Why not pay for education with an income tax?

Policy Considerations:

1. Vermont already has a very progressive income tax that raises almost twice as much revenue as the homestead education property tax. The top 10% of filers pay more than 60% of tax which is the primary revenue source to the state's general fund

2. There aren't any states that have an income tax but no property tax. There are nine states that have a property tax (state, county, or muni) but no income tax. Generally, income taxes "are generally associated with lower economic growth than taxes on consumption (sales) and property."[1]

3. Vermont resident taxpayers are exposed to all major tax types so examining the progressivity of one fund may not be informative. The progressivity of any state fund can be changed through legislation, such as in Act 11 of 2018 when the general fund transfer to the education fund was replaced with 100% of sales tax (from 36%) and 25% of meals and rooms. Overall, ITEP ranks Vermont's tax system as the second most progressive state after California[2]

4. Vermont's homestead education property tax is not regressive. It's an example of a proportional tax: one where all levels of income pay roughly the same percentage of their income (see bar chart in ten year tax study).[3] There are anomalies at the very lowest end of income and very highest, but virtually no one sustains those levels year over year in Vermont, i.e. they tend to be one-time events

5. Ideally, a fair and progressive tax system would not only tax income and consumption but also wealth. Valuations of assets are difficult to administration for a broad-based wealth tax but removing the tax on property would move Vermont **farther away** from taxing wealth since, for most people, their residence is their principal asset. Relatedly, the Lincoln Institute of Land Policy recommends looking at home value as a proxy for assets when designing a circuit breaker[4]

6. A system entirely based on income that ignores property value would exacerbate current demographic and housing problems. Property taxes are one of the reasons that retirees opt to downsize after their children have left home and the mortgage is paid

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[1] http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=eco/wkp(2008)51
[2] https://itep.org/whopays/
[3] https://ljfo.vermont.gov/assets/docs/reports/7988191a80/2017-VT-Tax-Study-Summary-1-17-2017.pdf#page=14
[4] https://www.lincolninst.edu/sites/default/files/pubfiles/property-tax-circuit-breakers-full_0.pdf

off. Many states have modest circuit breakers available to seniors, but there is no state with a maximum credit anywhere close to Vermont's maximum of $8,000

Administrative Considerations:

1. An income tax applied only to declared homesteads would be easy to avoid. Here are a few ways to do that: rent out your house for the day on April 1st, rent out your house for more than half the year, don't declare the property as homestead (there are no homestead police to check), or change domicile. If residents change domicile to avoid a ~2.5% homestead education income tax, that would erode regular personal income tax revenue, too

2. A system where everyone gets a property tax adjustment, some adjusted up, some down, would pose substantial confidentiality and fairness problems. Households with high income in the prior year would essentially be "outed" to municipal officials. Households with lower incomes are currently "outed" but there are some obscuring factors

3. A system where everyone gets a property tax adjustment would force the "lag" on every taxpayer because it would necessarily be based on prior year income. Suppose someone sells their business in 2019 and makes $1M. In 2020 their income may be minimal, but they will have an upwards adjustment to their property tax bill of roughly $25,000

4. Income-sensitized property taxes are extremely difficult to administer. An extension of that program to those with higher and more complicated income situations would force more administrative burden on the tax department and municipal officials.

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