

To: Tax Structure Commission
From: Betsy Bishop, President
Date: January 20, 2021
Re: Comments on Report

Striking the appropriate balance between government spending and the taxation of residents is a never-ending quest to fulfill the needs of Vermonters without overly burdening them with unsustainable costs. We appreciate the work the Tax Structure Commission has done, and we encourage policy leaders to do the same on the expenditure side of the balance sheet.

The Commission's eight recommendations cover much ground and each one is worthy of a full conversation about its impact on individuals, businesses, and the overall economy. We approached this report with the following guiding principles for taxation.

- Any tax proposals should be evaluated as regarding the impact on making Vermont a competitive place to live, visit or do business. Many of the cost drivers for individuals are often the same for businesses like property taxes, income taxes, and health care.
- Tax policy is a factor for personal and business investment decisions.
- Tax increases and other types of assessments may or may not be passed along to the consumer depending on the business model and the price sensitivity of products and services. Therefore, tax increases can reduce the profitability of a business, jeopardizing the ability to re-invest in the business and their employees and communities.

Vermont's current economic outlook is grim for many businesses due to the Coronavirus pandemic. Businesses are shut down, severely restricted and many employees are working from home, disrupting all sectors. The economic data suggests that our declining workforce participation shortfall will be exacerbated by the continued layoffs in the pandemic. While those workers are being helped with increased unemployment payments, we worry that the length of this economic downturn will cause workers to stay out of the workforce long-term. Meanwhile, as the vaccine becomes more available, economists predict a 3-4% growth rate by the third quarter of 2021, but it will still take several years to overcome the loss experienced over the last year. Finally, we won't know the long-term impact of this pandemic on the lodging, restaurant, and commercial real estate markets for some time. Considering these factors, we recommend any tax changes be thoroughly reviewed for their economic impact on businesses and suggest delaying making any major changes in the current year.

The Commission's role is to make recommended changes to Vermont's tax structure for legislative consideration. With the uncertain state of the economy, we will urge the Legislature not to increase taxes or fees or assessments on business. Like city, state and federal governments and individual Vermonters, they do not have the capacity to afford these

increases, especially at this time. It's prudent to review the impact of all the recent increases before implementation so that policy leaders can better understand the cumulative impact. Reviewing the work of the previous Blue Ribbon Tax Commission in 2010, they suggested that the major changes to the tax structure are best implemented in good economic times rather than during a downturn. It is with that in mind that we also will encourage policy leaders to exercise restraint, especially when establishing new programs. We suggest investigating the sustainability and revenue needs for existing programs and trajectory of spending needs prior to allowing their creation and tapping a revenue source. Below are comments on some of the Commission's recommendations.

1. Restructuring the Homestead Education Tax

This is an important conversation that should accompany a thorough review on education spending. Vermont's trend of fewer students and higher spending continues unabated and we should investigate what we ask of our educators and what we have learned about delivering quality education through the pandemic. We agree with your premise that creating a stronger connection between the spending decision and the payment is a worthy goal. Implementing a tax incidence study, as recommended by the Vermont Futures Project, is needed to fully understand the full impact of the homestead education tax.

2. Consumption Tax Reform

This conversation is not new to the policy arena and the effort to broaden the sales tax base and lower the rate is often side-lined because of the impact on business competitiveness and increased costs for individuals. While this recommendation makes for good tax policy in theory, we are concerned about the inability to maintain a low tax rate over time as spending pressures increase. This recommendation is also particularly difficult given that New Hampshire has no sales tax at all. Another new consideration is the remote work environment resulting from COVID, which on its own may encourage migration of small businesses and workers which maybe be heightened by a sales tax expansion.

3. Modernize Income Tax Features

We agree with the report's suggestion to increase the personal income tax base by expanding the population through encouraging remote workers to move to Vermont and by investing in broadband. These are tenets that we believe will increase economic activity and therefore the income tax collections without increasing the rate.

The report recommends consideration of a change in the sales factor. We will reserve specific comments until policy leaders begin deliberations but will encourage them to also take into consideration the impact on economic development and the ability to attract business to Vermont. Further, we recommend that the Commission study two additional issues: 1) whether Vermont should retain the throwback rule and its lack of

consistency with Vermont's destination source tax policy, and 2) whether Vermont's adherence to the three-factor formula (property, payroll, and sales) is discouraging business growth and relocation to Vermont.

4. Undertake Analysis in Order to Eliminate Tax Burden/Benefit Cliff

This analysis has been done several times over the years, once in 2012 by Commissioner Deb Brighton, which successfully outlined many of the issues. Additionally, the 2017 legislative study on this subject also addressed this issue and ultimately suggested an increase in the minimum wage would be the best course of action. That was passed last year. Meanwhile, employers continue to report that raising employee wages to reward excellence is sometimes rejected due to the projected loss of benefits provide by the state.

In conclusion, thank you for your work and understanding that Vermont needs to foster economic recovery and growth with a tax structure to support that goal. It's important to note, particularly now, that the mobility of workers, jobs, and of income is changing quickly. We appreciate your focus on Vermont's tax structure and your willingness to understand that our businesses compete regionally, and globally.