Summary of Recommendations *(Draft of Format Option 4)*

The Commission makes the following recommendations:

1. **Restructure the homestead education tax**
2. **Broaden the sales tax base**
3. **Modernize income tax features**
4. **Eliminate tax burden/benefit cliffs**
5. **Create a comprehensive telecommunications tax**
6. **Utilize tax policy to address climate change**
7. **Collaborate with other states to build a fairer tax system**

Recommendation 1: Restructure the homestead education tax

Key components:

A. Abolish the homestead education property tax.
B. Implement income-based education tax for all residents (owners and renters) with rate tied to locally voted budgets.
C. Maintain non-homestead education property tax.
D. Apply non-homestead education property tax [to excess value/acreage].
E. Create renter credit to reimburse renters for the non-homestead property tax effectively paid through their rent.

Immediate steps:

- Initiate a process of data collection and analysis to enable the implementation of this change.

Why restructure the homestead education tax?

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.

Recommendation 2: Broaden the sales tax base

Key components:

A. Expand the sales tax base to all consumer-level purchases of goods and services except health care and casual consumer-to-consumer transactions.
B. In health care, extend the provider tax to those provider categories that are not currently included.
C. Use the gain from broadening the base to protect low-income Vermonters and reduce the sales tax rate to 3.6%.
D. Continue to eliminate the sales tax on business inputs.

Immediate steps:

- Initiate a process of data collection and analysis to enable the implementation of this change.

Why broaden the sales tax base?

Vermont has one of the narrowest sales tax bases in the nation. [add a few paragraphs in the format of Deb's above]

As part of its proposal, the commission recommends extending the sales tax to those grocery-type items currently exempt from the Meals tax, including items like whole pies, cakes, loaves of bread, etc, to be consistent with the extension of the sales tax to groceries.

Recommendation 3: Modernize income tax features

Key components:

A. Expand the personal income tax base.
B. Study the effect on Vermont Pass-through Entities (PTEs) of an entity level tax.
C. Examine opportunities to improve Vermont's estate tax.
D. Explore options to improve the corporate income tax.

Immediate steps:

- [Insert immediate steps here]

Why modernize income tax features?

[turn the following into a narrative]

1. Expand the personal income tax base by a) continuing to promote the remote worker program through incentives to move to Vermont, b) finding ways to lessen the steepness of the benefits cliff that disincentives taxpayers to earn more money, and c) continuing to review tax expenditures to ensure these expenditures are accomplishing the purpose for which they were intended.
2. Study the effect on Vermont Pass-through Entities (PTEs) of an entity level tax to replace the present system of non-resident withholding and composite return filing. Consider 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.
3. Examine opportunities to improve Vermont's estate tax by: a) continuing to monitor what our neighboring states and the federal government are doing relative to exemptions, b) studying the possible elimination of the present estate tax structure and replacing it with a "capital gain" type of tax on death, c) updating Vermont Estate Tax Statutes as federal changes are made.
4. Explore several aspects of corporate income tax, including: a) the effect of adopting Finnegan with respect to Unitary Tax apportionment, b) the effect of adopting a Single Sales factor approach to apportionment for multistate corporations, c) tax expenditures related to the corporate tax to ensure they are still serving their intended purpose.

Recommendation 4: Eliminate tax burden/benefit cliffs

Key components:

A. Undertake an ongoing study of income, taxes, and the transfers or benefits that help families meet their basic needs.
B. Find ways to lessen the steepness of the tax and benefit cliffs.

Immediate steps:

- [Insert immediate steps here]

Why eliminate tax burden and benefit cliffs?

[turn the following into a narrative]

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.

<u>Find ways to lessen the steepness of the benefit cliff</u> 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.

Recommendation 5: Create a comprehensive telecommunications tax

Key components:

A. Repeal the Telephone Personal Property Tax (TPP).
B. Study changing FCC regulations.
C. Craft a comprehensive telecommunications tax with an adequate revenue stream to sustainably support the Vermont Universal Service Fund, E911 and public access services.

Immediate steps:

- [Insert immediate steps here]

Why create a comprehensive telecommunications tax?

[turn the following into a narrative]

1. Consider the repeal of the TPP 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.
2. We recommend creating a comprehensive telecommunications tax, with careful attention to changing FCC regulations, that also supports the Vermont Universal Service Fund, E911 and public access services.

Recommendation 6: Utilize tax policy to address climate change

Key components:

A. Implement tax credits and exemptions to reduce the upfront cost of some investments that will make the transition to a low-carbon economy possible.
B. Take a fresh look at the role of taxes in mitigating climate change.

Immediate steps:

- [Insert immediate steps here]

Why utilize tax policy to address climate change?

[turn the following into a narrative]

The commission supports the use of tax credits and exemptions to reduce the upfront cost of some investments that will make the transition to a low-carbon economy 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.

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.

Recommendation 7: Collaborate with other states to build a fairer tax system

Key components:

A. Partner with other states to coordinate and strengthen our tax structures.
B. Work with other states to develop uniform asset-reporting requirements and collect information.

Immediate steps:

- [Insert immediate steps here]

Why collaborate with other states to build a fairer tax system?

[turn the following into a narrative]

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 bring clarity and consistency to the sales tax through the coordination of member states is a recommended model.

The commission recommends collaborating and partnering with other states to coordinate and strengthen our tax structures. Some past successful efforts include streamlining the sales tax with the Multistate Tax Commission and joining the Regional Greenhouse Gas Initiative. This type of partnership has the advantage of reducing the “race to the bottom” in which states try to lure business by lowering taxes; it clarifies jurisdictional issues; it simplifies filings for businesses in several states; and it improves the state’s tax structure. Rather than moving to the middle, together we may be able to move the middle, and end up with a fairer system.