**Comments from Susan Mesner on TSC draft report, Chapters 6 & 7**

Chapter 6 – Education Tax Reform

My review of this chapter (v.12-18-20) was mostly limited to the section Recommended Structural Change to the Homestead Tax, although I have a few comments in the subsections Equity and Volatility.

I raise a number of issues about the education income tax proposal both in comments embedded in the document (on pages 10,11,12,16-18) and in the numbered list below. My comments are mostly technical in nature and reflect my (albeit limited) understanding of the proposal and of the Vermont income tax payment and processing systems.

1. Tax forms are developed in the summer and fall to allow time for internal review and programming of DoT systems, as well as submission to the software companies, so the forms (both paper and online) are available to the public very early in the year. If the town tax rates voted at Town Meeting Day are to be applied on that year's education tax calculation and the intent is to file with the personal income tax, that additional complexity could mean (a) delays in processing of all returns until rates are received and coded into the system (in towns that vote down the budget, it's possible all residents would have their tax returns—and refunds--delayed); (b) online filing could be unavailable to VT taxpayers (some of the tax software companies have threatened this in the past).
2. To elaborate on my comment about those residents who file on extension and provide AGI information after the April deadline (see comment on p. 18, #4), both federal and state law allow for this delay in filing. Perhaps an estimate could be required by April 15, but because withholding would be based on that figure, it could encourage people to underestimate.
3. Adding a new withholding requirement presents unique challenges.
    a. Virtually all employers use some sort of software or service provider for calculating the payroll tax, and some research would be required to ascertain whether the ed income tax would be supported by these companies.
    b. Withholding is determined by the town-voted tax rate (in the previous year, I assume), and all employers would need to know the applicable rate for each of their employees. The tax department would have the information on rates but does not know where taxpayers work (MFJ taxpayers present an additional complexity).
4. A more general comment on the proposal has to do with residents that now pay property taxes but may not pay the education income tax. The [Tax Policy Center estimated in 2015] that 45.3% of U.S. households would not pay federal income tax in that year (includes households that pay FICA but not federal PIT). There are a variety of reasons for this, and it's obviously only an estimate. Some individuals don't reach the income filing threshold, some TPs start with a negative AGI due to business losses, some have a negative tax bill due to EITC ([over 42k filers in VT claimed the credit in FY17]) or other credits, and some just don't file a return. Even though it's impossible to definitively delineate and calculate the number of households now paying the property

tax that may not file and pay this new income tax, there is considerable information available that would provide some good information to policy makers.

Chapter 7–Consumption Taxes in Vermont

My review of this chapter (v. 12-28-20) was confined to the scope of the analysis, comments on the introductory material, the VAT discussion, and the hold-harmless assumption.

1. The chapter is almost entirely focused on sales tax, the most familiar and lucrative of consumption taxes, and health care taxes, which most consumers (and even some policy makers) don't consider a consumption tax because they're not levied at the retail level. Providing some larger context in the introductory paragraphs would be helpful to the reader since the title refers to the broader category of consumption taxes. That could be done by mentioning other types of consumption taxes in the introductory paragraph (e.g., business taxes, liquor taxes –(see p. iv of 10-yr report) and providing some data on the State's dependence on the broad category of consumption tax revenue, as well as the subset under analysis. (The 10-year tax study shows total consumption tax revenue for 2015 as $1,139 million, with S&U accounting for 32% of that total; health care taxes brought in half that amount; more up-to-date figures would be better.)
2. Re: the second paragraph of the introduction, New Mexico has a GRT not a sales tax, and Hawaii has what they call a general excise tax (GET) rather than a sales tax. Both function similarly to a sales tax with some important differences. In both states the tax can be wrapped into the price or itemized for the purchaser, so not always as visible as the normal S&U tax. In New Mexico, changes to the rates can occur twice a year.
3. Washington has a traditional sales tax, but it's important to note that the state has no personal income tax, so their broad base is a reflection of their greater dependence on that tax. This raises the issue of how the tax structures of different states reflect differing policy priorities, so picking one tax for comparison without further context can be somewhat misleading.
4. The discussion of VAT is rather long and detailed given that it doesn't have much of a foothold in this country. The gross receipts tax, however, is more widely used, though applied differently in different states. As mentioned above, it functions somewhat like a broad-based sales tax in Delaware and New Mexico; Hawaii's GET, a GRT by another name, has some similar features. Aside from these three states, six other states have a GRT.
5. Holding low-income Vermonters harmless from the imposition of new taxes is more difficult than often assumed. Those challenges include the ability to clearly define who is in the target population, the extent of their burden or loss, how to locate and deliver relief (and by what method) to all of those harmed, and how to compensate in some way for the lag time (often many months) between the additional out-of-pocket expense, which can have a ripple effect, and the compensatory payment. The impact is quite individualized, but relief is usually calculated on a global basis.