

Summary of Recommendations *(Draft of Format Option 1)*

Commented [S1]: Note: For this option (Option 1 – Tax-type-based), I pasted Bram’s consumption recommendations verbatim and attempted to apply the same format to the other two major tax sections, as well as an overall/other section; I also removed the separate motor fuel recs and dropped the wealth tax anti-recommendation

Summary of education recommendations:

With the goal of simplifying Vermont’s education tax, reforming the way we fund public education, and increasing student and taxpayer equity, we are recommending:

1. Base the locally voted education tax on the income of all residents. Provide renters with a credit to offset the education property tax paid through their rent. Initiate a process of data collection and analysis to enable the implementation of this change.
2. Move expenditures for mental health services and for employee health insurance from the Education Fund to the General Fund, along with proportionate revenue sources.
3. 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.
4. Develop a program at Property Valuation and Review to appraise large and/or complicated property and to defend the appraisals. Analyze 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.

Summary of consumption recommendations:

In the context of a revision to Vermont’s system of transfers and benefits to low-income Vermonters to eliminate benefits cliffs and ensure progressivity of their complete financial picture, and to ensure that the extension of the sales tax to necessities like groceries does not place any new burdens on low-income Vermonters, we are recommending:

1. Excluding health care, expand the sales tax base to the remaining consumer-level purchases of goods and services, including groceries, home energy use, education, clothing, professional services, and automobile repair, and excluding only casual/one-time consumer-to-consumer transactions.
2. In health care, extend the provider tax to those provider categories that are not currently included.

3. Use essentially all of 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.
4. Continue to work to eliminate the sales tax on business inputs.
5. Extend 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.
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 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.

Summary of income recommendations:

With the goal of moving Vermont's income taxes more in line with the principles of a high-quality revenue system, we are recommending:

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. Study 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.

Summary of other recommendations:

With the goal of making Vermont's overall tax structure more fair, simple, and appropriate, we are recommending:

1. Commission an incidence study. 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 study will help future legislatures look at changes over time, recommend adjustments, and measure progress.
2. Collect information on assets in Vermont, initiate reporting requirements if necessary, and work 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.
3. 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.
4. Use 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.
5. 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.
6. Repeal the Telephone Property Tax and create a comprehensive telecommunications tax, with careful attention to changing FCC regulations, that also supports the Vermont Universal Service Fund, E911 and public access services.