Public Feedback on Tax Structure Commission Draft Final Report

Public Feedback and Commission Responses, as Referenced in Appendix 1-3 of Final Report

Emails and Commission Responses

Nine Vermonters sent feedback on the Commission's draft report via email. Their feedback, as well as the Commission's responses, can be found in this document below.

- **Debra Behm**, CPA, CFP
  - Feedback – Commission response
- **Joseph Bilodeau**, CPA CGMA
  - Feedback – Commission response
- **Leslie Blow**
  - Feedback – Commission response
- **Gloria Flinn**
  - Feedback – Commission response
- **Kristine Lott**, Mayor of Winooski
  - Feedback – Commission response
- **John McClaughry**, Ethan Allen Institute
  - Feedback – Commission response
- **Mike McClintock**
  - Feedback – Commission response
- **Christopher Plumpton**, CPA, MBA, CGMA
  - Feedback – Commission response
- **A town lister**
  - Feedback – Commission response

Memos and Commission Responses

In addition, six Vermonters submitted feedback on the draft report via memos. Those memos are posted with the Commission's web resources and the Commission's responses can be found in this document.

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

Email 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®

Commission Response to Debra Behm

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.

Email 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

Commission Response to Joseph Bilodeau

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. Figure 15 on page 51 of the final report 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.

Email 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

Commission Response to Leslie Blow

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.

Email 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

Commission Response to Gloria Flinn

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.

Email 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

Commission Response to Kristine Lott

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.

Email 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.

Commission Response to John McClaughry

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 attached article]:

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

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."*

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.*

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.

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.

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.

Email 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

Commission Response to Mike McClintock

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.

Email 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

Commission Response to Christopher Plumpton

Thank you for reading our draft report and for the words of appreciation!

Email from a Town Lister

Note: In addition to the feedback above and the memos below, there was one item of feedback impacted by a misunderstanding of the Commission's proposal. The Commission decided to post it along with an explanation below in case the clarification is helpful to other readers.

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.

Commission's Clarifying Response:

Thank you for commenting on our draft report. And for reading it!

We think there is a misunderstanding that we would like to clear up. There would be two categories of education tax:

1) For residents, there would be an income-based education tax. This tax would be in lieu of an education property tax on their primary residence (defined as the house and up to 2 acres).
2) All other property (including the entire value of second homes) would still be subject to an education property tax.

There would be no change in the municipal Grand List, so all residences would continue to pay municipal taxes on their listed value.

Memo from Betsy Bishop

[Memo from Betsy Bishop and the Vermont Chamber of Commerce]

Commission Response to Betsy Bishop

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 will be able to count on their education tax moving in parallel with their income, which they may find more favorable as we expect property values to increase rapidly in the next ten years.

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.

Memo from Cynthia Browning

[Memo from Cynthia Browning]

Commission Response to Cynthia Browning

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.

Memo from Austin Robert Davis

[Memo from Austin Robert Davis and the Lake Champlain Chamber]

Commission Response to Austin Robert Davis

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.

Memo from Karen Horn

[Memo from Karen Horn and the Vermont League of Cities and Towns]

Commission Response to Karen Horn

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.

Memo from Aly Richards

Memo from Aly Richards and Let's Grow Kids

Commission Response to Aly Richards

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.

Memo from Peter Tucker

[Memo from Peter Tucker and Vermont Association of Realtors]

Commission Response to Peter Tucker

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 sale, the property transfer tax is (.005 x $100,000) + (.0145 x $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 (i.e., 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.