Public Feedback on Tax Structure Commission DRAFT Final Report

Feedback Received through January 21, 2021

This document contains feedback from:

- Debra Behm, CPA, CFP
- Joseph Bilodeau, CPA CGMA
- Leslie Blow
- Tim Denny
- Gloria Flinn
- Kristine Lott, Mayor of Winooski
- John McClaughry, Ethan Allen Institute
- Mike McClintock
- Christopher Plumpton, CPA, MBA, CGMA

Feedback on the draft final report can also be found in memos from:

- Betsy Bishop, Vermont Chamber of Commerce
- Cynthia Browning
- Austin Robert Davis, Lake Champlain Chamber
- Karen Horn, Vermont League of Cities and Towns
- Aly Richards, Let's Grow Kids
- Peter Tucker, Vermont Association of Realtors

From Debra Behm

Hello all –

First of all, thank you for working on this. What a tremendous amount of work. I read the first 15 pages (Summary of Recommendations) and then referred to the details if I needed clarification.

My overall reaction is that your recommendations make sense. Nothing I read sounded unreasonable or out of line.

A few questions/comments that came to mind are:

1. I like the idea of restructuring the Homestead Education Tax and eliminating the Property Tax Credit. The process seems too complicated. We have to rely on too many people to get things straight (the client, the person who prepares the Property Tax Credit Claim, the VT Dept of Taxes, and the various town offices).

2. If we broaden the sales tax base to include education, does this mean that college tuition will be taxable? If so, will this prevent students from attending college in Vermont?

3. Of course I don't want to have to charge sales tax on my accounting fees, but if it's for the better good, and if all tax preparers (CPAs or non-CPAs) have to charge sales tax, then I'm good with it. Does this mean that bookkeepers will have to charge sales tax too?

4. If we used the "deemed sale" type of tax on death, would this apply to everyone that dies in Vermont? Interesting idea.

5. Given our aging population, I wonder if we will see an increase in the amount of estate tax paid to Vermont over the next 10-15 years. Even with the VT exemption up to $5 mil, we may still see quite a few taxable estates.

Thanks very much for allowing me to comment.

Sincerely,
Deb Behm

Debra Behm, CPA, CFP®

From Joseph Bilodeau

To the Commission,

I appreciate the complexity of trying to come up with valid suggestions but I take a whole multitude of issues with your conclusions in the report:

SALES TAX

1. It is sadly naive to believe that reducing the sales tax to 3.6% and taxing virtually everything will not result in the legislature raising the sales tax every year until it is back up to at least where it is today. Perhaps you are all too young to remember the sales tax was implemented as a "temporary" tax to address a deficit. It was 3% as I recall.
2. Taxing services makes even the casual piano teacher a remitter of sales tax. You will have thousands more taxpayers screwing up returns for the department to handle and hours wasted administratively for little tax to the state.
3. Taxing services is especially detrimental to the elderly as they consume more services as they can no longer do things for themselves, mowing, home repairs, etc.
4. Increasing the medical provider tax will negatively impact the elderly and chronically ill as they consume more medical services than the rest of the population.

ESTATE TAX

You are not considering human behavior. Deemed tax at death? Let the exodus begin anew. We just got the estate tax to a reasonable level. I have not had one client decide to leave VT since the legislature expanded the exclusion but this would change if something like that passes.

CARBON TAX

We already have carbon taxes lest somehow you don't consider fuel taxes and sales taxes on home heating fuel carbon taxes. Continuing the solar and wind incentive credits will assist in addressing climate change.

Starting an expensive program to regulate and maintain, cap and trade is just plain unnecessary and just give polluters an easy way out.

PROPERTY TAX

Your conclusion to convert the property tax to income tax has the appearance of bias since that is the desire of certain factions of the legislature to transfer more tax to the "wealthy". As it is now, those receiving the property tax reduction are NOT paying their fair share. If you can't afford to buy a house and pay the property taxes as assessed, then you shouldn't own a house. The current income level of about $140,000 for "income sensitivity" is ridiculously high. Given the low mortgage rates of the last 10 years, the monthly cost of servicing a mortgage have gone down. Thus as education taxes have gone up, the household should have had more money to pay property tax. We have a fail in public policy where homeowners whine to their representatives about taxes instead of addressing school costs in a more realistic manor. No one will control school budgets until they feel the tax impact which income sensitivity does not allow them to feel. This is a huge negative impact to high income earners if it's anything like proposals from the last legislative session.

INCOME TAX

It appears you have already bought into the class argument, "Tax the wealthy more". That will not bring good paying jobs to Vermont as many potential employers just will look elsewhere. Vermont already ranks near the top nationally in TOTAL taxes and is regularly cited as one of the most highly taxed states yet you say we need to broaden the base. Come to the highest taxed state in the nation, that makes a good slogan. The wealthy were slammed with more taxes when Vermont eliminated the ability to itemize deductions and limited charitable deductions. The successful Vermonters were slammed with reduction in the capital gains exclusion on business and property just last year. Vermont did not pass on the recent Federal Qualified business income deduction to its businesses nor does it allow bonus depreciation.

IF you really want to increase the base, that means more taxpayers not taxing those that are doing well more. You should look at incentivizing businesses to relocate to Vermont or to do start-ups here. More employees equals more income tax revenue.

Thanks for reading my comments. The views expressed here are not to be taken as those of the firm.

Joseph Bilodeau CPA CGMA

From Leslie Blow

Just wondering if you did any correlation studies between the number of school age children by household with income by household? It would be logical for those people that have children to bear the brunt of the education cost as opposed to just asking those who have the most income to bear the brunt of it. What if many higher income Vermont residents do not have (and never did have) any children? That does not appear logical or equitable to ask them to pay for other people's choice to have children.

Leslie Blow

From Tim Denny

As a resident of Vermont and current chair of our town's Board of Listers, I briefly reviewed parts of the Commission's draft report. Many recommendations for funding our education using a system based on income make sense.

However, I am disturbed by Recommendation 1: Restructure the Homestead Education Tax, part C. Levy the non-homestead education property tax on all property except the residence and 2-acre site. The report provided no explanation for proposing this change nor any analysis of how it would affect towns' Grand List values and thereby their tax base. I believe that, if this change was made, it would reduce the taxable value of non-homestead properties by 80-90%, because almost all the value of any property is in the 2-acre site and dwelling (if one exists). Because our town has many properties that fall in the non-homestead category, this would drastically reduce our tax base.

Tim Denny
Lister, Town of Strafford

From Gloria Flinn

Dear commissioners,

Thank you for your work on behalf of Vermonters. I read the report a week or so ago and do not claim to know the intricacies of the tax code any more. At one time, I was fairly familiar but have not kept up. Therefore, I would like to express general comments, in particular, on Vermont property taxes and school funding.

1. As a resident of Burlington for 22 years, I have seen residential property taxes increase significantly. It seems to me there are several issues with residential properties -
(1) A failure of Burlington to properly assess its commercial property values, particularly multi-family and large residential properties. I brought this issue to the attention of Burlington's property assessor several years ago who's basic response was they are understaffed. Nothing has changed in the several years hence. Several multi-family properties are assessed at multiples below the last, and current, sales price. The assessor told me that sales price was not indicative of fair market value, although the State statue explicit states otherwise. It's lunacy.

(2) The disproportionate amount of tax-exempt properties. Because the schools are funded through property taxes, Burlington residents pay a disproportionate amount because of the significant amount of tax-exempt properties. It seems to me that if the school budget was classified as something other than a "tax", all properties would participate equally, which is how funding should be spread out. Alternatively, only a portion or set amount of land associated with tax-exempt entities could be subject to exemption similar to the limit of land on a homestead.

(3) The schools have been tasked with providing greater social services without the corresponding increase in funding. Dollars should be reallocated from various social services that formerly provided services to school-aged children to the schools, at a minimum, in proportion to the decreased services provided to this group.

(4) If funding for schools moves to an income tax, I would recommend the commissioners expand the definition of "compensation", which should be done regardless. Management and high-income earners often get paid in stock option grants which are taxed at the time sold and primarily at the long term capital gain rate. This is a major loophole for these individuals and the companies they work for as no FICA is collected and when taxed, the cap gain rate is lower than income. Stock option grants should be classified as salary at the time sold or at least at the time converted to stock.

(5) I am concerned that if the school funding is switched to income from property tax, each town, and particularly Burlington, will increase the property taxes on the basis that the school funding tax has been eliminated versus switched to income. The end result will be higher over-all taxes for Vermonters.

(6) I think the school funding should be a combination of property tax, income tax and sales tax. I would not recommend foreclosing the property tax funding. Perhaps implement new sales and income tax for a certain percentage of school funding and reduce the property tax funding accordingly. In any given

year, each of the taxes will have ups and downs and so having multiple funding sourcing will smooth out the fluctuations.

Thank you for reading my submission. Best of luck in devising an equitable taxing program.

Respectfully,
Gloria Flinn

From Kristine Lott

Good evening, I've reviewed the tax structure commission's recommendations report and am happy to provide some feedback. I am in agreement with many of the recommendations, particularly around education funding and creating more transparency for voters to understand how their vote will impact their own tax bill. Income based funding makes sense, and the combination of property + income is too complex for most folks to understand. I also support the telecommunications taxes and would urge that that revenue be considered to replace lost cable revenue funding our public access television. I am also supportive of the excise tax on electronic vehicles, as we want folks to use less gasoline, but everyone using our roads needs to be funding their upkeep.

I am concerned about the expansion of sales tax from goods to services, and have questions about how that would be implemented. For example, if I go out to eat, and pay a rooms and meals tax, do I also pay a service tax for the service of the restaurant employees? Would this apply to services like online software? Would this add an additional tax to streaming services like Netflix, on top of a telecomms tax? I would want to be sure that we're not adding multiple taxes onto individual services as much as possible.

Thank you,

Kristine Lott
Mayor
winooskivt.gov • 802 766 1988

From John McClaughry

Haven't read the draft report in depth, but here are a few quick responses.

1. The commission's mandate was to find ways to "make the State's overall revenue system more fair, more sustainable, and simpler." Far too narrow. Tax structure ought to be a subsidiary part of a performance review that starts out "what core functions must the state perform", and "how should we raise the money to do that?" Everybody is afraid of that first question, which is why we don't have a performance review. The state must perform everything it performs today plus each year's collection of new stuff. It just grows and grows. But your commission wasn't asked to do that.
2. I was glad to see a recommendation to make EV's (heavily subsidized) pay for using our highways. There have been 3 AoT studies on this and they always conclude(under pressure) that we can't put any obstacles, like user fees etc, to having 90,000 EVs on the road
3. Scrap the whole section on tax subsidies to defeat climate change. I know you can't, but this is pure corporate welfare for the renewable industrial complex, and no amount of tax credits and depreciation etc will have the slightest detectable effect on climate.
4. The idea that we can broaden that retail sales tax base to services and drop the rate is attractive only on paper. My attached column explains the buzzsaw you'll run into with that guaranteed loser. For another thing, the lower rate will rush back up to six and then 7 percent. I voted for a 3% sales tax, with income based rebates, in 1970. Within 3 years the rebates were gone. In the 1980s it slipped up to 4%, in 1990 Snelling pushed the rate to 5%. In 1992 Dean promised to let it sunset to 4%. He did – and called a special session 8 weeks later to put it back to 5%. Douglas put it up to 6% to finance Act 68 in 2003.
5. Don't even hint at exploring asset/wealth taxation. That's another lightning rod. Unenforceable, and it'll drive the rich out of the state. A lot of Swedes fled their home country because of one, but here all a person has to do is cross the bridge to NY or NH.
6. Income tax for schools with protection for our Jurassic era school system looks good at first , and we've been moving that way with Income Sensitivity, but the ravenous demands for maintaining our system will run up against the equally ravenous demands for Medicaid and for the two underfunded retirement funds, and the battle is likely to be settled by a "fiscal crisis" followed by income tax increases, followed by economic stagnation as high income Vermonters think better of being robbed by this state, and move to Florida, Texas, Tennessee or NH.
7. I regret that I can't give you a well developed single-state consumption tax plan, but as we discussed , a) it's completely unfamiliar b) too much innovation – no other state has attempted one c) it's hard to see who would jump up and cheer d) I'm not well rehearsed in facing pointed interrogatories and above all e) it's a growth booster in a state where gentry/enviros do not want any kind of growth (except in the state revenues).

I'm not under any illusions that this will be helpful but at least I'm on record. I'll have more to say later when it's finalized – acknowledging the hard work that went into it, but rejecting many of the main recommendations.

From Mike McClintock

Holy Moly that is a lot of work and information!! I didn't get through all of it, but here is a couple of my thoughts…

The direct residential tax on income seems to make sense as presented. Certainly more closely reflects ability to pay. I like the fact that renters will now have skin in the game in terms of Education spending as they vote on budgets.

My biggest concern would be the broadening of the sales tax. It seems to me that that would hurt the lowest income folks the most, particularly taxing groceries. The plan would be to redirect some of the revenue from that and direct it back towards low income households. If that indeed happened, it may work, but I would have serious concerns that over time, that revenue may get redirected elsewhere. The mechanism to direct the revenue to them is not defined, so hard to tell.

Lowering the sales tax to 3.6% sounds good, but the skeptic in me looks at that as opportunity for our legislature to raise it back up over time…

I think they did a great job identifying the benefits cliff and the unintended consequences of that. Would be great to have a solution there that helps people work their way to a better living without them having to worry about losing benefits and ending up worse off financially.

The other thing mentioned that I think would be terrible for lower income folks is the carbon tax. Low income folks aren't the ones that are going to be able to afford the electric/hybrid vehicles, and in Vermont you really need a vehicle. It would seem to me that those households would be harmed the most with this type of tax. Same talk as of sales tax of redirecting some of that revenue back to low income, but I personally am very skeptical that that would happen to the extent needed.

Anyways, those are my thoughts. I appreciate all their work. That is one tough subject to tackle!

Mike

From Christopher Plumpton

To the Members of the Vermont Tax Structure Commission:

I would like to provide some brief feedback regarding the Vermont Tax Structure Commission draft report.

I read through the draft report and was impressed with the breadth and depth of the report. It was well-written and well-reasoned; the use of a fair amount of data and charts was also helpful for the reader. I was unaware of some of the issues until reading the report. I found the recommendations to be quite compelling. I don't have any criticisms, and hope that the Vermont Legislature gives the report due consideration and adopts the recommendations.

Thank you.

Christopher Plumpton, CPA, MBA, CGMA