

The Commission appreciates the attention the Legislature and the Administration continue to give to guiding Vermont through the pandemic, and we agree that it should be the state's top priority this session. While we make recommendations for major changes to the tax structure, we have put two recommendations at the top of our list for two reasons: they can be initiated during these uncertain times, and they strengthen our ability to analyze, manage, and improve our tax structure.

The commission makes the following recommendations:

Recommendation 1: Undertake **Tax Incidence** Analysis in Order to Eliminate Tax Burden/Benefit Cliffs

Key components:

A. Undertake an ongoing study of income, taxes, and the transfers or benefits that help families meet their basic needs.

B. Find ways to lessen the steepness of the tax and benefit cliffs.

Although we think of taxes as payments to government, the redistribution of those payments, through benefits and credits, is crucial in determining the equity of the whole structure. A comprehensive and ongoing study of income, taxes, and the transfers or benefits that help families meet their basic needs would help future legislatures look at changes over time, recommend adjustments, and measure progress (4A).

As has been demonstrated in the Basic Needs reports, different family types have different needs. Looking at the combined effect of taxes and public benefits for different family types at different income levels would reveal where the family may go backwards—earning more in wages but losing a greater amount in benefits (aka the benefits cliff). This is devastating if it is unexpected; if it is anticipated, it is a disincentive to work. We need to make it a reality for people to work more hours, take on more responsibility in their job, earn more money, and see some improvement in their ability to make ends meet.

There is a crucial link between our other recommendation to broaden taxes—particularly the sales tax—and this recommendation to analyze the current distribution of taxes and benefits, and to remedy the unintended problems. A significant portion of the new revenue resulting from the broadened sales tax would be deployed to strengthen and rationalize the distribution system to support lower-income Vermonters, and to make sure that no one is harmed by the tax changes (4B).

Recommendation 2: Establish an Ongoing Education Tax Advisory Committee

The importance of education, the size of the education fund, the complexity of the education finance, and the fact that the yield(s) and rate(s) must be set annually lead us to the conclusion that a structured commitment to the management of the finance system is warranted.

We recommend an ongoing Education Tax Advisory Committee to monitor the system, to conduct analyses, 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. With time, study, and analysis the process would build the capacity of the members and strengthen the ability of the Legislature to manage the Education Finance system.

		Track 1: The three major taxes		Track 2: The overall tax structure
1st Biennium	2021	<u>Property tax/education financing</u> 1. Move to income rather than housesite value for all homeowners 2. List rental units separately in the Grand List. Compile/ analyze rent/income data.	Create committee to monitor Education Finance and recommend rates	Carry out Incidence Study for VT Tax and Benefits.
	2022	Migrate to funding education by taxing all residents on income	Move expenditures for mental health and staff health care from Education Fund	Overhaul of taxes/transfers for low-income Vermonters to: 1) eliminate benefits cliffs and 2) ensure that low-income Vermonters are not harmed by any of the changes we are recommending to the tax system.
2nd Biennium	2023	Consumption taxes: expand sales tax to remaining untaxed consumer transaction.	State to take over appraisal of large commercial properties	
	2024	In lieu of including health care in consumption taxes: extend provider tax to remaining untaxed provider categories; lower and harmonize rates.	State support of professional local assessment administration	Investigate taxation of net worth/ assets/wealth
3rd Biennium	2025	Income tax		If taxing wealth is viable, set up reporting requirements for disclosure
	2026			If viable, incorporate a wealth tax into tax structure