

## High-level feedback to Tax Structure Commission from Joint Fiscal Office on Chapter 5 (formerly 4) – Income Tax -received by 12/10/2020

### **Considering level of depth relative to rest of report**

- This chapter goes way into the weeds of pass-through income and the corporate income taxes. That level of detail is going to be a jarring transition from the previous chapter (the consumption tax chapter).

### **Taking care with citations and up-to-date data**

- There are more up-to-date sources of data than the 10-year tax study.
- Tom Kavet's reports and the consensus forecasts would have relevant, up-to-date data, as would reports from JFO and the Department of Taxes.
- Cursor references to policies in other states or countries could benefit from more explanation and/or a reference to external sources.
- Also remember that present tense should be written as of mid-January. Chapter references "current renter reform system" but seems to be describing the old system, which is technically still the current system but won't be once the system passed in the last session takes effect on 1/1.

### **Connecting personal income tax discussion to education income tax recommendation**

- This chapter is ostensibly about income tax, but another chapter makes a proposal to move the housesite education tax to an income tax. Will there be a bridge to discuss how the two chapters relate to each other?
- Will there be an analysis of the weight of the combined income tax within the recommended tax system?
- Should policymakers consider a maximum combined marginal income tax rate or effective tax rate when determining whether an education income tax plan is viable and competitive?
- If you're looking at total tax burden, what level of analysis would be needed to determine overall winners and losers?

### **Being clear about how testimony was solicited and the basis for making recommendations**

- Several sections start by saying "we received no testimony on this." Does this mean that the commission was unable to find anyone to testify on these topics?
- Despite the fact that the commission received no testimony on a certain topic, the report then proceeds into a very in-depth discussion of the tax topic. Do all three commissioners fully understand these issues even if there was no testimony on them? Are all of the major positions on topics presented and assessed?
  - For instance, the last part of the pass-through section hints at the push for states to create entity taxes for pass-throughs so that the shareholders can fully deduct state and local taxes (which were capped in the TCJA) and get around the limitation this way. Who are the opponents of such proposals and what is the rationale for their position? How does exploring an entity tax mesh with the principles the commission is using to guide recommendations?

- The corporate section advocates for a single sales factor citing competitive reasons.
  - The report could acknowledge that the Ways and Means committee explored this topic at length over the last two sessions.
  - Is there literature on this being a competitive advantage for states, especially with many states shifting to it?
  - The MTC recommended to the state legislature last year that states maintain at least two factors for sales apportionment. The commission might explain why it feels a single sales factor is best and why it believes the MTC recommendation is not the best for Vermont.
  - Finally, this section could reference that this tax change, based upon [an analysis JFO prepared last session](#), would result in a loss of up to 10% of corporate income tax revenues. That is not to say the commission shouldn't make this recommendation, but it is something that should probably be mentioned. How might the legislature replace this revenue?