

Summary of Recommendations

The commissioners agree that the complexity is overwhelming the effectiveness of the current homestead education tax.

The commission believes that the confusion surrounding the current Property Tax Credit and the double system for determining the tax bill has removed the direct link between the budget vote and the tax bill. The first step in improving cost control and accountability should be simplifying the system so that voters have a clear idea of the effect their vote on the school budget will have on their tax bill.

The commissioners believe simplification is best achieved by removing one of the two systems for taxing residents: property or income.

Given the divergence between the value of a house and both income and wealth, and given the impracticality of determining, measuring or taxing net worth, the commission believes that income is the best way to measure taxpayer equity and the most progressive way to tax residents for education.

While the historical and administrative reasons for the distinction between renters and homeowners are clear, the commission could not find a principle-based justification for treating the two groups of residents differently.

The commission believes the locally voted education tax should be based on the income of all residents. Renters would receive a credit to offset the education property tax paid through their rent. We recommend initiating a process of data collection and analysis to enable the implementation of this change.

The commission believes the adoption of a uniform tax on non-homestead property and of a guaranteed yield for the locally voted tax have increased between-district horizontal equity substantially, understandably, and simply.

The commission believes that the progressivity of the locally voted education tax is important. We understand that a progressive tax structure can result from a mix of taxes, some of which may be regressive individually, as long as the distribution of benefits overcomes the regressivity. However, the locally voted education tax is different from other taxes in the mix. It both collects and distributes. If this tax is regressive, education will be distributed inequitably. For this reason, we believe the relationship between income, poverty, and education spending is vitally important. At this time, it appears that a combination of district consolidation, heavier weighting for poverty, and moving to an income-based tax for residents will improve the equity and progressivity of the education tax.

We are not convinced that applying such a substantial poverty weight as recommended in the recent weighting study will result in the locally voted education tax raising the optimal amount for education economically disadvantaged students. Perhaps categorical grants for specific interventions such as tutoring and after-school programs may also play a role.

The commission recommends moving expenditures for mental health services and for employee health insurance from the Education Fund to the General Fund, along with proportionate revenue sources.

The commission recommends establishing an ongoing Education Tax Advisory Committee to monitor the system, to report regularly, and to make annual recommendations to the Legislature. Annual recommendations would include the tax rate(s) and yield(s) and the amount of the stabilization reserve. Other recommendations, such as adjusting student weights or other changes to the system could be brought to the Legislature's attention as needed.

The commission recommends developing a program at Property Valuation and Review to appraise large and/or complicated property and to defend the appraisals. We also recommend analyzing other ways in which local administration could be strengthened and supported by the state. The current per-parcel payment should be reviewed and a payment schedule that is based on both the size of the town and the certification of the local officials should be considered. We believe that the state can make investments in the administration of the property tax that will be offset by increased tax revenue.

Tax Structure

The commission recommends collecting information on assets in Vermont, initiating reporting requirements if necessary, and working with other states to explore the issues and to design and evaluate possible uniform approaches. The effort of the Multistate Tax Commission to clarify and consistency to the sales tax through the coordination of member states is a recommended model.

In order to understand the equity and progressivity of our tax structure, we recommend undertaking a comprehensive and ongoing study of income, taxes, and the transfers or benefits that help families meet their basic needs. This would help future legislatures look at changes over time, recommend adjustments, and measure progress.

Climate Change Not sure we want to add these ...

Because lower income households pay a higher percentage of their incomes in fuel, any increase in fuel prices is likely to be regressive. Whether the pricing mechanism is called a tax or not, the commission recommends returning enough of the resulting revenue to households to offset the regressivity.

The commission supports the use of tax credits and exemptions to reduce the upfront cost of some investments that will make the transition possible, even though in general the commission strives to keep the tax base as broad as possible. But it is important to also enable citizens who can't afford to make an investment at all to transition off fossil fuels. Combining an upfront incentive with a loan that can be paid off through savings in a short period of time may be helpful, although outside of the tax code.

In comparison with a Vermont-only pricing program, regional partnerships have the benefits of retaining the state's actual and perceived competitiveness in the region and reducing the incentive to buy fuel or conduct business over state lines. The commission agrees that the tax structure should be responsive to interstate competition.

If the pricing mechanisms are successful, carbon emissions will drop each year, and the pricing will need recalibration to continue the progress. In this process, using the revenue from carbon pricing to replace other taxes (such as lowering the income tax rate in the lowest bracket) could destabilize the tax structure. Instead, we recommend that returns to the economy from the pricing mechanism be made in transitional payments and investments that help offset the costs of the transition. Once we reach steady state, the tax structure could be rebalanced.

The Vermont Climate Action Commission report puts it this way: "Demographic change, greenhouse gas emissions, severe weather, and financial challenges prompt a fresh look at Vermont's smart growth strategies and land use governance as means to address climate change." We agree. And we recommend that the fresh look include role of taxes in the mix

Personal Income Tax:

The Commission does not recommend a wealth tax.

The Commission recommends continuing to promote the remote worker program through incentives to move to Vermont. This will increase the taxpayer base in the state, providing additional personal income tax revenue and future stability to the personal income tax. It is also a climate conscious approach to increasing the population and tax base of the state which minimizes the amount of motor vehicle traffic which helps to minimize our carbon footprint.

The Commission recommends further study of the "Benefits Cliff" and find ways to lessen the steepness of that cliff since it is a disincentive for taxpayers to earn more money due to the steep drop off of benefits which in many cases costs the taxpayer more in lost benefits than is made in additional wages. This can be done in conjunction with or separate from the recommended Tax Incidence Study.

The Commission recommends continued review of tax expenditures to ensure these expenditures are accomplishing the purpose for which they were intended.

PASS-THROUGH INCOME TAX

The Commission recommends a study the effect on Vermont PTEs of an entity level tax for the reasons stated above to replace the present system of non-resident withholding and composite return filing.

The Commission recommends consideration of mandatory composite filing for all PTE with non-resident members. Continue to allow the individual non-residents to file a Vermont return and take a credit for their share of the taxes paid. This would allow the individual to utilize available Vermont losses against the PTE income included in a composite return. This option would eliminate the burden on the business of justifying that a member is exempt from the withholding, and shifts the burden to the member to get a refund of the tax deemed paid on their behalf as part of the composite return and all of the correspondence that the Tax Department must generate to ensure compliance.

ESTATE TAX

The Commission recommends the following with respect to the Estate Tax:

- Continue to monitor what our neighboring states are doing relative to the estate tax and also the federal estate tax legislation. Although the Vermont Estate Tax has completely decoupled from federal, it is important to make sure the Vermont exemption is not greater than the Federal exemption since the Vermont exemption is set and not scheduled to change with any changes in the Federal estate tax exemption.
- Study the possible elimination of the present estate tax structure and replace it with a “capital gain” type of tax on death, similar to the Canadian structure. This type of structure would still need to have some form of exemption to maintain the progressivity of Vermont’s overall tax structure. This would be a major change and would have to be carefully analyzed since no other state has this structure.
- Consider updates to Vermont Estate Tax Statutes as federal changes are made.

CORPORATE INCOME TAX

The Commission recommends the following with respect to the Corporate Income Tax:

- Request that the Tax Department study the effect of adopting Finnegan with respect to Unitary Tax apportionment. As a member of the MTC, if Finnegan is adopted by the MTC, although Vermont does not have to adopt it, conformity with the MTC as a member is important provided the switch is either revenue positive or at a minimum, revenue neutral.
- Request that the Tax Department study the effect of adopting a Single Sales factor approach to apportionment for multistate corporations. If feasible, this would put Vermont in a more competitive position since Vermont is one of only eighteen of forty seven states with a form of corporate income taxation that uses the three factor approach. This could also add a competitive advantage to Vermont based businesses that are multistate businesses by not increasing their Vermont apportionment factor due to the fact the business is located in Vermont, its property is in Vermont and its payroll is primarily or exclusively in Vermont. This change, unless the legislature sees the competitive factor for Vermont businesses as the driving factor, should be at a minimum revenue neutral.
- Continue to study tax expenditures related to the corporate tax to ensure they are still serving their intended purpose.

TELEPHONE PERSONAL PROPERTY TAX (TPP)

The Commission recommends the following with respect to the TPP:

Consider the repeal of this tax as it is declining every year and is based on somewhat outdated technology as a base for the tax, and replace the lost revenue with another source based on more contemporary and long-term sustainable technology. Also supporting the repeal of this tax is the fact that the same equipment used by cable companies to provide telephone service are taxed at the local level, and not the state level. As technology with respect to provision of voice communications systems, so must the methods of taxation applied to them change. The Vermont Department of Public Service Vermont Telecommunication Plan 2014 also discusses the decline in the use of traditional telephone communication.

GASOLINE AND MOTOR FUEL TAXES

The Commission recommends the following with respect to the Gasoline and Motor Fuels Tax:

- The Tax Department can study the decline in this revenue source and determine the necessary funds to make up this decrease.
- The Legislature can look at alternative taxes on the vehicles and or energy sources used to power these alternative fuel vehicle, but must balance the fact that these vehicles accomplish the purpose of climate change and environmental stability with the reality that the transportation infrastructure must still be supported.