Commissioner Brighton's Notes for Education Finance Discussion

Five Models to Change the Locally Voted Residential Education Tax

This is a rough paper—just a step in the deliberation process.
The models are evolving. They are not recommendations—just possibilities being explored.

The five models for the locally voted residential education tax are briefly outlined below. Some pros and cons of each model v. current law are listed. The pros and cons are meant to indicate how adopting the model would affect the issues discussed at the last two meetings and the principles endorsed by the commission. This means each one is compared to current law, and not to each other.

There are several questions that are relevant to several models and maybe should be resolved separately. For example: should the tax be adjusted by household size; how can we avoid tax jumps at certain income levels; should there be an inflection point in the yield/rate to make high spending harder as suggested by Rep. Beck.

Although we haven't formally agreed to anything yet, I have tentatively put my understanding of our discussions in the text.

1. Eliminating the Property Tax Adjustment

Purpose: To make the relationship between what you vote and what you pay clear and direct. A homeowner could go to town meeting and know what the school tax would be, given the budget.

Pros:

- Strengthens link between local vote and local tax bill
- Consolidates the spending and revenue resulting from one school year the one fiscal year so Education Spending and Tax rates are in sync
- Eliminates the taxpayer confusion resulting from the adjustment
- Reduces administrative work of municipal governments
- Shifts the focus to what is a fair tax amount to pay, rather than who should get a subsidy
- Eliminates tax jump at incomes of $90,000
- Makes only minor changes to current law

Cons:

- Does not address other issues with current law. In particular, it does not change the regressivity in the high-income range.
- May increase need for a larger stabilization reserve as not all income tax filings will be processed by the time the legislature adjourns
- The state (and not the local tax collector) would deal with delinquencies

FY 21 example. (School budget voted in March, 2020 for 2020-2021 school year)

Homeowner's education housesite tax bill calculated as the lesser of education property tax and education income tax

Property	Income
Property Tax Assessment as of April 1 2020* equalized with CLA determined December 2019	Income as of Dec. 31 2019, filed in April 2020
X	X
Spending per pupil FY21 / yield FY21 (property rate)	Spending per pupil FY21 / (Income rate[1] X yield FY21) (income rate)

1. The budget presentation to voters includes estimated property rate and income rate so people can estimate what their tax bill will be if the budget is approved.
2. Education taxes on house sites are paid to the state. The town does not send out education bills for declared house sites.
3. Homeowners file their 2019 household income and their SPAN with their VT income tax form by April 2020 as they do now.
4. Homeowners pay estimated taxes (or withholding) to the state between April 2020 and April 2021.
5. Reconciliation takes place in April 2021. The education tax (the lesser of the education property tax on 2020 house site value and the education income tax on the 2019 household income) is compared with the education taxes paid through withholding, and either a credit is issued or a payment is due.

The town sends education property tax bills for all non-housesite property at the non-homestead education rate. The $225 housesite cap would be eliminated so there would not be a jump in tax bills as households exceed the $90,000 income mark. Housesite property could be defined as it is currently, or it could have a maximum value, indexed to some measure of appreciation.

For simplicity, the household income would not be adjusted for household size, although a case could be made for reducing the taxable income to account additional household members.

The circuit breaker program could be changed to a sliding scale program to avoid two issues with current law: it creates a sudden jump in tax bills when incomes exceed $47,000, and it insulates these taxpayers from the cost control resulting from the provision that a vote for a higher budget means a vote for a higher tax bill.

[1] To simplify link between spending and tax rates, there would be one yield for both property and income. The income percent (now 2%) would be adjusted annually (instead of the income yield).

2. Income-based education tax on all homestead owners

Purpose: To further simplify Model 1 by taxing all homestead owners on income and eliminating the property tax option. (This includes eliminating the PTA as in Model 1)

Pros:

- Strengthens link between local vote and local tax bill
- Consolidates the spending and revenue resulting from one school year the one fiscal year so Education Spending and Tax rates are in sync
- Eliminates the taxpayer confusion resulting from the adjustment
- Reduces administrative work of municipal governments
- Shifts the focus to what is a fair tax amount to pay, rather than who should get a subsidy
- Eliminates tax jump at incomes of $90,000
- Reduces regressivity that now occurs at high incomes

Cons:

- More likely to influence high-income homeowners to leave the state or rent from their LLC, etc.

FY 21 example. (School budget voted in March, 2020 for 2020-2021 school year)

Homeowner's education housesite property tax bill is replaced by an education income tax

Local Education Homeowner Income Tax
Income as of Dec. 31 2019, filed in April 2020
X
Spending per pupil FY21 / (Income rate X yield FY21)

1. The budget presentation to voters includes estimated income rate so people can estimate what their tax bill will be if the budget is approved.
2. Education taxes on housesites are paid to the state. The town does not send out education bills for declared house sites.
3. Homeowners file their 2019 household income and their homestead declaration and SPAN with their VT income tax form by April 2020 as they do now.
4. Homeowners pay estimated taxes (or withholding) to the state between April 2020 and April 2021.
5. Reconciliation takes place in April 2021. The education income tax (on the 2019 household income) is compared with the education taxes paid through withholding, and either a credit is issued or a payment is due.

The town sends education property tax bills for all non-housesite property at the non-homestead education rate. The $225 housesite cap would be eliminated so there would not be a jump in tax bills as households exceed the $90,000 income mark. Housesite property could be defined as it is currently, or it could have a maximum value, indexed to some measure of appreciation.

For simplicity, the household income would not be adjusted for household size, although a case could be made for reducing the taxable income to account additional household members.

The circuit breaker program could be changed to a sliding scale program to avoid two issues with current law: it creates a sudden jump in tax bills when incomes exceed $47,000, and it insulates these taxpayers from the cost control resulting from the provision that a vote for a higher budget means a vote for a higher tax bill.

3. Income-based education tax on all Vermont residents (including renters)

Purpose: To simplify Models 1 and 2 by eliminating the property tax option, taxing all residents based on income, and providing the same link between voting decisions and tax bills for both renters and homeowners. (This includes eliminating the PTA as in Model 1).

Pros:

- Strengthens link between local vote and local tax bill, for all district residents
- Consolidates the spending and revenue resulting from one school year the one fiscal year so Education Spending and Tax rates are in sync
- Eliminates the taxpayer confusion resulting from the adjustment
- Eliminates household income calculation; can use AGI
- Shifts the focus to what is a fair tax amount to pay, rather than who should get a subsidy
- Eliminates tax jump at incomes of $90,000
- Reduces regressivity that now occurs at high incomes
- Less likely to affect behavior of high-income homeowners

Cons:

- Administrative changes at both the state and municipal levels to account for renters
- May encourage high-income residents to leave the state

FY 21 example. (School budget voted in March, 2020 for 2020-2021 school year)

All residents pay an income-based local education tax; renters receive credit for education property tax paid on their unit

Local Education Residential Income Tax
Income as of Dec. 31 2019, filed in April 2020
X
Spending per pupil FY21 / (Income rate X yield FY21)

1. The budget presentation to voters includes estimated income rate so people can estimate what their tax bill will be if the budget is approved.
2. Local education residential taxes are paid to the state. The town does not send out education bills for declared house sites.
3. The local Grand List includes a code (expanded SPAN) for each rental unit within a property, and an assessed value.
4. All residents file their 2019 AGI and their homestead declaration and SPAN with their VT income tax form by April 2020 as they do now.
5. Residents pay estimated taxes (or withholding) to the state between April 2020 and April 2021.

6. Reconciliation takes place in April 2021. The education income tax (on the 2019 AGI) is compared with the education taxes paid through withholding, and either a credit is issued or a payment is due.
7. The rental credit would be refundable. The Tax Department would determine the tax paid on the rental unit by using the Grand List. The Landlord Certificate would be used to verify the renter and the rental unit.

The town sends education property tax bills for all non-housesite property at the non-homestead education rate. The $225 housesite cap would be eliminated so there would not be a jump in tax bills as households exceed the $90,000 income mark. Housesite property could be defined as it is currently, or it could have a maximum value, indexed to some measure of appreciation.

Landlords would need to file annually, as they do now. However, they would not need to calculate allocable rent. The landlord's filing would list the names of people responsible for rent. If the renters change during the year, the landlord would indicate the responsible renters by month.

For simplicity, the AGI used to calculate the tax would not be adjusted for household size, although a case could be made for reducing the taxable income to account additional household members.

The circuit breaker program could be changed to a sliding scale program to avoid two issues with current law: it creates a sudden jump in tax bills when incomes exceed $47,000, and it insulates these taxpayers from the cost control resulting from the provision that a vote for a higher budget me ans a vote for a higher tax bill.

4. Uniform state income tax for education

Purpose: To shift responsibility for taxing and distribution of funds to the state.

Pros:

- Allows legislature to control spending
- Allows state to control student equity through the distribution of revenue
- Horizontal equity would be perceived as fair as the rate in all districts would be the same
- Because it would be a state tax, it could be made more progressive by using brackets or a sliding scale for the rate.
- Consolidates the spending and revenue resulting from one school year the one fiscal year so Education Spending and Tax rates are in sync
- Eliminates the taxpayer confusion resulting from the adjustment
- Shifts the focus to what is a fair tax amount to pay, rather than who should get a subsidy
- Could eliminate tax jump at incomes of $90,000
- Could reduce regressivity that now occurs at high incomes

Cons:

- Loss of local control
- Weakens community connection to schools and local democracy
- Legislature would deal with pleas for more money and proposals to tweak pupil weighting, to add special categorical grants, etc.
- Not likely to have public support

FY 21 example. (School budget voted in March, 2020 for 2020-2021 school year)

All homeowners pay a state income-based education tax; revenue distributed to school districts based on categorical grants, formulas and weighted students

State Education Residential Tax
Income as of Dec. 31 2019, filed in April 2020
X
Uniform state income tax rate(s) FY21[2]

1. There could be a budget presentation to district voters but it would not affect their tax bills.
2. Education taxes on household incomes of homeowners are paid to the state. The town does not send out education bills for declared house sites.
3. Homeowners file their 2019 household income and their homestead declaration and SPAN with their VT income tax form by April 2020 as they do now.
4. Homeowners pay estimated taxes (or withholding) to the state between April 2020 and April 2021.

[2] Because this would not vary by district, it would be possible to make the tax more progressive than the current method. For example, there could be brackets. This could then eliminate the circuit breaker program.

5. Reconciliation takes place in April 2021. The education income tax (on the 2019 household income) is compared with the education taxes paid through withholding, and either a credit is issued or a payment is due.

The commission looked at this option because of testimony received. Some people felt that the current system does not give the Legislature enough control over spending. Others felt that the state was in the process of removing more and more control from local districts, so ceding taxing authority would not be a big step. The commission does not recommend this model, believing that benefits of local democracy outweigh the benefits of moving to a state tax.

5. Uniform housesite exemption replaces the Property Tax Adjustment

Purpose: To make the locally voted education tax simpler, clearer to taxpayers, and similar to education taxes in other states, while using an exemption to lessen regressivity.

Pros:

- Strengthens link between local vote and local tax bill, for homeowners
- Consolidates the spending and revenue resulting from one school year the one fiscal year so Education Spending and Tax rates are in sync
- Eliminates the taxpayer confusion resulting from the adjustment
- Eliminates household income calculation, except for households applying for circuit breaker
- Shifts the focus to what is a fair tax amount to pay, rather than who should get a subsidy
- Eliminates tax jump at incomes of $90,000
- Will not affect behavior of high-income homeowners
- Simplifies local administration
- Eliminates state administration of the Property Tax Adjustment
- Eliminates the need to distinguish housesite from homestead (assuming the circuit breaker formula could be modified to no longer be dependent on housesite)

Cons:

- More regressive than current system
- Would increase the circuit breaker cost and administration

FY 21 example. (School budget voted in March, 2020 for 2020-2021 school year)

All homeowners pay a property-based local education tax

Local Education Homestead Property Tax
(Property Tax Assessment as of April 1 2020* equalized with CLA determined December 2019
Less
Homestead Exemption)
X
Spending per pupil FY21 / yield FY21 (property rate)

1. The budget presentation to voters includes estimated property tax rate so people can estimate what their tax bill will be if the budget is approved.
2. All residents file their homestead declaration and SPAN with their VT income tax form by April 2020 as they do now to be eligible for the exemption.
3. The state notifies the town of the declarations filed, as it does now.
4. The state exemption amount is adjusted by the 2019 cla and subtracted from the listed value of each homestead property by the local listers.
5. Residents pay the local Education Homestead Property Tax to the town.

The circuit breaker program could be changed to a sliding scale program to avoid two issues with current law: it creates a sudden jump in tax bills when incomes exceed $47,000, and it insulates these taxpayers from the cost control resulting from the provision that a vote for a higher budget means a vote for a higher tax bill. There would be more people eligible for the circuit breaker, the cost would be much greater, and there would be more of a jump in tax bills at $47,000, so the program would probably need to be redesigned.

Note for Models 1 and 5:
* The state applies the CLA determined in December of 2019 to the equalized rates to determine actual rates to be applied to the 2020 house site value. In towns that are reappraising in 2020, a hybrid CLA is calculated (as is done currently). This means that, for most house sites, it is the 2019 house value that is used.