

## Income-based school tax: Education Fund revenue mix

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Moving to an income-based school tax for all Vermont residents will not appreciably change the diversity of revenues in the Education Fund. The Education Fund's reliance on income taxes will be the same as it was when the Legislature was transferring roughly \$300 million a year from the General Fund to the Education Fund. Just less than half of the revenue (47.5 percent) came from the personal income tax. Starting in fiscal 2019, the Legislature discontinued the General Fund transfer. Instead, all sales tax revenue and 25 percent of rooms and meals taxes are dedicated to the Education Fund.

FY2018							
	Homestead Housesite	Homestead Prop >2acres	General Fund Transfer	Non- residential school tax	Sales & P&U	Other	Mix
Income-based tax	\$250.0M		\$149.5M				\$399.5M 25%
Property-based tax	\$141.4M	\$22.7M		\$644.4M			\$808.5M 50%
Sales tax			\$71.4M		\$175.7M		\$247.1M 15%
Other			\$93.8M			\$73.5M	\$167.3M 10%
							\$1,622.4M

The change to an income-based tax will affect homeowners with incomes above about \$133,000. According to an analysis by the Joint Fiscal Office, these homeowners paid \$137 million in property taxes on their housesites in fiscal 2018. The JFO analysis also showed that these homeowners would have paid \$150.2 million in housesite taxes if they had paid income-based homestead tax rates that year.

Current law with proposed income-based school tax								
	Homestead Housesite	Homestead Prop >2acres	General Fund Transfer	Non- residential school tax	Sales & P&U	Other	Rooms & Meals	Mix
Income-based tax	\$406.1M							\$406.1M 25%
Property based tax		\$22.7M		\$644.4M				\$667.1M 41%
Sales tax					\$434.3M			\$434.3M 27%
Other						\$73.5M	\$43.3M	\$116.8M 7%
								\$1,624.3M

The additional income-based taxes going into the Education Fund would be offset by the discontinuation of the General Fund transfer. As shown in the tables above, the Education Fund relied on income-based taxes for a quarter of its revenue in the last year of the General Fund transfer. With an income-based school tax for all Vermont residents, income taxes would still account for about 25 percent of Education Fund revenue.

Considering the impact of shifting to an income-based school tax on the revenue mix for all state revenue, as the chart to the right shows, the income share of total state revenue would increase slightly from 28 to 32 percent.

	FY2018	Proposed
State revenue (w/o federal)	\$3,828M	\$3,828M
Income-based		
Personal income tax	\$817M	\$817M
Homestead income tax	\$250M	\$400M
	\$1,067M	1,217M
Percent of total state revenue	28%	32%