

1. Introduction

In some respects, the history of taxation in Vermont is the history of a state trying to deal with alternatives to the property tax, or trying to find a better way to tax income.

- Paul Gillies, *The Evolution of the Vermont State Tax System*

This report is written by three Vermonters of different backgrounds and varying tax system experiences. We first convened in December 2018, tasked by the legislature and Scott Administration with developing long-term recommendations to help make the State's overall revenue system more fair, more sustainable, and simpler. From the beginning, we committed to operate by consensus. We believed, and continue to believe, our commission should only put forth recommendations that all three of us can support.

We worked for almost a year and a half before COVID shut down much of Vermont in March 2020. Given the uncertainty in the early days of the pandemic around the nature of the disease and its potential effects on our society and our economy, we suspended our work for a few months. Once it became clear that some economic activity would continue, and that there were measures people could take that would allow them to keep functioning during the pandemic, we resumed our work.

As we deliver this report at the start of 2021, infections and deaths are climbing across the country but the distribution of effective vaccines have allowed us and everyone else to look forward to a post-pandemic world.

The pandemic impacted both the logistics of our work as well as the data and issues we were tasked with analyzing.

In terms of logistics, we had hoped to travel the state to hear Vermonters' concerns and to talk through priorities and solutions in-person. We did hold meetings in the State House and various public libraries throughout our first year. We also scheduled a spring 2020 series of community panel discussions with experts to explore key revenue issues. Alas, that series had to be cancelled and our last several months confined to public Zoom meetings. All told, we still managed to hold 36 public meetings, both in-person and online, and take written and oral testimony from more than 60 experts and members of the public (Appendix X).

In terms of data, it is clear to us that the pandemic has accelerated some long-standing trends: more shopping online and less bricks & mortar retail, more remote work, more use of video for professional and social gatherings, more telemedicine, more remote education. It is not clear that other than accelerating these trends, the pandemic will change the contours of our economy. Our data comes from the pre-COVID economy; our recommendations (summarized in Chapter 2) will be implemented in the post-COVID economy. We therefore have accounted for the COVID-induced acceleration of the above-mentioned trends in our recommendations, but

they are not recommendations for a COVID economy – they are recommendations for a healthy post-COVID Vermont economy.

Our approach was to work within each major tax area, and among the major tax areas, to make the overall tax burden on Vermonters more fair relative to horizontal equity, with people of similar ability to pay bearing similar tax burdens, and vertical equity, with an effort to ensure that those with less ability to pay bear a lesser burden, and those with a greater ability to pay contribute a greater amount.

We recognize the Principles of a High-quality State Revenue System apply to the entire tax structure—not to each tax. No individual tax can achieve them all. We discuss these principles and Vermont’s tax structure in Chapter 3.

We recognize the conundrum posed by income and wealth, with the latter being a more accurate barometer of ability to pay but also far more difficult to assess. In Chapter 4, we lay out two big reasons to restructure support for low-income Vermonters. Then in Chapter 5 we discuss the interplay between income and assets and what it means for fairness.

Our predecessor, the Blue Ribbon Tax Structure Commission of 2009-2011, concentrated on income tax reform and made significant recommendations, several of which have been enacted in recent years (Appendix X). With that in mind, we chose to concentrate the bulk of our time on education and consumption taxes.

We believe our diverse experiences are a strength and we wanted each of our voices to come through. As a result, you may notice significant shifts in writing style from chapter to chapter.

We recognize that Vermont’s school spending is among the highest in the nation and the education property tax is often cited as our state’s most burdensome. Chapter 6 lays out a proposal to restructure the homestead education tax and make other reforms to the way we pay for education.

Chapter 7 enumerates steps for Vermont to dramatically expand its sales tax base while slashing the tax rate. The plan is bold, but the concept is not unique. Ten years ago, the Blue Ribbon Tax Structure Commission also called for a significant expansion of the tax base. That’s two separate commissions, with six different people from a variety of backgrounds, all agreeing that it doesn’t make sense for Vermont to have one of the narrowest sales tax bases in the nation.

We discuss opportunities for income tax and estate tax modernization in Chapter 8, then identify obsolete and inefficient taxes in Chapter 9.

In Chapter 10 we propose a timeline for our recommendations and call attention to steps that must be taken before some of the recommendations can be implemented.

In Chapter 11, we discuss Vermont’s changing landscape and how three key areas of change – demographics, technology, and climate – underscore the importance of having an agile tax structure. We provide neither comprehensive analyses nor forecasts but rather offer thoughts on how to approach the tax implications of such significant changes.

Finally, in the report’s Appendices, we provide additional detail on our legislative charge, the steps we took in approaching our work, Vermonters’ testimony, and other materials we produced during our tenure.

We have worked to simplify the overall tax system in two major ways. First, we have endeavored to make recommendations that will make many individual taxes simpler. Second, we have made recommendations to eliminate a number of taxes outright. Falling into both these categories is the homestead education property tax, which currently is exceptionally complicated. We have recommended eliminating the education property tax on homestead housesites and replacing it with an increase in the state income tax. We have also recommended eliminating the Telephone Personal Property Tax.

On the subject of making our overall tax system more sustainable, we have been mindful of recommending changes that will make our tax system responsive to changes in the economy, and technology, and the environment without requiring further legislation. We hope that our recommendations regarding the education property tax make that more sustainable. We believe it removes one of the biggest sources of potential instability in Vermont’s tax system, which is the growing demands by Vermonters for lower property taxes, and for property taxes that do not grow disproportionately.

We hope our recommendations improve Vermont’s overall tax system in terms of making it more fair, simple, and sustainable.