

Summary of Recommendations *(Draft of Format Option 6)*

The Commission unanimously agrees on two major recommendations, 12 additional recommendations, and eight areas of further study.

Major Recommendations

1. Restructure the homestead education tax.
2. Broaden the sales tax base.

Additional Recommendations

1. Commission an incidence study.
2. Find ways to lessen the steepness of the tax burden/benefit cliff.
3. Move expenditures for mental health services and for employee health insurance from the Education Fund to the General Fund.
4. Establish an ongoing Education Tax Advisory Committee.
5. Develop a program at Property Valuation and Review to appraise large and/or complicated property and to defend the appraisals.
6. Include the value of free housing provided as part of employment in the employee's income.
7. Add an annual excise tax to the registration fees for electric cars.
8. Continue to review tax expenditures.
9. Continue to promote the remote worker program.
10. Create a comprehensive telecommunications tax.
11. Utilize tax policy to address climate change.
12. Collaborate and partner with other states to coordinate and strengthen our tax structures.

Areas for further study and consideration

1. Study the effect on Vermont Pass-through Entities (PTEs) of an entity level tax.
2. Examine opportunities to improve Vermont's estate tax.
3. Explore ways to improve the corporate income tax.
4. Continue to monitor what our neighboring states are doing relative to the estate tax and also the federal estate tax legislation.
5. Study the possible elimination of the present estate tax structure and replace it with a "capital gain" type of tax on death.
6. Direct the Tax Department to study the effect of adopting Finnegan with respect to Unitary Tax apportionment.
7. Direct the Tax Department study the effect of adopting a Single Sales factor approach to apportionment for multistate corporations.
8. Collect information on assets in Vermont.

Major 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.

Major 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 1) protect low-income Vermonters from any additional burden, and 2) reduce the sales tax rate to 3.6%, and to harmonize the provider tax rate at 3.6%, making the change very close to revenue-neutral.
- D. Continue to work 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.

Additional Recommendations

1. Commission an incidence study. Undertake 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. (see p. x)
2. Find ways to lessen the steepness of the tax burden/benefit 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. (see p. x)
3. Move expenditures for mental health services and for employee health insurance from the Education Fund to the General Fund, along with proportionate revenue sources. (see p. x)
4. Establish 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. (see p. x)
5. Develop 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. (see p. x)
6. Include the value of free housing provided as part of employment in the employee's income. (see p. x)
7. Add an annual excise tax to the registration fees for electric cars as their contribution to the Transportation Fund in lieu of paying gas taxes. This tax should persist until the technology is available to charge each vehicle for the miles, or even better, the pound-miles it travels on Vermont roads. (see p. x)
8. Continue to review tax expenditures to ensure they are accomplishing the purpose for which they were intended. Sunset any expenditures that are not delivering an adequate return on investment. (see p. x)

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9. Continue 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. (see p. x)
10. Create a comprehensive telecommunications tax. Repeal the Telephone Personal Property (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. 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. (see p. x)
11. Utilize tax policy to address climate change, including implementing 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. (see p. x)
12. Collaborate and partner 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. (see p. x)

Commented [SS2]: I removed Steve’s last line which seemed like a better fit for the narrative than list of recs. –

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.

Commented [SS3]: I put in this line as a placeholder because Deb’s paragraph below seemed better for the narrative than a list of recommendations –

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.

Commented [SS4]: The rest of Deb’s paragraph seemed better suited for the narrative:

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.

Areas for further study and consideration

1. 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. (see p. x)
2. 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. (see p. x)
3. Explore ways to improve the 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. (see p. x)
4. 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. (see p. x)
5. 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. (see p. x)
6. Direct the Tax Department to 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. (see p. x)
7. Direct 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

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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. (see p. x)

8. Collect 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. (see p. x)

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