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1.1 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?

1.2 In addition to tax preparers charging sales tax, does this mean that bookkeepers will have to charge sales tax too?

1.3 If we used the “deemed sale” type of tax on death, would this apply to everyone who dies in Vermont?

Yes, it does mean that college tuition will be subject to the sales tax. We recommend mechanisms to protect low-income Vermonters from any additional financial burden from this or any of our other recommendations. We also note that the affordability of college is a huge barrier that we as a society need to address. However, since we are recommending a sales tax of 3.6%, the exemption from the sales tax does not make education meaningfully more accessible, and the inclusion of education in the sales tax will not make education meaningfully less accessible.

Yes, bookkeepers will have to charge sales tax too.

Regarding the “deemed sale” type of tax, we would anticipate there would be a floor to the estates that are taxable under this system. That would be determined if the Vermont Department of Taxes does a study based on historical data. Unfortunately, we did not have access to be able to do these types of modeling due to the length of the legislative session and the pandemic. Our charge was to look for a sustainable, fair and equitable and somewhat simple structure overall that is forward looking ten to 20 years.

- 2.1 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.
- 2.2 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.
- 2.3 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.
- 2.4 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.
- 2.5 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.
- 2.6 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.
- 2.7 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.
- 2.8 The current income level of about \$140,000 for “income sensitivity” is ridiculously high.
- 2.9 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.
- 2.10 We have a fail in public policy where homeowners whine to their representatives about taxes instead of addressing school costs in a more realistic manner. No one will control school budgets until they feel the tax impact which income sensitivity does not allow them to feel.
- 2.11 This is a huge negative impact to high income earners if it’s anything like proposals from the last legislative session.

- 2.12 Raising taxes on high income earners will not bring good paying jobs to Vermont as many potential employers just will look elsewhere.
- 2.13 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.
- 2.14 If you really want to increase the base, that means more taxpayers not taxing those that are doing well more.
- 2.15 You should look at incentivizing businesses to relocate to Vermont or to do start-ups here. More employees equals more income tax revenue.

We recognize that the Legislature may set sales tax (or any tax) rates to any level, and may change the rates at any time. We hope the structure we recommend leads to more fairness, more sustainability, and more simplicity regardless of the level of revenue the legislature chooses to raise with it. In particular, a broad sales base is more fair, more stable, and simpler than a narrow one at any sales tax rate.

As noted in the report, defining “casual” is a little tricky. We support continuing the exclusion of casual sales from the sales tax. Someone who gives a lesson or two on the weekends to the neighbor’s kids strikes us as engaged in a casual activity. Someone who teaches for two to four hours a day, five days a week, does not. We hope that simplifying the tax, along with the advances in tax software, mean that it will keep getting easier to collect and remit the sales tax accurately for all businesses of any size who sell goods and services to consumers.

Your point regarding the impact of taxing services on seniors is true, and it is also true that services increasingly make up a bigger and bigger part of the economy across all age groups and income levels. We are clear in our recommendation that any of these changes be taken only in the context of a program to ensure that low-income Vermonters don’t bear any additional financial burden, and this includes low-income seniors.

Our recommendation is to lower the provider tax rate on hospitals, nursing homes, home health services, and intermediate care facilities. We recommend extending the provider tax to the providers that do not currently pay the provider tax. It is also true that provider taxes do not get passed on to all patients equally. All in all, we are recommending that the total provider tax revenue stay level, and that it simply be distributed across more provider classes.

We agree that the State currently taxes some things that cause carbon pollution, and believe that’s different from a carbon tax applied equally to all sources of

carbon pollution with a goal of causing the price of those things to accurately reflect their true cost. We agree that continuing solar and wind incentive credits is helpful, and indeed we make the general argument that using the tax code and other policy measures to reduce the up-front capital cost of converting to zero-emissions vehicles and zero-emissions home heating and clean energy generation at the level of individual buildings and neighborhoods is appropriate and important.

Regarding the “deemed sale” type of tax, our recommendation is to ask the Legislative Joint Fiscal Office and/or Vermont Department of Taxes to study this, and the timeline is in the third biennium. Our charge was to look to the future, ten to 20 years, and this is an idea that has been discussed. We anticipate a floor to the applicability of this tax, which would be determined after modeling was done.

We agree that the estate tax is working, understandable, and not overly burdensome in its current form, which is why the timetable is so far out. Also, there has been a fair amount of discussion regarding elimination of the step up in basis at death, which is an absolute game changer to the estate tax law as it is now written. As a forward-looking report, in light of this and the possible rollback of the lifetime exemption, this could be a fair and equitable alternative. Depending on the floor on applicability, this form of taxation may not result in higher estate taxes because it is a deemed sale, basis will reduce the taxable estate, and it will be taxed at the income tax rate. The current top marginal income tax rate is just over half of the current estate tax rate.

The main objective of our recommendation to change the homestead education tax is to make it fair and simple. We focus on determining each resident’s fair share, and we do away with the income sensitivity adjustment. Yes, people will continue to pay the education tax, and they will need to budget for the annual expense as they do now. The chart on [page X](#) will give you an indication of the current homestead average education property tax paid by different categories of earners. Although the parameters for the recommended income-based tax have not been set at this time, you can get an idea of the income categories that would likely see an increase or decrease.

We have received several comments suggesting state spending is too high and/or increasing too rapidly. While we understand the concern, our assignment is to look at the tax structure itself and not to determine the level of state spending.

We can see where the broadening of the sales tax base would raise taxes on high earners as they have the ability to consume more. As far as the education income tax, it replaces the current homestead property tax so it is not an additional tax. An example, a couple that is living in say, Essex Junction, two earners living in a \$350,000 townhome and a combined income of say, \$200K, would not see any increase in their education tax. As far as the wealthy who have second homes in Vermont, they will continue to be subject to the non-homestead property tax. Unfortunately there is more to the question of locating a

business in Vermont that is outside the scope of our charge such as infrastructure, transportation availability, etc.

Regarding the estate tax recommendation, depending on the floor for applicability that is chosen, it could be that successful Vermonters will not see an increase since it will be taxed at the income tax rate of 8.75% versus 16% and as a deemed sale, the tax basis of the decedent reduces the amount subject to the estate tax. No income tax changes were recommended that would increase taxes on successful Vermonters.

Incentives for business start-ups and relocation is certainly a way to attract businesses to locate in Vermont. Unfortunately, as that is more of a policy decision to be put forth by the Vermont Agency of Commerce and Community Development and not solely based on the tax structure itself, it is beyond the scope of this Commission.

We agree that adding more taxpayers is key to expanding the base, and we believe that our recommendations will make Vermont a more attractive place for businesses, remote workers, families, and individuals. We also note that Vermont's tax code is only one of many factors that determine whether Vermont is a good place for a particular business or family.

- 3.1 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.
- 3.2 Restructuring the Homestead Education Tax is an important conversation that should accompany a thorough review on education spending. 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.
- 3.3 A broader sales tax is particularly difficult given that New Hampshire has no sales tax at all.
- 3.4 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.
- 3.5 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.

We agree with the suggestion to delay major changes beyond this year. That is why we structured the timeline the way we did. We also feel the legislature is empathetic to the economic times and will respect this.

We agree with the need for an incidence study as well as a thorough and ongoing review of our education system (recommendations 1 and 2). We understand your concern about education spending, but the spending level is not this commission's scope.

It is our sense that consumers are more aware of the sales tax rate than they are of which categories are included or not included, so it is our expectation that by lowering the rate, we will reduce our competitive disadvantage with New Hampshire (and gain competitive advantage versus New York and Massachusetts).

We agree that part of the increase in remote work will be permanent. We hope that Vermont's attractiveness as a place for remote workers to live and raise their families will be enhanced by one of the lowest sales tax rates in the country, and a significantly lower property tax burden as well. We hope that our recommendation to move a portion of education funding to an income-based tax will not be a deterrent, as young families moving here and purchasing their first

home will be earlier in their earning curve, and therefore find an income-based tax less burdensome than a property-value-based tax.

We agree that studies on your two additional issues would be beneficial. Unfortunately, with our primary focus on education funding and consumption taxes, there was not time to look at the throwback rule. As for the impact of the three-factor formula, we were told that the legislature is looking at the apportionment factors. Because of this, we did not put it in the report although we did look at it. We felt given the information, it would be duplicative to put in our report. The legislature is looking for new ideas, not ones they have already discussed.

4.1 People who have children should bear the brunt of the education cost as opposed to just asking those who have the most income to bear the brunt of it.

Vermont has long considered public education to be a fundamental right, available to all of Vermont's children. The Brigham decision refers to "the right to education as integral to our constitutional form of government" (Brigham v. State. 96-502, 1997). The first sentence of Act 60 is: "The right to public education is integral to Vermont's constitutional form of government and its guarantees of political and civil rights" (Vermont Act 60, 1997, Sec. 2). Funding for public education in Vermont comes from many sources including the non-homestead education property tax, the locally voted homestead property tax, the sales and use tax, the Purchase and Use Tax, the Lottery, the Meals and Rooms Tax, federal government, and a few other programs.

We would also point out that whether or not one has children has no bearing on one's responsibility to help pay for the school system, just as people who never use state parks are obligated by their Vermont residency to help pay for the state parks.



- 5.1 The absence of illustrative numerical examples and charts that would allow a reader to compare the implications of the recommended homestead education tax approach to that of the current framework undermines the validity of those recommendations.
- 5.1a Why does the TSC not use the Education Fund Outlook framework to show what the various rates might be in different scenarios? A past year could be used for which all data is available.
- 5.1b What might be a possible average education income tax rate to raise the same amount of tax revenue as that raised by the net homestead tax in the chosen illustrative year? Alternatively, what would be an appropriate rate and how much would it raise? Examples illustrating 2%, 2.5% rates would be useful, bearing in mind that this would be an average since the set base rate would vary with spending levels approved by local voters.
- 5.1c Why didn't the TSC provide examples of how education tax liabilities would change under the recommended regime compared to the current regime for individual taxpayers in particular situations?
- 5.2 Given a certain average education income tax rate, what might the Non Homestead property tax rate be, when the additional grand list value from the formerly Homestead property is incorporated? What balance or relationship would there be between the amount of revenue to be raised from the Education Income Tax and that raised from the Non Homestead property tax?
- 5.3 I don't understand the implications of shifting Homestead property beyond the 2 acres around the house site to the Non Homestead category for a fixed statewide tax.
- 5.3a What is the amount of the value of the Grand List property that is being switched to the Non Homestead property category –the property beyond the house site and 2 acres? If a house is on a 10 acre lot, and all of it is developable, the 8 acres re-classified from HS to NHS might amount to a significant value, and therefore potential change in tax liability. How much is this and how is it distributed across the income distribution? Also, the shift of this property to the statewide tax reduces cost control as the tax is no longer voted by local districts.
- 5.3b What are the equity or distributional issues involved in changing the taxation of that previously Homestead property to the Non Homestead category? In general, the Non Homestead property tax rate has been higher than the AVERAGE Homestead property tax rate. In the kind of illustration that should be done of this recommendation, does the NHS property tax rate come down, or go up, or stay the same? If there is an

example in which the same amount of revenue is raised on the new HS income tax as the net amount from the net HS property tax under the current framework, aren't there equity issues if the formerly Homestead property will now be taxed at a higher rate than before for residents of many towns? I believe that there may be Towns for which under the current system the NHS rate is actually lower than the HS rate. Does it make sense that those property owners get a tax cut?

- 5.3c Why didn't the TSC provide expanded versions of Figures 13 and 14 to show the distribution of ownership of Homestead property beyond the house & 2 acres and in Figure 15 differently colored bars showing the total homestead taxes paid when the current taxes on these properties are incorporated?
- 5.4 What are the implications of going from Household Income to Adjusted Gross Income in terms of what is taxable as the best representation of ability to pay?
- 5.4a Under the proposed system, would a person still declare the homestead and list the members of the household, who are then taxed on their individual AGIs separately through billing by the tax department?
- 5.4b How do the tax liabilities under the new system with AGI compare to those under the current system of property tax credits for those that are eligible using HHI? The TSC should provide illustrative examples. There might be differences that might be arbitrary or might be desirable.
- 5.4c Why didn't the TSC show Figures 13, 14, and 15 with household AGIs instead of HHI, or is that impossible from a data perspective? It would be interesting to see how the numbers would be different both under the existing regime and under the proposed regime.
- 5.5 The current system disincentivizes shared housing. What will be the implications of the change from Household Income to Adjusted Gross Income on this disincentive? Is there still a substantial incentive for Vermonters NOT to share their home with others? Or even to leave out of their list people who are actually in their household?
- 5.6 The TSC asserts that any problems of timing related to school budgets and the variable education income tax rates for voters can be resolved. I would like to hear confirmation of that from those who would be involved.
- 5.7 I am deeply disappointed that the TSC passes on the topic of what costs should be covered by the Education Fund. The issue of what is to be financed should be central to education finance, not just which taxes to use. At the very least the TSC might have recommended that the Education Fund Outlook should in some manner consistently list the costs of Current Use, of the Tax Increment Financing, of the Act 46 incentives while they last, and of

any other hidden costs so that legislators and voters know what is being financed.

5.8 The recommendation of shifting to an education income tax eliminates the apparent annual cost of the PTC, although there will still be an internal shift in costs with that change even though it would be disguised. The TSC has not provided an estimate of that shift in tax burden.

5.9 I continue to believe that an approach that imposed a fixed progressive education income tax surcharge within our existing income tax system, that retained a variable and voter determined homestead property tax at a lower level, and that removed from the Education Fund any and all costs not directly related to education and directly voted on by local district voters might be superior to that proposed by the TSC.

Yes, the report does not have enough information to enable an accurate comparison between the recommendation and current law. There was not staff capacity, during the COVID emergency, to do extensive modeling and analysis. The issues raised in this letter are exactly the types of analysis that should be done so that the Legislature has a clear picture of the implications of the recommended changes.

Recognizing the lack of data, we can offer some general responses to some of the comments and questions.

The primary residence and the < 2-acre site account for about 95 percent of the value of what is currently Homestead Property; additional acres surrounding the residence account for the remaining five percent. Under our recommendation, this five percent would be subject to the uniform non-residential rate rather than the locally voted current homestead rate. On average, the current non-homestead rate is slightly higher than the homestead rate, but this varies from district to district and from year to year, depending on the district's spending.

The reason for basing the tax on Adjusted Gross Income (AGI) rather than Household Income is really simplicity. Most people have a good idea of their AGI, so they would be able to estimate their tax bill when they consider the school budget. The Household Income form is complicated and error prone. Finally, if renters pay the education tax, there would be no reason to compile all the people living in the house in order to pay the school tax. Your education tax would not be linked to your house. In terms of tax shift, AGI is more often lower than household income at lower-income levels, while AGI is usually close to household income at higher income levels.

The plan you favor, a fixed progressive education income tax surcharge and a variable voter determined homestead property tax at a lower level, is intuitively appealing to us. The main issue, though, is that the regressivity of the property tax is difficult to overcome. The regressivity can be reduced by reducing the reliance on the property tax, as suggested, but it is still regressive. Since the

locally voted tax is really the shock absorber in the system, it has to make up the difference when other funds fall short. And, it is responsible for the distribution of education funds to districts. A regressive tax is probably the least appropriate tax to use in this role.

We agree that hidden costs should not be hidden. Property Valuation and Review annually reports statistics on the Use Value Appraisal Program showing, town by town, the revenue that would have been raised absent the program. We agree that it would be helpful to give a more detailed accounting of TIFs and the Act 46 incentives. But perhaps not in the Education Fund Outlook.

But we do not agree that the Current Use Program should be considered an expense of the Education Fund. Act 60, in establishing the Education Fund in 1997, stated that “all revenue paid to the state from the education property tax under chapter 135 of Title 32” should go into the Education Fund (Sec. 18).

Act 60 added this Chapter 135 of Title 32, specifically listing the components of the Education Grand List to include the fair market value of all property that is required to be listed at fair market value and the use value established under Chapter 124 of Title 32 (Sec. 45). It was clear that the use value was the correct value on which to tax the enrolled land for education.

- 6.1 This report comes at the start of a new Presidential term, with a President with dramatically different perspectives on the needs of the country and the legislative ability to shape tax policy to meet that perspective. Vermont would be well-served to take a wait-and-see approach to tax legislation, at least until the second half of the legislative biennium, pending the health and strength of the economy.
- 6.2 Regarding the proposal to replace the homestead education tax with an income-based tax on all residents - From an economic sense, there needs to be some tax on homestead property to create rent, and therefore opportunity cost. Without such price-signals, individuals do not have incentives to find efficient use of the property or “right-size” properties. Vermont is one of the most “over-housed” populations in the country, perhaps because we do not efficiently or effectively create the proper price signals.
- 6.3 It would seem that the Commission took the position that income is a better indicator of a person’s wealth than property... Making an assessment of a person’s wealth based on income is still not as helpful and will often serve those well situated in life to the detriment of those who are trying to accumulate wealth through high incomes... The paradox here is that a person

- of wealth could invest that wealth in the property only to then not be taxed because they have the privilege of choosing to not fully participate in seeking taxable income, unlike their less wealthy counterparts who need income to pay down the balance of their property in an attempt to accumulate wealth.
- 6.4 An education fund supported by an income and sales tax would be highly susceptible to the economic conditions of the day, and in a typical recession (reminder, our current recession is far from typical) both revenues would be greatly depressed.
- 6.5 Moving toward a tax on services would be a massive administrative change, both for the state and for Vermont small businesses. The move would require an expansion of the Vermont Tax Department to help Vermont businesses, who have never handled trust taxes, understand their obligations and inevitably drive compliance when many do so incorrectly due to the complicated nature. In addition, these service-based small businesses, that likely operate on slim margins, will now have to dramatically rethink how they do business and a possible need to acquire never previously necessary bookkeeping services. Just imagine how difficult this change might be for sole proprietors, of which the state has many doing everything from plowing snow from driveways to carpentry to software development.
- 6.6 Humans follow price signals, adapting behavior to minimize the impact of the added cost, and we should have a much, much more exhaustive discussion around what the behavioral impact might mean for a low-income person whose groceries would under this proposal be taxable. The marginal impact (moving from 0 to 3.6%) of this increase is massive for many.
- 6.7 One issue with this proposal seemingly neglected by the Commission is the nexus of the Vermont sales tax with the numerous local option taxes. Municipalities may find themselves bringing in more revenue than they possibly expected, and thus having a detrimental effect on their economy. Additionally, because the local option tax is a fixed, added percentage on top of the state tax rate, the marginal impact of such a change is even higher on populations that are financially at risk from such a change.
- 6.8 The U.S. Treasury's proposed regs re a workaround to the TCJA SALT cap for some businesses provides an opportunity to extend a benefit to struggling small businesses, at no cost to the state of Vermont, while also reducing the cost of administration in some instances for the Department of Taxes. Some New England states already have enacted legislation under which noncorporate businesses can pay state income taxes at the entity level rather than at the individual level on their owners' returns. Specifically, under this regulation, the SALT cap would not apply to income tax payments made by Partnerships and S Corporations, and to capitalize on this, Vermont would need to allow for the option for state income taxes to be paid at the entity-level.

- 6.9 The Estate Tax is a large component of long-term planning for individuals with the means to leave a jurisdiction. Too much uncertainty and activity in such an area sends the wrong message to a highly mobile demographic.
- 6.10 With regard to employee health insurance, we respectfully disagree for similar reasons, as these costs are another component of the total remuneration of our state's educators, and therefore an important component of the total cost of delivering education in this state. Thus the revenue to pay for that cost must be part of the education fund and to do otherwise is to deceive voters of the true cost of these services.
- 6.11 Regarding using tax policy to address climate change, Vermont boasts one of the first efficiency utilities in the country and has a robust Tier-III system to its Renewable Portfolio Standard. Before anything new is created, it would behoove the state to see if the resources in those programs need to be merely re-directed. We feel it is likely those efforts are adequate for the task.
- 6.12 In addition to taking care to prevent any such price on carbon from being regressive, Vermont cannot take such a trajectory alone must be done as a regional or national effort. Regional solutions are needed for this global issue, as local carbon pricing would likely drive economic inequality within the state or achieve a false sense of emission reductions as Vermont's environmental externalities would just adjust to this price signal by moving into neighboring states.
- 6.13 It might be best to continue exploring paying for transportation infrastructure through a tariff on electric charging. A large percent of the fuel tax is paid by people visiting from out of state.

Our charge was to look at the tax structure in a sustainable way forward looking ten to 20 years. It is up to the legislature to decide what approach they will take given the new presidential term. That is a policy decision, and policy decisions were not within the scope of our report.

As you suggest, net worth is an important part of a household's ability to pay. We agree, in concept, with using a more complete accounting of ability to pay in order to direct and evaluate the equity of our tax structure. However, we have not found a good way to do this, so we are recommending further research and reporting to help us understand the different ways to define ability to pay, how to measure it, and how our tax structure can be aligned to fairly tax based on the ability to pay.

We certainly agree that a regional, or national, or global approach to reducing carbon are preferable—not just economically, but also ecologically.

We understand the logic that employee health insurance is part of the employee remuneration, and therefore part of the education budget. Although we're all used to it, if you take a step back, basing access to health care on employment is strange and incoherent – we don't pay for employees' car insurance or home

insurance, so why do we pay for health insurance? Health insurance for teachers is not an inherent part of the cost of education, the way a teacher's salary is. Rather, it's an odd, unintended consequence of price and wage control decisions made many, many decades ago in Washington, DC. And the rapid growth in health care costs makes it seem as if education costs are going up much faster than the actual growth rate of the education part of education costs. If we are looking to the locally voted education tax as a way for voters to control spending, we feel we should remove this cost that the local voters have no control over.

It is our expectation that by including essentially all goods and services outside of health care in the sales tax, it will become less complicated to comply. While any business that has not previously collected sales tax will have to learn a little bit, we take the fact that thousands of small businesses around the state calculate, collect, and remit sales tax without much trouble as evidence that this is not an undue burden.

We condition our recommendation to include groceries in the sales tax on a mechanism being put in place to protect low-income Vermonters, and we have used a definition of low-income that includes about 40% of the population.

Thank you for your comment on local options taxes. We agree we did not adequately address this question in the first draft, and have discussed it at greater length in the final report.

The study of an entity level tax election is one of the Commission's recommendations. It could have merit in the long-term. The cap on State and Local Tax deduction at the federal level as an itemized deduction has been discussed heavily at the federal level as far as repeal. Even if it is not repealed, it will sunset at the end of 2025, so the Commission did not think a major change to pass through entities specifically for this purpose would fall within the principles of a good tax structure.

We agree with your suggestion to continue exploring paying for transportation infrastructure through a tariff on electric charging and have added it to our report.

[Note: Number 7 removed as it was a clarifying question]

8.1 Burlington fails to properly assess its commercial property values, particularly multi-family and large residential properties. Several multi-family properties are assessed at multiples below the last, and current, sales price. 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.

8.2 Tax-exempt properties should contribute to education funding, either by classifying the school budget as something other than a "tax" or by only

exempting a portion or set amount of land associated with tax-exempt entities (similar to the 2-acre limit on homesteads).

- 8.3 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.
- 8.4 The commissioners should expand the definition of "compensation."  
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.
- 8.5 If the school funding is switched to income from property tax, towns 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.
- 8.6 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.

Although we think we are funding education through our school tax bill, that is actually only part of the picture. Funding for public education in Vermont comes from many sources including the non-homestead education property tax, the locally voted homestead property tax, the sales and use tax, the Purchase and Use Tax, the Lottery, the Meals and Rooms Tax, federal government, and a few other programs.

The definition of compensation that states, including Vermont, use is the federal definition. If Vermont were to take on its own definition, it would be subject to legal challenge which is why the Commission did not explore this option.

We have received several comments suggesting that local property taxes will go up if school funding is moved off of the property tax. Yes, this is possible, but it is also possible for the voters to keep municipal budget increases in line. We doubt that voters will be fooled into thinking their education tax has disappeared.



- 9.1 We recommend a review of when people need to pay taxes in Vermont if they are working remotely for a non-Vermont employer, giving particular consideration to the extraordinary circumstances that spurred people to work remotely during the COVID-19 pandemic.
- 9.2 While exceedingly difficult to change the list of those who benefit from a tax exemption, the reasons for that special treatment and the impact on the remaining pool of taxpayers should be revisited on a regular basis. The 2019 Tax Expenditures Report stated that 519 parcels claimed the public, pious, or charitable exemption. The total value of the properties exempted equaled \$409.8 million, resulting in a tax expenditure of \$6.44 million in that year. Using a substantially different methodology and including both 3,234 tax-exempt parcels of all sorts (2,167 claiming the public, pious, and charitable exemption), and parcels subject to alternative taxing structures or stabilization agreements, property tax expenditures in the current report are projected to total \$102,829,000 in FY22. On the municipal side at least, many of those organizations utilize municipal services in the same manner and to the same extent as all the remaining property taxpayers.
- 9.3 In recognition of the need to broaden the tax base beyond property taxes at the local level we recommend that in addition to revising the homestead property tax on the education side, you recommend that in those cities and towns whose voters have approved a one percent sales, meals and rooms, or alcohol, local option tax, the tax [on cannabis] become effective upon that approval. Last session, we strongly supported a two-percent local option sales tax on the retail sales of cannabis products, however that provision supported by the Senate, was opposed by the House and is not in the as-passed version of Act 164.
- 9.4 Candidates for revision in order to contribute to transparency would be the coefficient of dispersion, the effective tax rate, and the definition of homestead as it relates to a portion of a home used for business purposes in the new remote working post-COVID world.

The issue of where remote workers pay taxes is being reviewed by every state as well as the Multistate Tax Commission and is a short-term event. The Commission would assume that the Legislature will address this as part of their overall addressing of the pandemic.

We support the use of the local option tax, and agree that it should apply to cannabis. If there are compelling reasons to tax cannabis at a higher rate than other things, we would prefer an excise tax, in order to keep the sales tax and local option tax as uniform and simple as possible.

10.1 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.

Thanks for the question. Regarding rooms and meals, we specifically warn against double taxation. The Rooms & Meals tax is higher than the sales tax and covers both the goods and the services delivered, so these would not be subject to the sales tax in addition. Regarding to online software: as more and more of what we do moves online, it is important that this activity be included in the sales base. Again, we want very much to avoid double taxation, so we'd expect that services taxed under the telecoms tax would not be taxed under the sales tax.

- 11.1 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.
- 11.2 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.
- 11.3 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.
- 11.4 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.
- 11.5 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.

Thank you for your suggestion for a state government performance review, and for your recognition that making recommendations about what state government should and should not do, and how well it’s doing, was outside of our assignment.

We were asked to consider how climate change might impact Vermont’s tax system over the next 20 years. That investigation makes it clear that climate change is bad for Vermont’s economy in many ways, and worse for the national and global economies. We believe the most financially responsible response to that threat is for every country, and every state within the U.S., and for every town within Vermont, and every business, non-profit, church, building owner, and family, to move as quickly as possible to clean transportation, clean heating, and clean energy production. Our recommendations are consistent with that view.

To take the point about the Legislature lowering the rate, and then having the rate “rush back up to six and then 7 percent” first: We recognize that the legislature may set the rates to any level, and may change the rates at any time. We hope that the structure we recommend leads to more fairness, more sustainability, and more simplicity regardless of the level of revenue the legislature chooses to raise with it. In particular, a broad sales base is more fair, more stable, and simpler than a narrow one at any sales tax rate.

In response to the points raised in your article:

*First, the legislature would have to decide which of 164 different services are to be taxed, and which are to be exempted. (McCloughry, 2015)*

We recommend extending the sales tax to all consumer-level services except health care, so hopefully the process of what to include and what to exempt will not be lengthy or complicated.

*[B]arbers, cosmetologists, cab drivers, electricians, plumbers, painters, carpenters, truckers, butchers, architects, lawyers, auto and truck mechanics, small engine repair, excavators, seamstresses, veterinarians, advertising services, computer repair, gunsmiths, custom farm and garden services, snow plowers, tattoo artists, musicians, and many others.... faced by a sales tax on services, would face a daunting record-keeping problem, and the prospect of heavy handed state tax audits based on the principle of “guilty until proven innocent.” (McCloughry, 2015)*

We note that every sole proprietor making bracelets or skateboards or bumper stickers currently collects and remits sales tax, and in almost 40 public hearings over two years, we heard no testimony and received no public comments from anyone complaining either that the sales tax was too hard to compute, collect, or remit, or that the state administration of the sales tax was “heavy handed.” We further note that the submitted article was written in early 2015, and in the almost six years since, the technology for calculating, collecting and remitting sales tax has advanced a great deal, reducing the administrative burden on sellers.

*Economists agree that sales taxes are regressive. Liberals would insist that broadening the sales tax to include services purchased by lower income families requires “targeted credits” or “rebates to protect the poor.” Of course these credits and rebates eat into the revenue. (McCloughry, 2015)*

Agreed on all points. Our calculations include returning the sales tax on these categories to the lower 40% of Vermont households by income.

*The sales tax on services advocates invariably put forth the idea that broadening the sales tax might allow dropping the present 6% sales tax rate to 5 % or 4.5%. This is a pathetically hollow argument.*

*Reducing the sales and use tax rate depends on how much new revenue can be swept in from taxing a broad range of services. Every politically-won exemption reduces the projected revenue and, since the whole idea is to extract more revenue, that requires pushing the rate back up again. (McClaughry, 2015)*

We do indeed advocate lowering the rate significantly, and hope to avoid “politically-won exemptions” by recommending the sales tax apply to all consumer-level services except health care. If there are no exemptions or exclusions other than health care, the low rates can persist.

*This makes a crucial point: once a tax is on the books, legislators can always nudge the rate up, and further broaden the base to affect more taxpayers, without facing a public uproar. (McClaughry, 2015)*

As noted above, we recognize that the legislature may set the rates to any level, and may change the rates at any time. We hope that the structure we recommend leads to more fairness, more sustainability, and more simplicity regardless of the level of revenue the legislature chooses to raise with it. In particular, a broad sales base is more fair, more stable, and simpler than a narrow one at any sales tax rate. While we recommend lowering the rates substantially, the recommendation remains valid as a way to improve the sales tax’s fairness, sustainability/stability, and simplicity.

We have received several comments suggesting that the demands for state spending are ravenous, although perhaps the wording was slightly different. While we understand the concern, our assignment, as you noted, is to look at the tax structure itself and not to determine the level of state spending.

There has been a great deal of discussion regarding wealth taxes even here in the United States. We would be remiss in not mentioning it. However, we specifically state we are not recommending a wealth tax in the report.

We were intrigued by the possibility of a different approach: a single-state consumption tax plan. We even read *Progressive Consumption Taxation* by Robert Carroll and Alan D. Ward. When you figure it out, please let us know.

12.1 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.

12.2 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.

12.3 The carbon tax would be terrible for lower income folks who can't afford the electric/hybrid vehicles, and in Vermont you really need a vehicle. 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.

We agree that protecting low-income Vermonters now and over time is of paramount importance.

As noted in our responses to other feedback above, we recognize that the Legislature may set the rates to any level, and may change the rates at any time. We hope that the structure we recommend leads to more fairness, more sustainability, and more simplicity regardless of the level of revenue the legislature chooses to raise with it. In particular, a broad sales base is more fair, more stable, and simpler than a narrow one at any sales tax rate.

We acknowledge that returning revenue through a credit is a risk, particularly over time, but we feel that the benefits of the credit are clear enough that we need to make sure it is adequate, put it in place, and protect it.

14.1 We recommend including a recommendation related to the long-term funding of early childhood education in our state. This year, we are recommending to the Vermont Legislature that the state explore tax options, such as a payroll tax, to provide the stable, long-term funding needed to provide equitable access to high-quality early childhood education. We hope that you will join us in this recommendation.

We recognize the importance of affordable, available, high-quality childcare to Vermont's children, Vermont's parents, Vermont's economy, and Vermont's future. For this reason, we have added a section on the role that affordable childcare plays in expanding the income tax base to Chapter 5 of our final report.

Our commission was tasked with recommending changes to how the state funds its activities. We did not have a mandate to make recommendations about spending. If the Legislature decides to implement a state-wide universal childcare system, the Legislature will then have to decide whether to reallocate existing funds or to seek a source of additional revenue. We do note that our goal was to recommend a system that would be more fair, more sustainable/stable, and simpler regardless of the level of revenue it is call upon to produce.

- 15.1 The fact that the tax infrastructure required to collect non-homestead taxes will remain the same does nothing to reduce the cost and challenges to collect this revenue. This also creates the appearance that non-homestead property owners are being singled out, because they will be the only people paying a property tax for education services that they do not utilize.
- 15.2 The balancing act required to offset the regressive nature of a broader sales tax with other taxes is difficult at best and laden with unintended consequences at its worst. As an example, local option taxes will have a direct impact on the proposed sales tax rate and will negate the savings that the Commission hopes to accomplish.
- 15.3 The Realtor® association has always opposed a sales tax on services that apply to a real estate transaction. These services include and are not limited to real estate commissions, legal fees, appraisers, heating service, lead and asbestos mitigators, chimney sweeps, septic service, engineers, consultants, land planners, movers, trash haulers and construction contractors. We believe that the state already receives substantial revenue from the real estate transaction through the Property Transfer Tax and to tax the services required to complete the transaction is double taxation.

It is our expectation that the local option tax will undergo two changes: first, it will go from being 1% as part of a 7% sales tax to being 1% as part of a 4.6% sales tax; second, the local option tax will now be applied to the same broader base as the sales tax.

We note that the property transfer tax is at a substantially lower rate than even our proposed reduced sales tax rate. It is also true that many of these services, while sometimes used at the sale of a property, are most commonly used on other occasions. We do not see any principled reason to charge a sales tax for the parts needed to fix a septic tank, and not on the labor required to fix it. Finally, on a \$500,000 home sales, the property transfer tax is  $(.005 \times \$100,000) + (.0145 \times \$400,000) = \$500 + \$5800 = \$6300$ . Even if all those services and the sales tax on services we are recommending made up \$25,000 of the \$500,000 sales price (ie, the services were \$24,131 and the 3.6% sales tax on them was \$869), even at the higher rate of 1.45%, the property transfer tax on the sales tax would amount to \$12.60 of the \$6300 in property transfer tax, which we do not see as burdensome, distortive, or meaningfully unfair.