conference of State Legislatures, "Local Option Taxes."

<sup>32</sup> National Conference of State Legislatures, "Local Option Taxes."

## 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 to foster economic development within the district. This additional sales tax is a major component of economic development in more than 500 communities within the state.<sup>33</sup> The Economic Development Sales Tax differentiates between two categories of sales tax programs: Type A and Type B. The Type A sales tax program is primarily intended for manufacturing and industrial development and it allows cities with populations under 500,000 to impose an additional .5% sales tax increase within the municipality. The Type B sales tax program allows cities of all populations to impose up to an additional .5% sales tax increase within the municipality.<sup>34</sup>

Both the tax A and B programs require the district to appoint a corporation to administer the revenue received from the tax. Both programs allow the new revenue to pay for land, buildings, facilities and targeted infrastructure improvements.<sup>35</sup> The difference between the two categories is the type of industry the revenue can be put toward. Revenue from the Type A sales tax is primarily distributed to manufacturing and industrial development such as research and development facilities, job training facilities for use of higher education institutions, infrastructure improvements that promote new business enterprise, airport facilities, commuter rail and other related projects.<sup>36</sup> Revenue from the Type B sales tax is primarily distributed to “quality of life” improvements such as professional and amateur sports and athletics facilities, tourism and entertainment facilities, restaurants, concession and transportation facilities, affordable housing and special event facilities.<sup>37</sup> Additionally, the Type B sales tax revenue may be used to create or retain primary jobs in both the industrial and manufacturing sector as well as the “quality of life sector.”<sup>38</sup> In order for Texas cities to accept an increase in tax, city voters must approve the measure at an election held specifically for the proposed tax increase.<sup>39</sup>

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<sup>33</sup> Texas Economic Development Council, “The Texas Economic Development Sales Tax: A Primer for Local Officials,” last modified 2009, accessed March 14, 2012,

[http://www.edsuite.com/proposals/proposals\\_190/162\\_1\\_4a\\_4b\\_econ\\_dev\\_sales\\_tax.pdf](http://www.edsuite.com/proposals/proposals_190/162_1_4a_4b_econ_dev_sales_tax.pdf), p. 1.

<sup>34</sup> Susan Combs, “Economic Development of Sales Tax,” Texas Comptroller of Public Accounts, last modified December 2011, accessed February 22, 2012, <http://www.texasahead.org/lga/96-302.pdf>, p. 1.

<sup>35</sup> Susan Combs, “Economic Development Sales Tax,” p. 3.

<sup>36</sup> Susan Combs, “Economic Development Sales Tax,” pp. 2-3.

<sup>37</sup> Susan Combs, “Economic Development Sales Tax,” p. 3.

<sup>38</sup> Susan Combs, “Economic Development Sales Tax,” p. 3.

<sup>39</sup> Texas Economic Development Council, “The Texas Economic Development Sales Tax: A Primer for Local Officials,” p. 1.

## 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.<sup>40</sup> Generated revenues may not be used for retail developments, unless “such retail projects are limited exclusively to the redevelopment of downtown areas and historic districts.”<sup>41</sup> A further description of revenue allocation guidelines reads:

A portion of the revenues may be used for project administration, staff and facilities, and at least twenty per cent of the funds raised must be used for projects directly related to long-term economic preparation, such as land acquisition, installation of infrastructure for industrial or business parks, water and wastewater treatment capacity, street extensions and for matching state or federal grants related to such long-term projects. Any remaining funds may also be used for marketing, training for advanced technology jobs, grants and loans to companies for employee training, equipment and infrastructure and other specified uses.<sup>42</sup>

Much like the Texas Economic Development Sales Tax Program, the citizens of the specified municipality must approve the proposed tax increase via elections and the governing body of the municipality must establish a Tax Board to oversee the program. To give an example of the tax program in practice, University City in Missouri generates approximately \$400,000 in revenue annually from the program, which they put back into development of the city’s business district.<sup>43</sup>

## Louisiana Cultural Districts and Tax Incentives

In 2007 the state of Louisiana implemented a Cultural Districts Program that allowed 29 towns to designate specific areas to receive tax incentives aimed at revitalizing the cultural activity of communities hurt by Hurricane Katrina.<sup>44</sup> Since then the number of certified Cultural Districts has grown each year. The latest announcement from the Louisiana Department of Culture, Recreation, and Tourism on July 1<sup>st</sup> 2011 added eight new districts, increasing the total to 59.<sup>45</sup>

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<sup>40</sup> Missouri Business and Community Development, "Local Option Economic Development Sales Tax," accessed February 22, 2012, <http://www.missouridevelopment.org/community%20services/Local%20Finance%20Initiatives/Local%20Option%20Economic%20Development%20Sales%20Tax.html>.

<sup>41</sup> Missouri Business and Community Development, "Local Option Economic Development Sales Tax."

<sup>42</sup> Missouri Business and Community Development, "Local Option Economic Development Sales Tax."

<sup>43</sup> University City, Missouri, "Economic Development Retail Sales Tax Board," accessed March 15, 2012, <http://www.ucitymo.org/index.aspx?NID=484>.

<sup>44</sup> Louisiana Department of Culture, Recreation, and Tourism, "Louisiana Cultural Districts," last modified July 1, 2011, accessed February 22, 2012, <http://www.crt.state.la.us/culturaldistricts/home.aspx>.

<sup>45</sup> Louisiana Department of Culture, Recreation, and Tourism, "Louisiana Cultural Districts."

Locations within certified Cultural Districts are conferred two distinct tax incentives aimed at “revitalizing a community by creating a hub of cultural activity.”<sup>46</sup> The first grants income tax credits for the rehabilitation of historic structures within a district.<sup>47</sup> The second tax incentive allows specifically defined artwork to be sold within certified Cultural Districts free of sales tax.<sup>48</sup> 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.<sup>49</sup> 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 recordings, and other forms of non-visual art are ineligible for this benefit.<sup>50</sup>

Due to the recent implementation of the Louisiana Cultural Districts Program, the true impact of these tax incentives has yet to be definitively studied and recorded. Several reports coming from within the Louisiana Department of Culture, however, cite encouraging data on the state’s cultural economy in the wake of Hurricane Katrina and the initiation of the program. Since 2007 employment in the cultural economy of Louisiana grew by three percent while the rest of the U.S. lost seven percent of its jobs in these industries.<sup>51</sup>

The 2010 annual report on the Cultural District Program is positive about the initiative’s progress. The report highlights the growth of businesses within cultural districts as encouraging evidence of their success across the state. In 2010 the Cultural Districts held 548 cultural events, which drew crowds totaling 3.5 million people.<sup>52</sup> Attendance data for these events is not available but in general Cultural Districts have reported that “attendance at art events is higher, sales at art markets are improved, and there is increased community identity.”<sup>53</sup> Certified cultural districts yielded a net growth of 427 businesses in 2010, of which 152 were art/cultural businesses. Furthermore, the report noted the density of art/cultural businesses within these districts marked for their cultural development is growing.<sup>54</sup>

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<sup>46</sup> Louisiana Cultural Districts, "Cultural Districts Program Overview," accessed February 22, 2012, <http://www.crt.state.la.us/culturaldistricts/overview.aspx>.

<sup>47</sup> Louisiana Cultural Districts, "Cultural Districts Program Overview."

<sup>48</sup> Gaye Hamilton, "Cultural District Sales Tax Exemption Instructions," Louisiana Cultural Districts, last modified January 2011, accessed February 22, 2012, <http://www.crt.state.la.us/culturaldistricts/Documents/SalesTaxExemptionInstructions.pdf>.

<sup>49</sup> Gaye Hamilton, "Cultural District Sales Tax Exemption Instructions," p. 1.

<sup>50</sup> Gaye Hamilton, "Cultural District Sales Tax Exemption Instructions," p. 2.

<sup>51</sup> Mt. Auburn Associates, Inc, "The Economic Importance of Louisiana's Cultural Economy: An Update," Louisiana Department of Culture, Recreation, and Tourism, last modified March 17, 2010, accessed February 22, 2012, <http://www.crt.state.la.us/CulturalDistricts/Documents/CulturalEconomyUpdateReport2010.pdf>, p. 8.

<sup>52</sup> Gaye Hamilton, "2010 Cultural District Annual Report Executive Summary," Louisiana Department of Culture, Recreation, and Tourism, last modified January 2011, accessed February 22, 2012, <http://www.crt.state.la.us/culturaldistricts/documents/AnnualReport2010CDExecSummaryMar10.pdf>.

<sup>53</sup> Gaye Hamilton, "2010 Cultural District Annual Report Executive Summary."

<sup>54</sup> Gaye Hamilton, "2010 Cultural District Annual Report Executive Summary."

## 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.<sup>55</sup> 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.<sup>56</sup>

## 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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This report was completed on April 24, 2012 by Alison Kelly, Elizabeth Dunn, Marc Laliberte, and William Andreyckak under the supervision of graduate student Kate Fournier and Professor Anthony Gierzynski in response to a request from Representative Matthew Trieber.

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Disclaimer: This report has been compiled by undergraduate students at the University of Vermont under the supervision of Professor Anthony Gierzynski. The material contained in the report does not reflect the official policy of the University of Vermont.

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<sup>55</sup> Federation of Tax Administrators, "2011 State Sales Tax Holidays," last modified 2011, accessed February 23, 2012, [http://www.taxadmin.org/fta/rate/sales\\_holiday\\_2011.html](http://www.taxadmin.org/fta/rate/sales_holiday_2011.html).

<sup>56</sup> Vermont State Legislature, "Journal of the Senate," accessed March 22, 2012, <http://www.leg.state.vt.us/docs/2012/journal/sj120126.pdf>, p. 1.