Compilation of Commissioner DRAFT Recommendations

as presented and underlined

Simply taking your lists of recommendations and underlined sections, and adding in the incidence study, I count 10 categories with a total of 32 recommendations. Note that this list includes studies, recommendations of what not to do, and includes vehicle taxes in the consumption tax section as well as a separate motor fuel section.

Education:

1. 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.

2. 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.

3. 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.

4. 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.

Consumption:

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.

<u>Personal Income Tax:</u>

1. The Commission does not recommend a wealth tax at this time.

2. 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.

3. 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.

4. 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

1. 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.

2. 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

1. 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.

2. 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.

3. Consider updates to Vermont Estate Tax Statutes as federal changes are made.

Corporate Income Tax

1. 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.

2. 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.

3. Continue to study tax expenditures related to the corporate tax to ensure they are still serving their intended purpose.

<u>Telephone Personal Property Tax (TPP)</u>

1. 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.
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.

<u>Gasoline and Motor Fuel Taxes</u>

1. The Tax Department can study the decline in this revenue source and determine the necessary funds to make up this decrease.
2. 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. If the technology is available, we recommend basing the tax on miles driven.

<u>Tax Structure:</u>

1. 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.

2. 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.

3. 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.

<u>Climate Change:</u>

1. 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.

2. 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.