Final Report:
Blue Ribbon Tax Structure Commission

Prepared in accordance with
Act 1, Sec. H. 56 of the 2009 Special Legislative Session

Final Report
January 13, 2011

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Act 1, Sec. H. 56
of the 2009 Special Legislative Session

Prepared by Vermont's Blue Ribbon Tax Structure Commission

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PREAMBLE

Freedom and Unity

Freedom and Unity. Vermont’s state motto embodies the inherent tension embedded within tax policy. Vermonters want freedom from excessive tax burdens, but have historically maintained a deep commitment to community through their maintenance of a strong social safety net. The paradoxical beauty of Vermont’s motto is that neither tendency is noble without the other. The Commission’s report reflects this noble paradox.

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COMMISSION'S TRANSMITTAL LETTER

Governor Shumlin, Senate President Campbell, Speaker Smith, the Senate Finance Committee, and the House Committee on Ways and Means:

We present to you the final report of Vermont's Blue Ribbon Tax Structure Commission prepared in accordance with Act 1, Sec. H.56 of the of the 2009 Special Legislative Session.

The principal goal of this report is to recommend changes to Vermont's tax policies that will make the tax system more simple, sustainable, equitable, and economically competitive. The Commission's recommendations were guided by mutually agreed upon principles and based on eighteen months of public hearings, careful study, and thoughtful deliberations. Not every Commission member endorses every recommendation; however, the work as a whole provides Vermont's policymakers with a clear set of choices regarding the future of Vermont's tax system.

Finally, a full examination of the tax system involves a great many subjects and innumerable details. By necessity, the Commission focused on the core concepts and decision points within the tax system. Therefore, the report does not answer every question regarding Vermont's tax system. Indeed, at times, this report may raise as many questions as it answers.

Thank you for this opportunity to serve Vermont.

Sincerely,

Kathleen C. Hoyt, Blue Ribbon Tax Structure Commission
William R. Sayre, Blue Ribbon Tax Structure Commission
Bill Schubart, Blue Ribbon Tax Structure Commission

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STATUTORY CHARGE

2009 Act No.1 (Special Session)

* * * Blue Ribbon Tax Structure Commission * * *

Sec. H.56. BLUE RIBBON TAX STRUCTURE COMMISSION

(a) Composition of commission. There is hereby established a blue ribbon tax structure commission composed of three to five members to be selected as follows:

(1) The speaker of the house, the president pro tempore of the senate, and the governor shall each appoint one member; and
(2) The three members appointed pursuant to subdivision (1) of this subsection may select one or two additional members.

(b) The commission shall be appointed as soon as possible after the effective date of this act. The panel shall elect a chair and a vice chair from among its members.

(c) Purpose and goals. The commission shall prepare a structural analysis of the state's revenue system and offer recommendations for improvements and modernization and provide a long-term vision for the tax structure. The commission shall have as its goal a tax system that provides sustainability, appropriateness, and equity. For guidance, the commission may use the Principles of a High-Quality State Revenue System as prepared by the National Conference of State Legislatures as of June 2007. A high-quality revenue system:

(1) Comprises elements that are complementary, including the finances of both state and local governments.
(2) Produces revenue in a reliable manner. Reliability involves stability, certainty, and sufficiency.
(3) Relies on a balanced variety of revenue sources.
(4) Treats individuals equitably. Minimum requirements of an equitable system are that it imposes similar tax burdens on people in similar circumstances, it minimizes regressivity, and it minimizes taxes on low-income individuals.
(5) Facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs.
(6) Promotes fair, efficient, and effective administration. It is as simple as possible to administer, raises revenue efficiently, is administered professionally, and is applied uniformly.
(7) Is responsive to interstate and international economic competition.
(8) Minimizes its involvement in spending decisions and makes any such involvement explicit.
(9) Is accountable to taxpayers.

(d) The blue ribbon commission shall receive technical support from the department of taxes, the legislative joint fiscal office, and consultants. From data provided from the tax department the following reports will be provided to the commission:

(1) Changes in personal income, arranged by decile, over the last five years;
(2) House site and homestead value arranged by adjusted gross income (AGI) and, where available, household income;
(3) Gross and net school taxes paid, arranged by adjusted gross income and, where available, by household income.

(e) The joint fiscal office with the assistance of the legislative council and the department of taxes may contract with one or more consultants to provide assistance with achieving the goals for the commission. The consultants shall have extensive experience with state tax systems and shall have participated in at least one other study of a state tax system.

(f) Work Plan.

(1) Year 1 – Examine Vermont's income tax structure and analyze, among other things, whether the principles of sustainability, appropriateness, and equity would be better met by using adjusted gross income rather than federal taxable income. This shall include an examination of personal exemptions, deductions, brackets, credits, and other adjustments to income. The commission shall prepare a work plan by September 15, 2009, preliminary findings by November 1, 2009, and a final report due January 1, 2010 submitted to the governor, the speaker, the president pro tempore, the house committee on ways and means and the senate committee on finance.
(2) Year 2 – The commission, by February 1, 2010, shall also present a proposed work plan which shall include a delivery date prior to February 1, 2011 for examining tax expenditures, fees, consumption taxes, and business taxes. The work plan shall include examining whether fees are being used to fund general responsibilities of government and whether such use is sustainable, appropriate, and equitable. The work plan shall include an analysis of the process for reviewing tax expenditures under section 312 of Title 32.

(g) Of the funds appropriated to the joint fiscal office, $200,000 is for the purpose of hiring consultants and other support for the commission.

(h) Non-legislative members of the commission shall be entitled to compensation as provided under 32 V.S.A. § 1010. Any legislative members of the commission shall be entitled to the same per diem compensation and reimbursement of necessary expenses for attendance at a meeting when the general assembly is not in session as provided to members of standing committees under 2 V.S.A. § 406.

INTRODUCTION

Vermont's policymakers and citizens have a choice. We can rehash the same tax debates that occur perennially here and around the Country, or we can engage in a thoughtful debate about the policy choices embedded in the tax system. We can repeat the fictions and assumptions that reinforce our personal preferences, or we can address the facts about our tax system. We can insist that nobody lose in reform, or we can acknowledge that change means winners and losers. In short, we can appear to do something about our tax system, or we can do something about our tax system.

Doing something to strengthen Vermont's tax system for the twenty-first century means questioning critically every assumption in the tax system. Does the mortgage interest deduction at the state level affect the housing market at all? Does it make sense to exempt soda from the sales tax as food as we do Vermont-cultivated milk and cheese? Individuals spend more money consuming services than retail goods; should consumer services remain exempt from taxation while most goods are taxed? Every single policy choice within the code can and must be evaluated.

Fearless evaluation of tax deductions, expenditures, and exemptions is the path toward transparency and tax reform. Timidity in the face of narrow interests is the road to nowhere. Every exception to the clear rules of taxation, every expenditure and exemption in the code that lacks clear evidence of its worth, provides a platform for other dubious policy choices. The tax code fails its primary purpose to provide a clear set of rules that funds government while avoiding the creation of distortions in our economy.

The Commission's report strives to provide clear, unambiguous choices for Vermont's policymakers and residents. With transparency as its touchstone, the Commission's findings illuminate the misperceptions that plague Vermont's tax system. The Commission's report offers choices that would make Vermont's tax system more simple, sustainable, equitable, and economically competitive. The Commission's recommendations and agreements, along with its disagreements, are presented together to give policymakers the maximum flexibility to consider and enact reform.

Tax reform has become an important and timely issue among the states and federally. Some jurisdictions will prefer partisanship to progress. Others will not be able to overcome the guile of interest groups. Still others will shy away from the challenges of saying no to popular, though suspect, policy choices embedded within the tax system. We trust that Vermont, like so many times in the past, is up to the challenge of reform.

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EXECUTIVE SUMMARY

The Blue Ribbon Tax Structure Commission was created by the Legislature in May 2009 to examine Vermont's tax system and recommend reforms. The Commission's work was divided into three parts. First, the Commission developed guiding principles. Second, the Commission conducted a systemic review of Vermont's tax system. Third, the Commission deliberated at length to make its findings and craft its reform recommendations.

Principle-based Reform

The Commission coalesced around a broad set of principles.

- Fairness, Actual and Perceived
- Economic Competitiveness
- Simplicity
- Transparency
- Tax Neutrality
- Sustainability
- Executive and Legislative Accountability to Tax Payers
- Revenue Neutrality and Interoperability

These principles, unanimously agreed upon, guided the Commission's work.

The Commission's Findings

The Commission's work led to the realization that much of the conventional wisdom regarding Vermont's tax system is wrong or badly misconstrued. The misperceptions created by the gap between tax fact and fiction negatively impact the public discourse on taxes. Therefore, the Commission made six findings that address common misperceptions regarding the tax system.

1. The Vast Majority of Vermonters Pay Taxes.

Vermont's tax system has a remarkably even distribution if one considers income, sales, and property taxes. Claims that some Vermonters do not pay their fair share are typically based on personal income tax distribution and ignore other taxes and rising income inequality.

2. Vermont's Choice of Income Tax Base Promotes High Marginal Rates and Lower Effective Rates.

Vermont's choice of tax base makes tax rates unnecessarily high as federal deductions pass through and reduce taxable income. The effective tax rates paid by Vermonters are competitive with other states.

3. Changing Consumer Buying Patterns are Eroding Vermont's Sales Tax Base and Should be the Focus of Policymakers.

Rising purchases of services over goods and growing Internet sales are eroding Vermont's sales tax base.

4. Tax Expenditures Form a Shadow Budget that Requires Greater Scrutiny.

The tax system loses over $1 billion annually due to insufficient oversight. Tax expenditures are policy choices made within the tax system, and they lack sufficient transparency.

5. There is Insufficient Data to Claim that Vermonters are Migrating Due to High Taxes – Current Statistics Demonstrate an In-Migration of Income.

Available data suggests that those entering Vermont earn more than those leaving. Also, Vermont's top tax bracket is populated by high-income events, not high-income earners. While the data cannot determine something as subjective as why people are moving, it does demonstrate that definitive claims that the wealthy are moving out and about the effect of this migration are more complicated than currently assumed.

6. The Complexity of Vermont's Education Funding System Obscures Basic, if Difficult, Tax Structure Issues.

The mechanics of the tax are complex, but the basic tax structure tension is rooted in equity. This manifests itself in the the discussion regarding what is the "right" tax to fund education. Transition toward a tax system rooted more in property value or income would trigger a tax shift that puts pressure on the tax principles of equity and competitiveness.

The Commission's findings are offered to illuminate the perception issues that complicate Vermont's tax discussion and impair the work of policymakers. Coherent tax policy requires everyone, regardless of their political affiliation, to address the facts about taxation as they are, not as they would like them to be.

The Commission's Recommendations

The Commission offers recommendations that represent clear policy choices that address the challenges, both real and perceived, facing Vermont's tax system.

Recommendation 1: Restructure the Personal Income Tax

- 1A: Shift tax base from federal Taxable Income to federal Adjusted Gross Income.
- 1B: Eliminate standardized and itemized deductions.
- 1C: Implement a lower, flatter rate and bracket structure.
- 1D: Implement a residential credit as a transparent alternative to deductions.
- 1E: Evaluate all remaining personal income tax expenditures for opportunities for removal.
- 1F: Reduce the number of filing statuses from four to two, single and joint.

Recommendation 2: Broaden the Sales Tax Base

- 2A: Levy the general sales tax on all consumer-purchased services with limited exceptions for certain health and education services and business-to-business service transactions.
- 2B: Eliminate all consumer-based sales tax expenditures retaining only the exemptions for food and prescription drugs.
- 2C: Cut the sales tax rate from 6 percent to 4.5 percent.
- 2D: Move as aggressively as possible with other states to collect tax revenue due on Internet purchases.
- 2E: Levy the sales tax on soda by removing its tax exemption as a food product.

Recommendation 3: Enhance Scrutiny of Tax Expenditures

- 3A: Develop a legislative intent for each tax expenditure.
- 3B: Report the foregone revenue value of each tax expenditure biennially in the tax expenditure budget and refine the capacity to evaluate these values.
- 3C: Sunset all tax expenditures that remain in the tax code in a multi-year cycle so that the Legislature evaluates and affirms these policy choices and require a sunset for new tax expenditures as a matter of good, transparent public policy.
- 3D: Require an evaluation of the valuation of tax exempt properties on the grand list, particularly those that qualify for the public, pious, and charitable exemption from the property tax. Any such mandate ought to be accompanied by a sufficient appropriation from the Legislature to avoid levying an unfunded mandate on local officials.

Recommendation 4: Invest in Tax Policy Resources

- 4A: Develop or use a tax incidence study so that the Legislature may understand the full ramifications of its tax policy choices.

Also, the Commission opines on several tax types where it declined to offer recommendations for reform.

The Commission's recommendations were not unanimous. The Commission's majority affirmed the report's findings and recommendations. The Commission's minority offers a separate perspective that explores and explains its differences with the overall Commission findings and recommendations. That the Commission did not agree on every recommendation does not diminish its work, as the concepts on which the Commission agreed were substantial.

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THE COMMISSION'S REPORT

The Commission's report proceeds in four parts. First, the Commission explains the process used to guide its work. Second, the Commission offers its findings to educate the public and policymakers regarding perception issues plaguing Vermont's tax system. Third, the Commission offers recommendations for reform. Fourth, the report discusses briefly other areas of the tax system where the Commission did not offer recommendations. Each section is buoyed by material and models found in the appendices and online at the Commission's website, http://www.vermonttaxreform.org.

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SECTION ONE: THE COMMISSION'S PROCESS

The Commission was created by legislative act in May 2009. The Commission's purpose, as set forth by statute, was to examine Vermont's tax system and recommend improvements for the future. The Governor, the Senate President pro Tempore, and the Speaker of the House of Representatives appointed a bipartisan body of three members to the Commission, and the Commission began its work in August 2009.

The Commission's work was divided into three parts. First, the Commission developed guiding principles to direct its work. Second, the Commission conducted a systemic review of Vermont's tax system. This work led to the Commission's findings. Third, the Commission deliberated at length to craft its recommendations for reform and related sub-recommendations.

Principle-based Reform

The Commission's began its work by establishing principles for reform. The Legislature provided guidance by including "Principles of a High-Quality State Revenue System as prepared by the National Conference of State Legislatures" in its legislative charge.[1] The Commission analyzed these principles and deliberated at length to develop specific, appropriate principles for the Commission and Vermont.

The Commission coalesced around a broad set of principles.

- Fairness, Actual and Perceived
- Economic Competitiveness
- Simplicity
- Transparency
- Tax Neutrality
- Sustainability
- Executive and Legislative Accountability to Tax Payers
- Revenue Neutrality and Interoperability

Each principle developed over time to represent specific, actionable guidelines.

<u>Fairness, Actual and Perceived:</u> Minimum requirements of an equitable revenue system are that it imposes similar burdens on people in similar circumstances, minimizes regressivity, and minimizes taxes on low-income people. The Commission set forth three touchstones of tax fairness.

[1] These principles are enumerated within the Commission's statutory charge.

- Broad Base and Low Rate: Policymakers should avoid enacting targeted deductions, credits, and exclusions. If such tax preferences are few, substantial revenue can be raised with low tax rates.
- Progressive: Taxes ought to be based on the capacity to pay, treating individuals and businesses equitably within their tax classes.
- Ubiquity: Everyone, regardless of income or assets, should pay something to feel vested in the system that serves them.

Economic Competitiveness**:** A competitive tax system is responsive to international and interstate competition by providing a level playing field devoid of unnecessarily high rates and compliance burdens. While the tax code may be designed to encourage entrepreneurial development in specialty fields such as Vermont's captive insurance industry, policymakers must bear in mind that most such business organizations in Vermont are structured as pass-through entities where the revenue passes through to personal income. Also, competiveness means a tax structure that discourages tax liability-shopping and interstate migration.

Simplicity: Administrative costs are a loss to society, and complicated taxation undermines voluntary compliance by creating incentives to shelter and disguise income. Simplicity focuses on the following issues.

- Ease of taxpayer compliance
- Ease of tax department administration
- Reduction of the appellate process cost through clarity and simplicity
- Encouragement of E-filing

Transparency: Tax legislation should be based on sound legislative procedures and careful predictive analysis. A good tax system requires informed taxpayers who understand how tax assessment, collection, and compliance works. There should be open hearings, and revenue estimates should be fully explained and replicable. Educating taxpayers is important to a functioning society.

Tax Neutrality: Neutrality means that the fewer economic decisions that are made for tax reasons the better. The primary purpose of taxes is to raise needed revenue, not to micromanage the economy, society, or the environment. The tax system should not favor certain industries, activities, or products. The tax system should minimize interference in spending decisions and make any such involvement explicit.

Sustainability: For the state, sustainability demands that the tax system produce sustained, predictable, and consistent revenues by relying on a balanced revenue portfolio that will withstand economic changes. For taxpayers, sustainability means consistency in tax policy. When tax laws are in constant flux, long-range financial planning is difficult for individuals and businesses. Lawmakers should avoid enacting temporary tax laws, retroactive changes, tax holidays, and should minimize annual tax changes.

Executive and Legislative Accountability to Tax Payers: Government functionality is dependent on a triad:

- visionary leadership, skilled management, and public accountability;
- a strategic, measurable and accountable budget system;
- a transparent revenue system that does not distort the economy.

Good government ensures that tax payers can link their tax investments to good government management practice by developing and publishing agreed-upon social and economic measures with which to measure government efficiency and effectiveness as well as economic and social outcome.

Revenue Neutrality and Interoperability: Revenue neutral tax reform means the new tax system should raise the same amount of revenues as the current system. Interoperability means that the Commission may shift Vermont's revenue portfolio to collect more of one tax and less of another provided the net effect is zero. For example, the Commission's proposals raise more tax revenue on the sales tax and less through the income tax. Tax portfolio is the balance of revenue streams that fund Vermont's government, and it is an important concept in its own right. Vermont has one of the five most balanced tax portfolios in the Country.[2] Accordingly, it is important not to change this balance without due consideration.

Examining the Tax System

The Commission reviewed Vermont's tax system from August 2009 through December 2010. During this time, the Commission held twenty-nine public hearings in Montpelier. Hearings featured testimony from the following types of witnesses.

- Local and national experts
- Staff from the Vermont Department of Taxes
- Staff from the Legislative Joint Fiscal Office
- Business and community groups
- Paid consultants

[2] *See* Cornia and Nelson, Federal Reserve Bank of St. Louis *Regional Economic Development*, 2010, 6(1), pp.23-58. Available online at http://research.stlouisfed.org. The paper highlights the balance and volatility of state tax systems.

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The Commission's review began with the four major tax types – income, sales, corporate income, and property – followed by other tax types.

The Commission focused on the purpose of each tax, as well as its historical revenue generation, incidence, and relative competiveness compared to other states.[3] Also, the Commission focused keenly on tax expenditures, the myriad policy choices embedded within each tax type that create exceptions to the tax system's general rules and distortions within the economy. Overall, the Commission's principle-based review of the tax system revealed challenges both real and perceived and prepared the Commission for its deliberations.

Overall, these hearings allowed the Commission to identify segments of the tax system ripe for reform and others not requiring immediate intervention. Recommendations will not be made on every tax type as the Commission strived throughout this process not to make the perfect the enemy of the good. For example, the Commission decided not to pursue reforms of Vermont's Bank Franchise Tax.[4]

The Commission's work shifted from fact finding to building models and proposals in June 2010. Overall, the Commission created and considered thirteen personal income tax models, five major reconfigurations of the sales tax, fourteen property tax models, and two corporate income tax rate models. Beyond these models, the Commission considered myriad policy changes, particularly regarding tax expenditures. The Commission debated these tax models and policy changes to develop recommendations for reform and a useful record of policy alternatives for policymakers to consider.

During its deliberations, the Commission opened a dialogue with members of Vermont's business community. The Commission and/or staff appeared at meetings held by the Vermont Chamber of Commerce, Associated Industries of Vermont, Lake Champlain Regional Chamber of Commerce, and Vermont Businesses for Social Responsibility. Furthermore, these four groups, and the Vermont Business Roundtable, were invited to testify during the deliberation process at roundtable discussions. The roundtable process proved valuable for the Commission

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[3] The Legislative Joint Fiscal Office has several publications that are helpful to anyone desiring a primer on Vermont's tax system. Specifically, the JFO's Fiscal Facts book and their decennial tax study are tremendous guides. Also, the Commission's web site has helpful information at http://www.vermonttaxreform.org.

[4] The Bank Franchise Tax levies a tax based on a percentage of a bank's average monthly deposits. This is curious from a tax structure standpoint as it creates a separate tax for one corporate form. Therefore, the Commission explored alternatives, such as subjecting banks to the Corporate Income Tax. The analysis revealed that while structural improvements could be made, the overall tax worked well and generated sustainable revenue tax expenditures notwithstanding. Therefore, the Commission made a decision not to recommend changes as part of its broader strategy to focus on segments of the tax system most in need of reform. The Commission made a similar choice regarding a number of taxes.

and demonstrated the Commission's commitment to ensuring that Vermont's business community had its voice heard.

The final phase of tax reform begins with the publication of this report. The Commission will use the coming days to explain its findings and recommendations. This work will include testimony before the relevant legislative bodies.

The Commission conducted an open and transparent process. At its close, the Commission will have met nearly twice a month in open public hearings for a year and a half. The Commission appeared before the House Committee on Ways and Means and the Senate Finance Committee. Staff testified before the Legislature's Joint Fiscal Committee. The Commission and/or staff appeared at meetings held by various community groups, including the major groups representing Vermont's businesses. Furthermore, the Commission developed its own website to publish its work, news, white papers, and other materials: http://www.vermonttaxreform.org. The Commission's final report and data will be available on this site through the end of 2011.

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SECTION TWO: THE COMMISSION'S FINDINGS

The Commission has chosen to make the demystification of perceptions surrounding Vermont's tax system a central theme of its work and final report. This is important given the Commission's guiding principles and the deleterious effect that easy and inaccurate assumptions have on the tax debate. The Commission's findings are meant to refocus the public debate going forward. This would allow everyone, regardless of their political affiliation, to focus on the facts of taxation as they are, not as they imagine them to be.

The Commission's findings focus on the perceptions and misperceptions that informed the Commission's work and deliberations. Like many Vermonters, Commission members have listened for many years to the drumbeat of Vermont's tax discourse. All of us have heard some variation of the following tax arguments:

- "People need to pay their fair share and have skin in the game."
- "Income taxes are too high."
- "Our sales tax is uncompetitive, particularly because of New Hampshire."
- "Forget taxes, I want to talk about spending in Montpelier!"
- "High income earners are fleeing the state."
- "The property tax is too complicated, and income sensitivity eligibility is too high."

There are kernels of truth in these statements, but the Commission found that the facts of Vermont's tax system make these claims less certain. Accordingly, the Commission's findings review these common perceptions so that Vermont citizens and policymakers can start from the same facts about taxation.

Commission Finding #1: The Vast Majority of Vermonters Pay Taxes

There is a common refrain in Vermont's tax discourse. It says that everyone needs to have a skin in the game. That is to say, everyone, regardless of income or assets, should pay something in taxes to feel vested in the system that serves them. The Commission agrees wholeheartedly with this statement, but it disagrees with the underlying assumption.

The Commission's work indicates that everyone pays taxes. This is most evident if one considers total tax contribution. Total tax contribution is the cumulative amount each taxpayer pays in state taxes considering all types of taxes, including income, sales, and property taxes. Remarkably, Vermont's taxes are distributed rather evenly across income classes when considering income, sales, and property together.[5]

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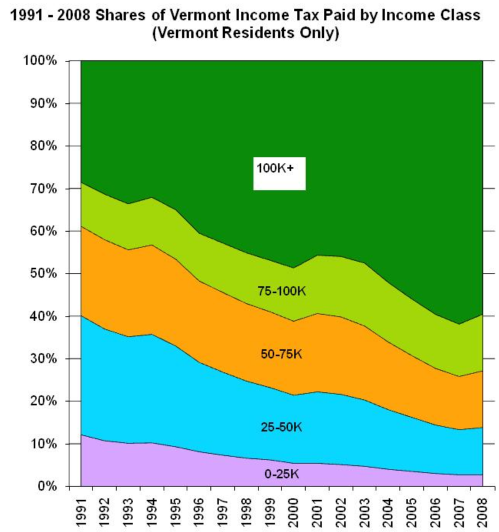
[5]Vermont is cited as having one of the least regressive and unfair state tax systems. *See*, Who Pays? A Distributional Analysis of the Tax System in All 50 States, 3rd Ed (Washington, DC: Institute on Taxation & Economic Policy, 2009).

The argument that some people don't pay taxes is based on a focus on the personal income tax. It is true the majority of the income tax is generated by a small group of taxpayers: 59.5 percent of Vermont's income tax in 2008 was paid by the 11 percent of taxpayers who claimed more than $100,000 in federal adjusted gross income. The following chart depicts the share of income tax paid by income class for tax year 2008.

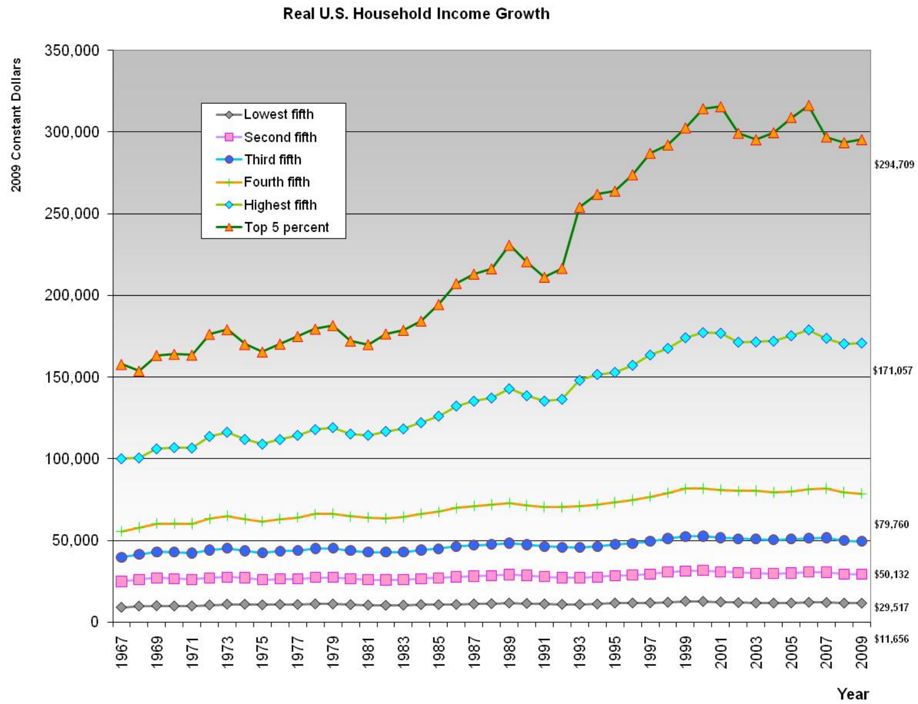


	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
100K+	28.6%	31.4%	33.6%	32.1%	35.0%	40.5%	42.8%	45.1%	46.9%	48.7%	45.7%	46.0%	47.6%	52.1%	56.0%	59.6%	61.9%	59.5%
75-100K	10.3%	10.7%	10.8%	11.2%	11.6%	11.2%	11.6%	11.9%	12.1%	12.5%	13.7%	14.2%	14.8%	14.0%	13.3%	12.7%	12.3%	13.3%
50-75K	21.0%	21.0%	20.4%	21.0%	20.4%	19.1%	18.7%	18.2%	17.8%	17.4%	18.4%	18.2%	17.4%	15.9%	14.5%	13.3%	12.5%	13.3%
25-50K	28.0%	26.3%	25.0%	25.5%	23.7%	21.0%	19.5%	18.1%	17.0%	16.0%	16.8%	16.5%	15.6%	14.0%	12.7%	11.4%	10.6%	11.1%
0-25K	12.1%	10.7%	10.1%	10.2%	9.3%	8.1%	7.3%	6.6%	6.2%	5.4%	5.4%	5.1%	4.7%	4.0%	3.5%	3.0%	2.7%	2.7%

Source: VT Department of Taxes

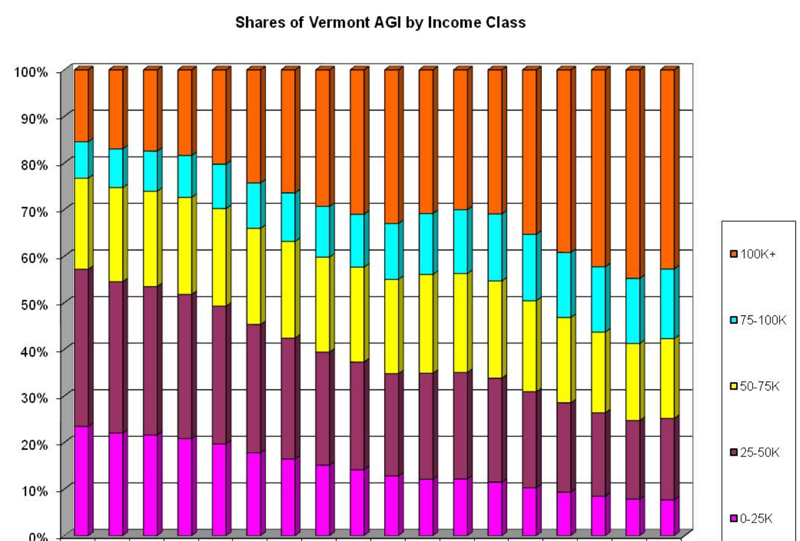
The chart is striking for the concentration of tax paid by a small group of Vermonters; however, it must be read in the context of rising income inequality.

Income inequality is a trend nationally and in Vermont. Over time, high-income earners have seen their income rise while middle- and lower-income workers have seen their income stagnate. The chart on the next page depicts rising income inequality nationally over the past forty years by quintile and the top 5 percent.



Source: U.S. Census Bureau, Current Population Survey

Vermont is not immune to this trend. The distribution of income has changed over time, and the chart below depicts the share of income earned by varying income classes since 1991.



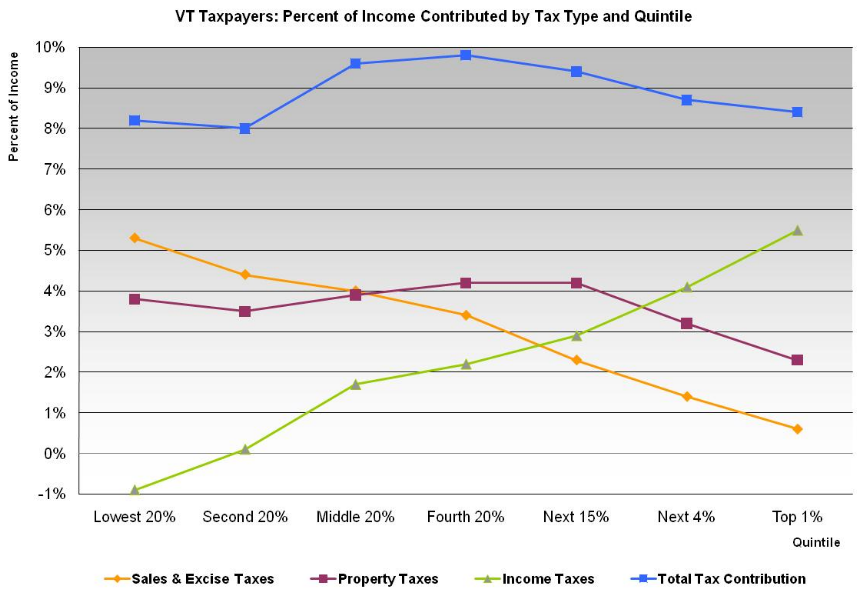
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
100K+	15.4%	17.0%	17.4%	18.4%	20.2%	24.3%	26.4%	29.3%	31.0%	33.0%	30.8%	30.0%	30.9%	35.3%	39.2%	42.3%	44.8%	42.8%
75-100K	7.8%	8.3%	8.6%	9.0%	9.5%	9.8%	10.4%	10.9%	11.3%	12.0%	13.1%	13.7%	14.4%	14.3%	14.0%	14.0%	14.0%	14.9%
50-75K	19.6%	20.2%	20.5%	20.8%	20.9%	20.6%	20.7%	20.4%	20.4%	20.2%	21.2%	21.3%	20.8%	19.5%	18.3%	17.3%	16.5%	17.1%
25-50K	33.7%	32.5%	31.9%	31.0%	29.6%	27.5%	26.0%	24.3%	23.1%	22.0%	22.8%	22.9%	22.3%	20.6%	19.2%	17.9%	16.9%	17.5%
0-25K	23.5%	22.0%	21.6%	20.8%	19.7%	17.8%	16.5%	15.1%	14.2%	12.8%	12.1%	12.2%	11.5%	10.3%	9.3%	8.5%	7.8%	7.7%

Source: VT Department of Taxes

The intersection of rapidly rising income by top earners, stagnating income of low- and middle-income earners, and a progressive tax system explains, in part, the rising share of income taxes paid by a relatively small cohort of Vermonters. The conundrum is best resolved by acknowledging that the income tax, though a visceral topic for many, is not the only major tax levied by Vermont.

Total Tax Contribution

Vermonters pay income taxes, sales taxes, excise taxes, property taxes, and fees among other tax types. The Commission's evaluation of the total tax contribution leads to a different answer to the "skin in the game" question. The next chart displays the percentage of income that Vermonters contributed in taxes by the three major tax types in 2007.



Source: ITEP

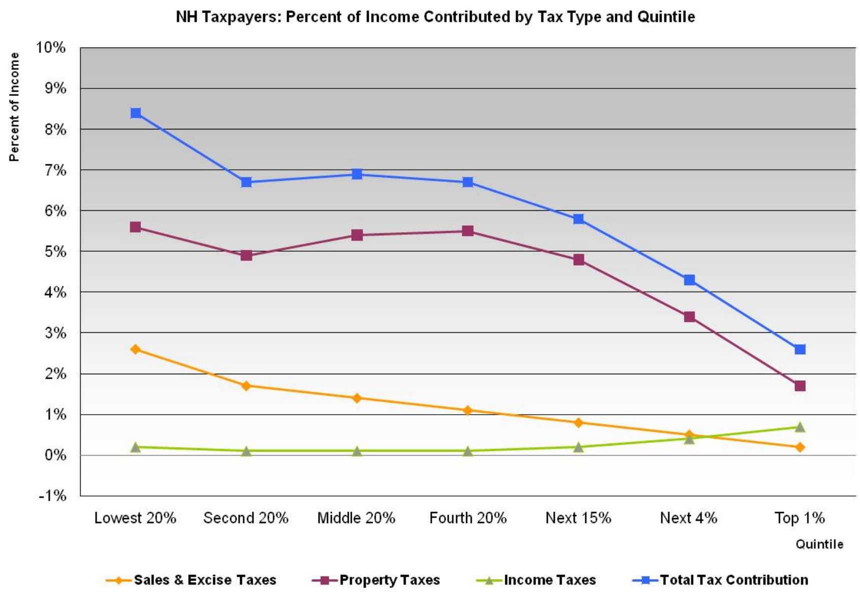
The data demonstrates the distribution of taxes on low-, middle-, and high-income earners.

Taxpayers with higher incomes pay a higher percentage of their income in income tax than middle- and lower-income taxpayers. Sales and excise taxes are uniformly regressive, and the lowest-income Vermonters pay more of their income in sales and excise taxes than any other income class. Third, the property tax falls heaviest on the middle and upper-middle taxpayers. Taken together, these taxes tell a compelling story.

Taxes not based on income – consumption taxes and property taxes – tend to make the system more regressive. Income taxes, which feature a progressive rate structure, reduce regressiveness. An everyday example illustrates this dynamic.

Consumption taxes are generally considered regressive. Imagine two taxpayers side by side at the gas pump. Each taxpayer buys 10 gallons of gas. Each pays 26 cents per gallon in state gas tax for a total tax bill of $2.60. Taxpayer A works full-time at a supermarket deli earning $12.50 per hour, an annual income of $26,000 annually. Accordingly, Taxpayer A paid .01 percent of his income on the gas tax. Taxpayer B is a very successful attorney with an annual income of $260,000. Accordingly, Taxpayer B paid .001 percent of her income on the gas tax. In this example, Taxpayer A's effective tax rate is ten times higher than Taxpayer B's. The income tax is an effective way to provide balance in the overall tax system.

New Hampshire provides a vivid example of tax equity when the progressive income tax is removed. The chart below highlights the total tax contribution by quintile in New Hampshire in 2007, which does not levy a general sales or income tax.[6]



Source: ITEP

New Hampshire's tax system is distinct from Vermont's in both structure and distribution. Here, the lack of a progressive income tax means that high income tax filers in New Hampshire pay a much smaller percentage of their income in total tax contribution than the poorest tax filers.

Making Vermont's income tax structure less progressive would result in a system that begins to look more like New Hampshire's. This is an outcome that the Commission and policymakers must balance as changes to the income tax are considered.

Total tax contribution reveals that all Vermonters have a skin in the game. The question for policymakers is whether it matters if the skin is tax paid on the income, sales, or property tax, and what the proportionate contributions are for each citizen. A compelling rationale for making distinctions between types of taxes paid is unclear to the Commission, powerful

[6] New Hampshire taxes interest and dividend income only.

rhetoric about tax flight notwithstanding. The income and tax equity issues here militate toward careful consideration before undoing Vermont's delicate tax balance.

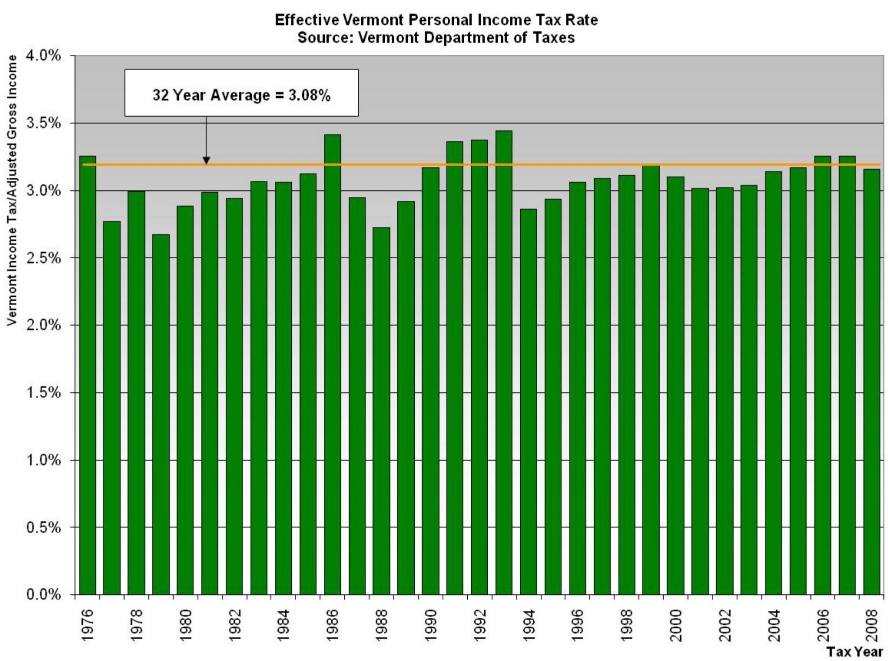
Commission Finding #2: Vermont's Choice of Income Tax Base Promotes High Marginal Rates and Lower Effective Rates

Vermont's personal income tax rates are among the highest in the nation. Yet, Vermont's marginal tax rates (what you see in the tax table) and Vermont's effective income tax rates (what taxpayers actually pay) are separated by a substantial gap. Despite rates as high as 9.5 percent in 2008, the average income tax paid by Vermonters over the past thirty-two years is 3.08 percent. The gap between marginal and effective rates is pervasive throughout Vermont's income classes.

First, the Commission examined the rate structure for joint filers in Tax Year 2008.

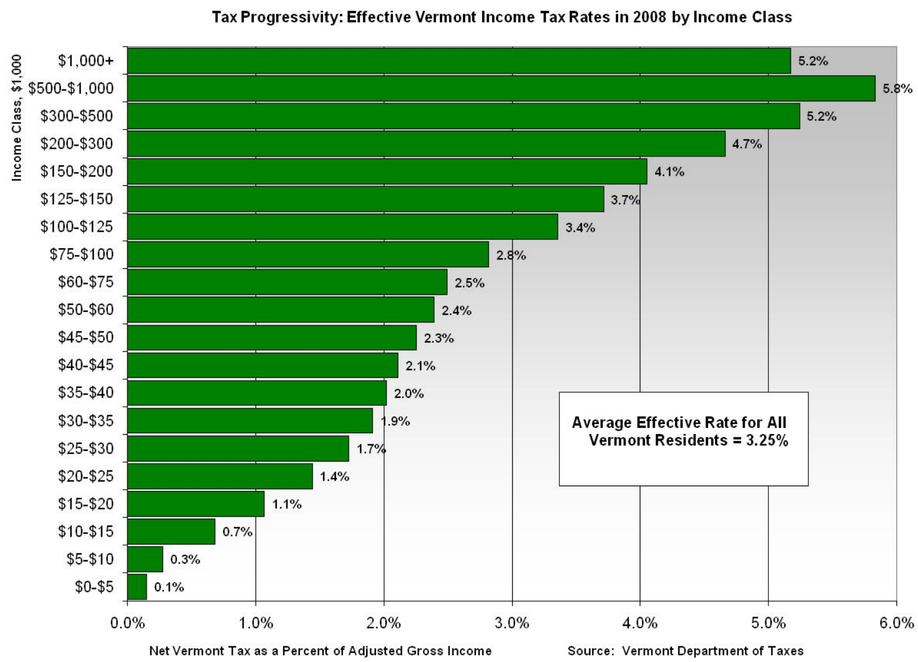
Income Class	Marginal Rate for Joint Filer
$0 - $54,399	**3.6%**
$54,400 - $131,450	**7.2%**
$131,450 - $200,300	**8.5%**
$200,300 - $357,700	**9.0%**
$200,300 - $357,700 +	**9.5%**

Now, consider the chart below that depicts what Vermonters have paid on average over the past thirty-two years.



Source: VT Department of Taxes

Vermonters have paid an effective tax rate of 3.08 percent on average over the past thirty-two years. The gap between marginal rates and effective rates remains when considering Vermont's tax filers by income class.



Source: VT Department of Taxes

On average, all Vermonters, including the highest earners, paid an effective tax rate less than six percent in Tax Year 2008. For example, tax filers with $1 million plus in income paid an effective tax rate of 5.17 percent, 45 percent lower than the top marginal rate of 9.5 percent in Tax Year 2008. This gap between marginal rates and effective rates is substantial, and it is fueled by deliberate policy choices within the tax system.

Two policy choices contribute to the gap between marginal and effective tax rates. First, Vermont's tax structure is highly progressive. Second, and more fundamental to the tax structure and tax reform, is Vermont's policy choice to use federal Taxable Income as its tax base.[7]

[7]Tax expenditures are another key contributing factor leading to the gap between marginal and effective tax rates. The report examines tax expenditures separately within its findings and recommendations.

The Progressive Structure

Let's reexamine the rate structure adding in the percentage of taxpayers with income sufficient to pay each marginal tax rate in Tax Year 2008.

Income Class	Marginal Rate	% of Filers at this Income Level by AGI
$0 - $54,399	3.6%	100%
$54,400 - $131,450	7.2%	34.3%
$131,450 - $200,300	8.5%	6.4%
$200,300 - $357,700	9.0%	2.3%
$200,300 - $357,700 +	9.5%	1.0%

All Vermont's taxpayers pay at the lowest rate bracket. The top four brackets feature high rates; however, the number of taxpayers in the highest rate brackets is small. Accordingly, most Vermonters are not subject to the higher rates. Also, higher-income earners benefit as their income passes through Vermont's lower tax brackets.

For example, a joint filing taxpayer with earnings of $400,000 in Tax Year 2008 would pay the top rate on the last $40,300 of earnings. The rest of their income is taxed at a lower rate. Based on the rate and bracket structure, their potential effective rate would be 7.88 percent. Yet, the chart depicting Vermont's effective tax rate by income class reveals that the average effective rate for this income class is a third lower at 5.24 percent.

This gap is pervasive. While Vermont's bottom tax rate (3.6 percent) applied only to income below $54,400 in Tax Year 2008, the average taxpayer with income below $125,000 paid an effective rate below the bottom rate of 3.6 percent. The substantial portion of the gaps is due to Vermont's policy choice of utilizing federal Taxable Income as a tax base with its permissive use of itemized deductions.

The Tax Base

Vermont, like the majority of states, ties its definition of income to a federal definition of income.[8] The IRS defines income three different ways: Total Income, Adjusted Gross Income, and Taxable Income.[9] Each definition of income involves a series of policy choices about what is and is not income. The federal income tax calculation begins with Total Income, which includes the inputs commonly associated with income.[10] Adjusted Gross Income (AGI) takes Total Income and subtracts deductions enumerated by the federal government. Taxable Income,

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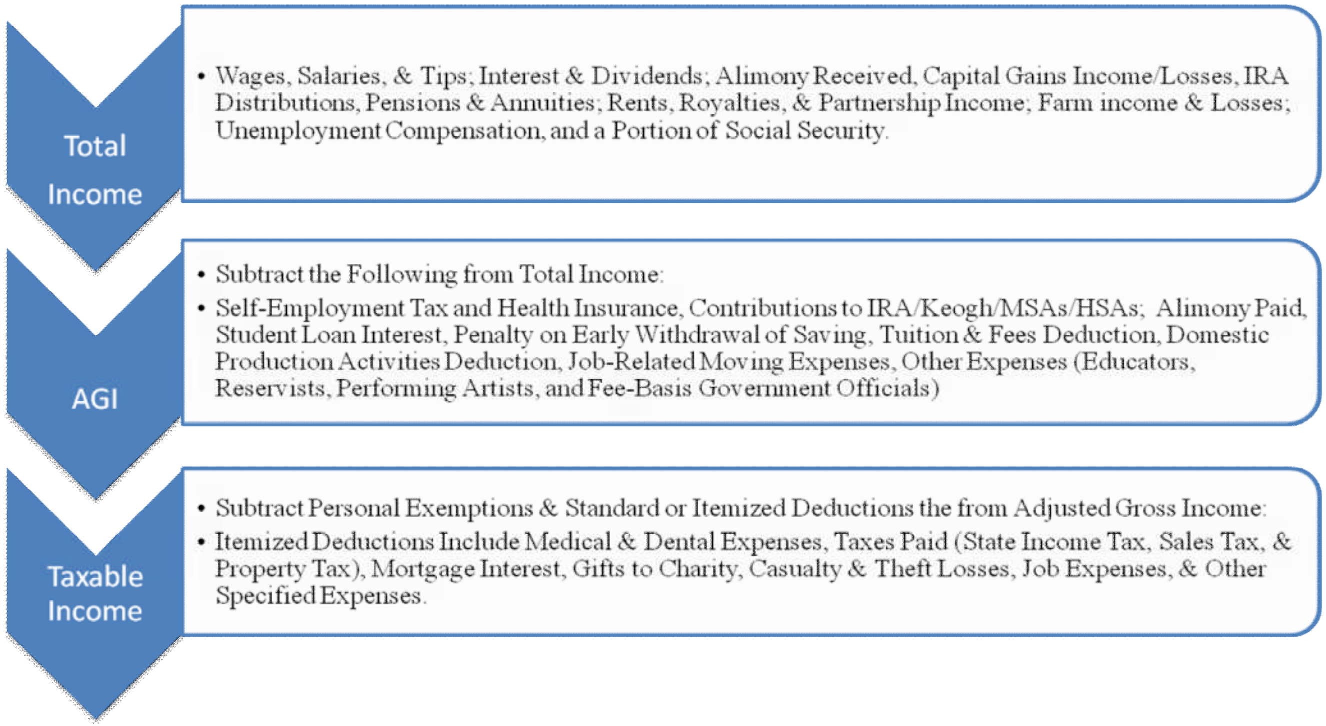
[8] A list of the tax liability starting point for each state is available at http://www.taxadmin.org/fta/rate/stg_pts.pdf

[9] Total Income is line 22 on IRS Form 1040. Adjusted Gross Income is line 37 on IRS Form 1040. Taxable Income is line 43 on IRS Form 1040. For a more detailed discussion of these three definitions of income, see Cordes et al, The Encyclopedia of Taxation and Tax Policy, 2nd edition (Washington, DC: The Urban Institute Press, 2005), 2-4.

[10] The Commission does not mean oversimplify Total Income. As with Adjusted Gross Income and Taxable Income, Total Income is a combination of complex policy preferences.

Vermont's tax base, takes Adjusted Gross Income and subtracts personal exemptions and all deductions. These progressions, from a general measure of income through two-levels of policy preferences that allow taxpayers to reduce their income, are summarized in the chart below.[11]



Vermont's personal income tax base varies dramatically, depending on whether the starting point is federal Total Income, Adjusted Gross Income, or Taxable Income. [12]

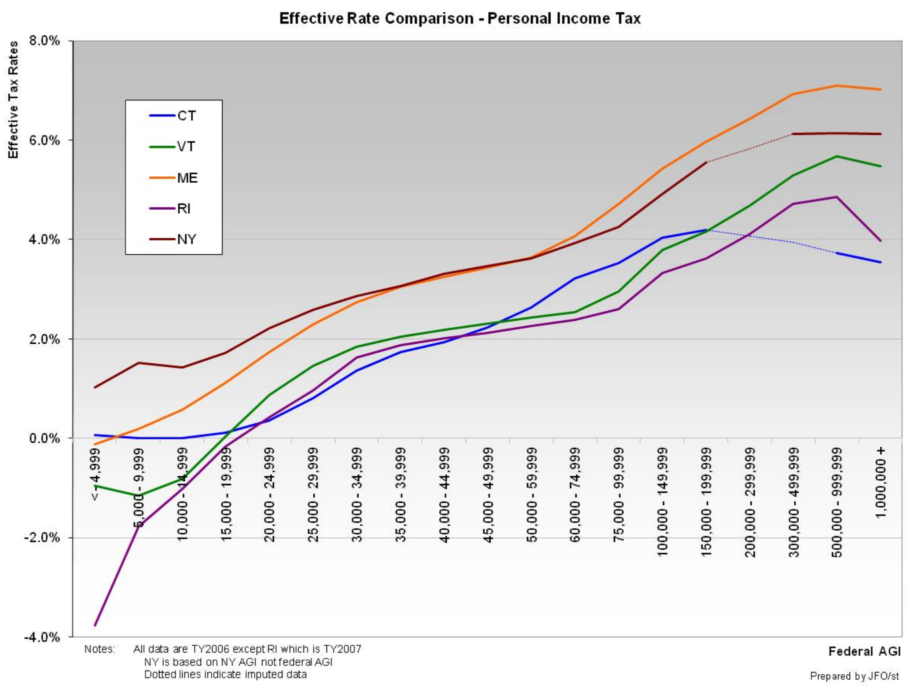
Source: VT Department of Taxes

[11] See IRS Form 1040.
[12] 2007 statistics courtesy of the Vermont Department of Taxes. See, http://www.leg.state.vt.us/jfo/Tax%20Commission/AGI-TI%20Summary%20Stats%2008-2009%20SM.pdf

The policy choice of how to define income, and Vermont's decision to allow unfettered deductions, reduces Vermont's tax base by $5 billion. This is the primary driver behind the substantial gap between marginal and effective tax rates and the misperceptions that follow. Furthermore, this policy choice places Vermont outside the mainstream.

Vermont is one of only nine states to define income as federal Taxable Income and shrink its tax base by adopting all federal deductions and exemptions.[13] Twenty-seven states define income as Adjusted Gross Income, including all other New England states and New York.[14] The choice to define income as Adjusted Gross Income by the majority of states, including Vermont's nearest neighbors, means that these states create a much larger personal income tax base. Accordingly, a basic comparison of personal income tax rates may be misleading, as a smaller tax base artificially drives up tax rates.

The difference between marginal and effective rates is elementary, but this misperception has profound consequences for Vermont's economic competitiveness and the public discourse on taxes, as it makes Vermont seem less competitive. For example, the chart below compares effective tax rates among the New England states and New York.



New York taxpayers and Maine taxpayers both pay higher income taxes despite lower top rates.

[13] These states are Colorado, Idaho, Minnesota, North Carolina, North Dakota, Oregon, South Carolina, Utah, and Vermont.

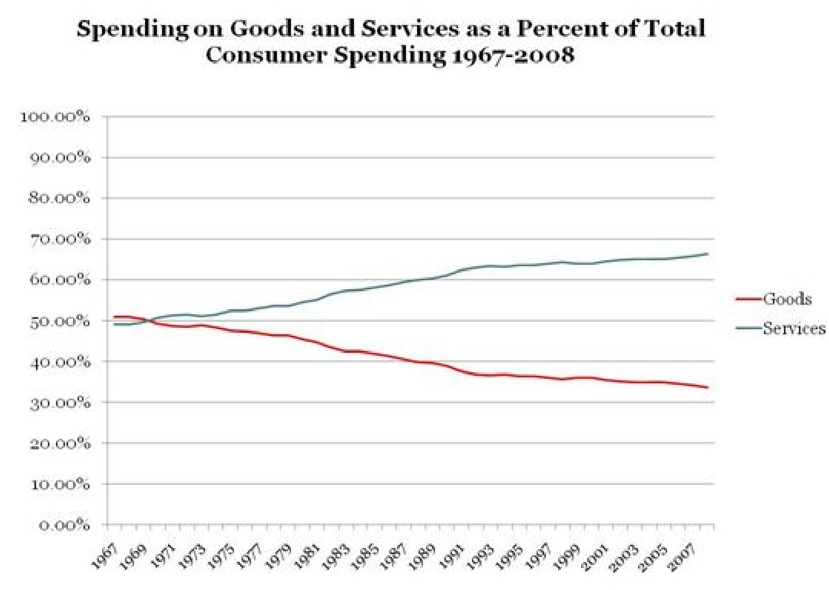
[14] This does not include New Hampshire, which does not levy a general income tax.

Vermont's choice of tax base contributes to a perception that Vermont is not competitive from an income tax standpoint. A Taxable Income base drives marginal rates up with costly and complex choices selected by the federal government.

COMMISSION FINDING #3: CHANGING CONSUMER BUYING PATTERNS ARE ERODING VERMONT'S SALES TAX BASE AND SHOULD BE THE FOCUS OF POLICYMAKERS

Typically, all roads in Vermont's sales tax discussion lead to New Hampshire. Vermont's policy choice to levy the sales tax in 1969 has had a profound impact on Vermont's eastern border. It is unclear whether the Legislature of that period understood the ramifications of this policy choice; however, New Hampshire is now only one of several factors influencing the sales tax base in the twenty-first century. This issue now exists alongside the increasing consumer purchase of tax exempt services and the rise of online commerce.

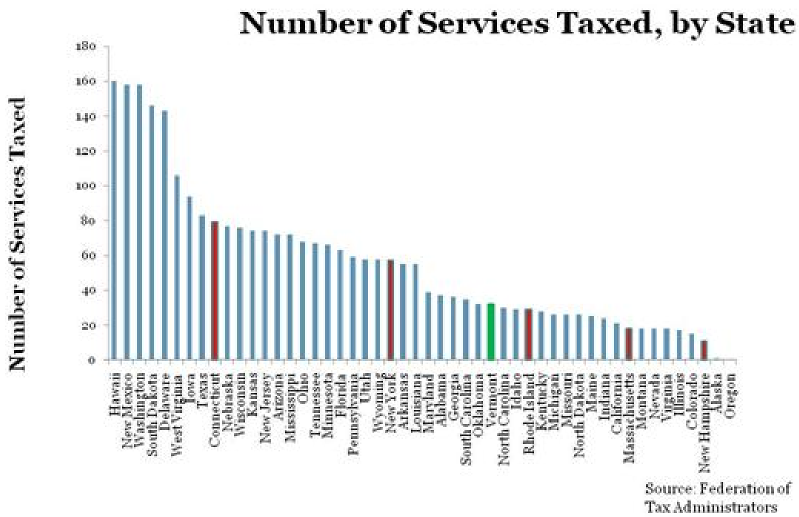
Historically, state sales taxes have been levied on goods. Over time, the purchase of services has accounted for a larger share of consumer spending. The chart below demonstrates the last year (1969) that household purchases of goods and services were even as a percentage of consumer spending and the growing gap between the two.



Source: U.S. Bureau of Economic Analysis

The rise of consumer spending on services has been dramatic compared to the consumption of goods. Yet, Vermont, like most states, structures its sales tax primarily on the purchase of goods.

The majority of states take an ad hoc approach to taxing services. Vermont does as well, focusing on services already taxed by other jurisdictions. Specifically, Vermont taxes thirty-two services each of which is taxed by at least twenty-three other states. The chart on the next page compares the number of services taxed by state with Vermont in green. New England states and New York are in red.



Vermont exempts only six services from taxation that are taxed by a majority of states. These services demonstrate the idiosyncratic nature of service taxation nationwide.

- Tuxedo Rental
- Commercial Linen Supply
- Tire Repair
- Overnight Trailer Park Fees
- Service Contracts Sold at the Time of Sale of Tangible Personal Property
- Welding Labor

Vermont's approach to taxing services remains in the mainstream, but the growing service economy is eroding the state's tax base.

The chart depicting the spread between consumer purchases of goods and services does not tell the whole story. There is another drag on the falling goods line: the Internet. States have continued to see the diminishment of their sales and use tax revenue due in large part to the expansion of e-commerce and the inability of states to establish nexus and enforce collection of their sales tax from online retailers.

The Streamlined Sales and Use Tax Agreement (SSTA), of which Vermont is a member, is a decade long effort by states to establish a consistent sales tax approach in response to the U.S. Supreme Court finding that a state may not require a seller that does not have a physical presence in the state to collect a tax on sales in the state.[15] The Court ruled that the existing patchwork of states laws were so complex that the burden imposed by business would be too

[15] *See* Quill Corp. v. North Dakota, 504 U.S. 298 (1992)

great; however, Congress had the authority to allow states to require remote sellers to collect. Unfortunately, SSTA continues to be a voluntary program with limited success due to inaction at the federal level. Some states have taken an independent and more aggressive collection approach in an attempt to expand their nexus and authority over remote vendors. New York has led this effort with affiliate nexus, known commonly as the “Amazon Tax.”

It is increasingly clear among the states that the explosive growth in e-commerce presents a long-term threat not only to state sales tax collections but to the health of retail commerce in their downtowns. Except in states where online retailers have legal nexus (a physical, transacting business presence), they are not currently required to collect and remit local and state sales taxes on purchases by customers in the remaining (non-nexus) states. The definition of nexus, which rests on the notion of physical presence, predates the digital era and creates a major competitive disadvantage for local retail stores, as well as reducing state sales tax revenue. Estimates of foregone sales tax from e-commerce transactions by Vermonters vary from $30-$40 million a year and may very well be conservative.[16]

Consumer purchasing has shifted from goods to services, and states have been slow to respond to this change. The result is more pressure on a shrinking sales tax base. This pressure is exacerbated by the trend toward purchasing goods on the Internet beyond the reach of most taxing authorities. These two trends, rising purchases of services over goods and growing remote sales, are eroding Vermont’s sales tax base. An eroding tax base means pressure to raise the rates thereby exacerbating the policy difference between Vermont and New Hampshire. These threats are imminent and erode the tax base across the state, not just along its eastern border.

Commission Finding #4: Tax Expenditures Form a Shadow Budget that Requires Greater Scrutiny

It is important to understand what tax reform is and what it is not. Many people have approached the Commission regarding Vermont’s spending choices; however, only the revenue system is within the Commission’s purview. Accordingly, recommendations about spending in the state budget and management of state programs and finances will not be offered in this report. Yet, it is a mistake to think that the tax code lacks equivalent issues.

Ideally, the tax structure would contain general rules applicable to everyone. The tax code contains these general rules, but they are moth-eaten by exceptions known as tax expenditures. Tax expenditures are exceptions to the general rules of the tax structure including “permanent exclusions from income, deductions, deferrals of tax liabilities, credits against tax, or special rates.”[17] These policy preferences provide preferential treatment for a particular industry, activity, or class or persons, and they are found throughout the tax code. Overall, tax expenditures form a shadow budget of policy and spending choices that lack the scrutiny afforded most direct appropriations.

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[16] Vermont has not done an independent assessment of the lost revenue due to remote sales. The estimate was offered during testimony before the Commission by the Vermont Department of Taxes, and it is based on their efforts working with other jurisdictions to assess the impact of remote sales on the tax base.

[17] Surrey, Stanley S., and Paul R. McDaniel, *Tax Expenditures* (Cambridge, MA: Harvard University Press), 1985, p 3

Spending choices made through the budget process receive a high degree of scrutiny. Each year, spending choices made to support a specific policy or program in the budget are examined, measured, and approved by the Legislature. Tax expenditures, which are policy choices that reduce tax revenue without annual approval, receive little scrutiny despite costing over $1 billion in 2009. It is this disconnect between budget appropriations and costly exceptions in the tax system that drives the Commission's finding that tax expenditures deserve greater oversight.

Tax Expenditures: Expensive and Pervasive Policy Choices

Federal tax expenditures provide a clear example of the function and scale of tax expenditures.[18] Consider the mortgage interest deduction, one of the best known federal tax expenditures. Homeowners that itemize deductions may deduct from their income the interest paid on their mortgage. In 2008, this tax expenditure cost $88.5 billion in federal tax revenue by making mortgage interest deductible for eligible taxpayers who itemize their deductions.[19] This single homeownership subsidy costs approximately three times more than all other federal housing programs combined.[20] As with the federal government, Vermont's tax expenditures are both pervasive and expensive.

It is estimated that Vermont specific tax expenditures will cost $1.279 billion by fiscal year 2012.[21] Expenditures are distributed throughout the tax system, diminishing each part of the tax base. The pie chart on the next page breaks down the total revenue foregone due to tax expenditures by tax type and the percentage share of each.

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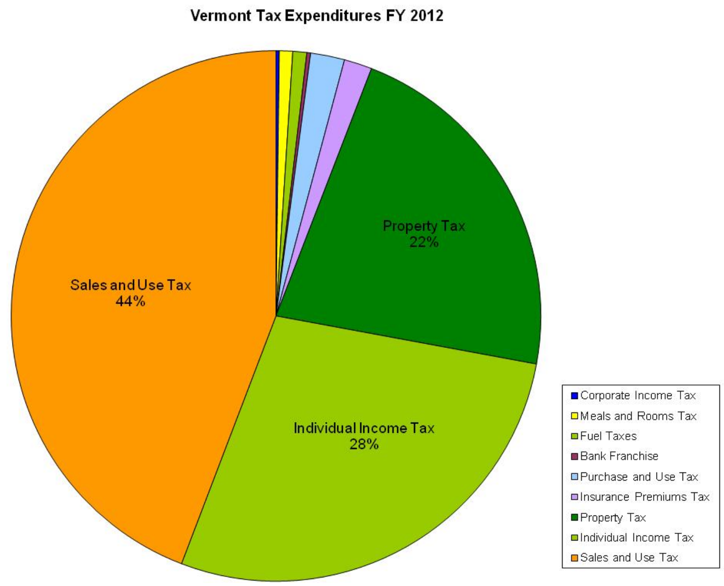
[18] Government Accountability Office, *Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined* (Washington, DC: GPO, 2002). http://www.gao.gov/new.items/d05690.pdf.

[19] Government Accountability Office, *Home Mortgage Interest Deduction* (Washington, DC: GPO, 2009). http://www.gao.gov/new.items/d09769.pdf

[20] Leonard Burman, "Is the Tax Expenditure Concept Still Relevant?" *National Tax Journal* 56:613 (September 2003), 620.

[21] The Legislative Tax Expenditure Report is the source data for the Commission's examination of tax expenditures. The data below is derived from the 2011 Biennial Report.



Source: Biennial Tax Expenditure Report

While tax expenditures are concentrated in the three major tax types, sales, income, and property, these policy choices are embedded throughout the system.

Perhaps the best way to understand the size and scope of tax expenditures is to compare the total foregone revenue to what Vermont collects in tax revenue by tax type. This analysis reveals the value of these policy choices and the potential for tax base erosion.

Vermont Tax Expenditures By Type of Tax

Tax Type	FY12 Revenue	FY 12 Expenditure	Total Base	Expenditure % of Total
Corporate Income Tax	73,100,000	2,525,000	75,625,000	3%
Meals and Rooms Tax	126,000,000	10,400,000	136,400,000	8%
Fuel Taxes	79,900,000	10,900,000	90,800,000	12%
Bank Franchise	10,800,000	2,900,000	13,700,000	21%
Purchase and Use Tax	78,600,000	26,590,000	105,190,000	25%
Insurance Premiums Tax	56,000,000	21,800,000	77,800,000	28%
Property Tax	619,800,000	281,914,000	901,714,000	31%
Individual Income Tax	590,800,000	357,041,500	947,841,500	38%
Sales and Use Tax	335,100,000	565,400,000	900,500,000	63%
Total	**1,970,100,000**	**1,279,470,500**		

Source: Biennial Tax Expenditure Report

The Commission's finding is not intended to brand all tax expenditures as bad. Tax expenditures can be an important way to accomplish policy goals. For example, the Earned Income Tax Credit (EITC) is an effective and vital program that provides some working Vermonters with desperately needed economic security. Simply, the Commission examines this shadow budget to cast a light on opportunities for transparency. Some tax expenditures, like the EITC, will likely be affirmed after a rigorous review. Others, like the property tax exemption for fraternities and sororities, may not. The Commission uses the example of the tax expenditure for residential fuels to illustrate the transparency issues created by tax expenditures.

Transparency and Tax Expenditures

Consider Vermont's tax expenditure for residential fuels. By fiscal year 2012, the tax expenditure exempting residential fuels from taxation is estimated to reduce potential tax revenue by $44.1 million. This policy choice provides an example of the tricky issues created by tax expenditures. Currently, the law requires the Legislature to create a report that lists tax expenditures and their cost. Yet the report does not tell the public and policymakers the most important question: Do these policy choices work?

Tax expenditures do not require a clear legislative intent. Therefore, policymakers and analysts lack the ability to build an assessment tool to measure a tax expenditure's efficacy. Vermont's tax expenditure exempting residential fuel from taxation provides a clear example of why a clear intent is so important to assessing tax expenditures. The lack of legislative intent means that Vermonters have no clear way to assess this choice, but let's assume that the legislative intent of exempting residential fuels is to ensure that low-income residents pay the lowest possible price for heating fuel. If so, several issues emerge.

- The tax expenditure is duplicative.
    - Vermont administers the Low-Income Heating Assistance Program (LIHEAP) which will allocate $15.1 million helping Vermonters of modest means with heating fuel this winter.
- The tax expenditure is not targeted or means tested.
    - The tax expenditure for residential fuel is available to all Vermonters regardless of income level. This drives up the cost of the expenditure without furthering the policy's goal.
- The tax expenditure may contradict other policy choices.
    - Vermont is investing in green policies, but this tax expenditure subsidizes fossil fuels by more than $50 million.

Transparency will not be possible until the Legislature states its intent clearly in regard to tax expenditures.

Tax expenditures are only one option for effecting policy or delivering a benefit. For example, Vermont's policymakers may determine that it is more cost effective to help Vermonters with their residential fuel needs by strengthening direct subsidies for fuel and weatherization programs. The balance of the revenue may then be used to strengthen other programs or reduce taxes.

Without a mechanism to ensure automatic review or repeal of expenditures, it is impossible to know whether or not a tax expenditure accomplished its intended policy purpose. During the budget process, appropriations are scrutinized and if a program is failing its intended purpose improvements can be offered and reviewed the following year, or it can be unfunded. Yet, tax expenditures are permanent exclusions from the tax system. They remain indefinitely, absent legislative action to repeal them, and repeal is rare.

Since tax expenditures are designed to accomplish certain public goals that otherwise might be met through direct expenditures, it is appropriate for states to require regular scrutiny, analysis, and approval similar to appropriations within the budget. Vermont has made significant efforts in recent years to increase transparency and reporting of tax expenditures, but still lacks robust oversight of this type of spending.

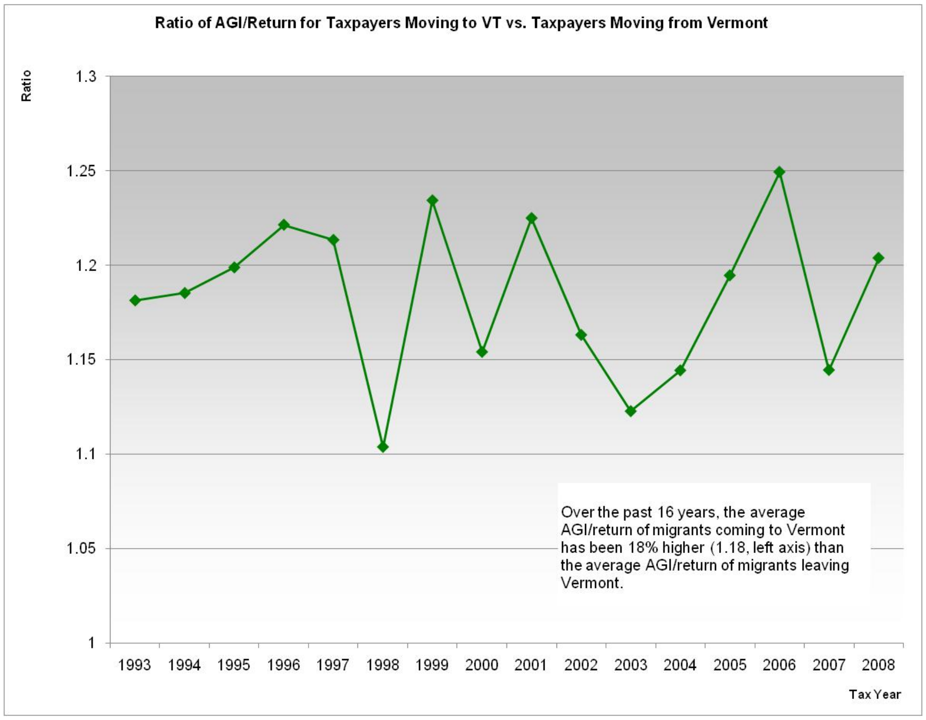
Commission Finding #5: There is Insufficient Data to Claim that Vermonters are Migrating Due to High Taxes – Current Statistics Demonstrate an in-Migration of Income.

The Commission has often heard that wealthy residents are fleeing Vermont due to high taxes. Therefore, it became critical for the Commission to determine whether this overwhelming anecdotal evidence connected with hard data. The data do not provide a definitive answer, but they are provocative and counter the mythology of persistent tax migration among high income taxpayers.

The Commission's work focused on two separate analyses. First, the Commission examined the migration of taxpayers into and out of Vermont and their incomes to determine whether Vermont was a net winner or loser. Second, the Commission examined the population of high-income Vermonters over time to attempt to see where, if anywhere, these filers were going. The data was provocative in both cases.

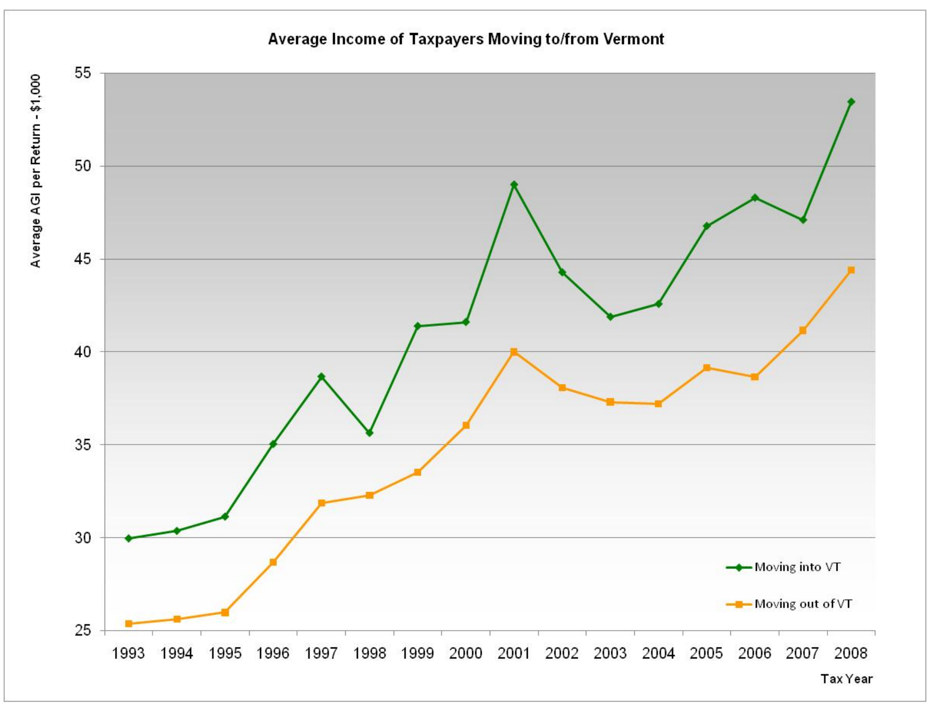
Tax Migration into and out of Vermont

According to the IRS, tax filers moving into Vermont earn about 18 percent more on average than tax filers leaving Vermont for other states. Vermont has maintained a net positive income over at least the last sixteen years, even as the exact percentage has fluctuated year to year. The chart on the next page tracks this trend.



Source: IRS Statistics of Income

The chart below illustrates this average in dollar terms. The current income level of tax filers moving to Vermont is just below the median Adjusted Gross Income per return in 2008.



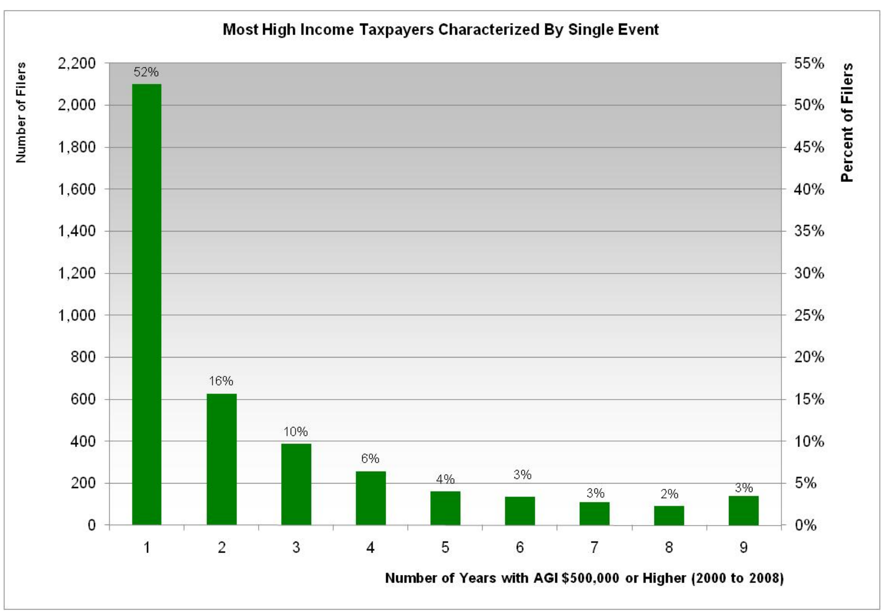
Source: IRS Statistics of Income

Overall, it is clear that tax filers moving into Vermont earn more on average than those leaving for other states. The question remains whether Vermont's tax rates are causing the wealthy to flee.

The data shows that the aggregate and average amount of income earned by tax filers moving out is smaller than those moving in. It does not tell us anything about high-income earners or high net worth individuals moving in or out. It could be one wealthy individual and five college students moving out and six middle income earners moving in. The data has, however, been historically consistent indicating that there is no recent overall trend regarding tax changes and migration that is discernible.

<u>High-Income Earners Versus High-Income Events</u>
Next, the Commission examined the behavior of high income tax filers over time. Conventional wisdom holds that Vermont is dependent on a few high-income taxpayers and that we are at risk if they move out of state. While there is no doubt that Vermont is very fortunate to have some wealthy residents who choose to maintain their residence here and could move if they wished, what the analysis shows is that the number of taxpayers in the top income brackets is not a fixed population each year but rather, in most cases, event driven. Whether from the sale of investment property or a business, high income is often a one-time events.

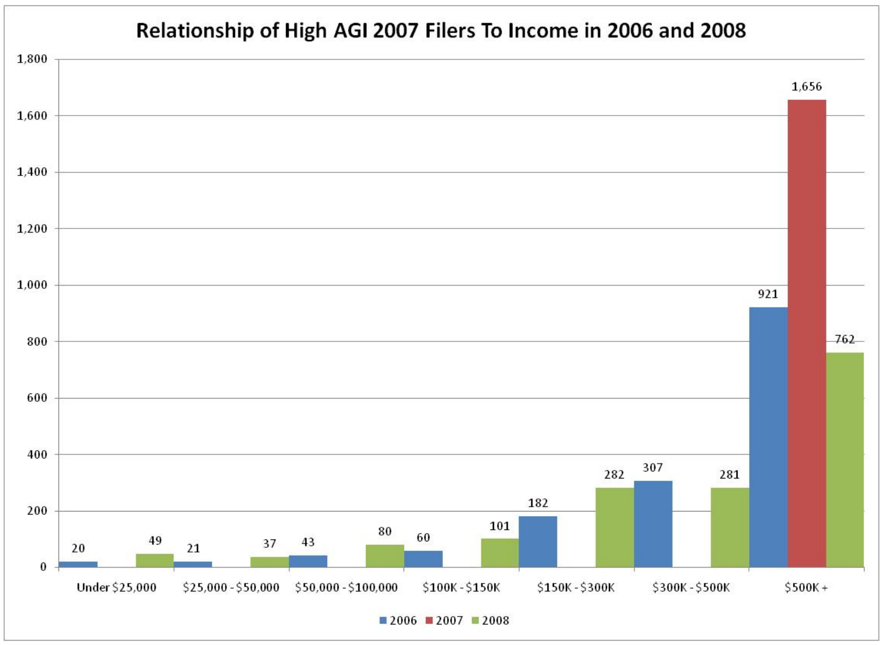
The Commission examined data that tracked high-income taxpayers in Vermont over a nine-year period. There were 3,926 Vermont taxpayers who had adjusted gross income (AGI) of $500,000 or more in any one year during 2000–2008. More than half of these taxpayers had high income in just one year; only 3.5 percent had an adjusted gross income of $500,000 or in all nine years.



Source: VT Department of Taxes

The natural question raised by this data is: Where do these taxpayers go in the tax system as their income dips below $500,000? The Commission examined 2007 as a representative tax year to determine the year-to-year volatility for high-income taxpayers.

The following chart uses 2007 as the base year, when there were 1,656 taxpayers with income above $500,000, and then provides data on which income class those taxpayers were in the previous year and the following year. In 2008, for example, 101 of 2007's high earners had dropped to an Adjusted Gross Income between $100,000 and $150,000; forty-nine had dropped to under $25,000 Adjusted Gross Income.



Source: VT Department of Taxes

High-income earners are not a solid block of consistent interests; rather, they comprise a patchwork of tax filers that may have high income one year and then return to a much lower bracket never to return to high-income status again.

All the Commission can say is that the conventional wisdom is not supported by the data. Furthermore, the Commission encourages Vermonters to abandon the discussion of what wealthy Vermonters are doing based on their taxes. Such speculation is murky and, even if it were not so, it is questionable and dangerous to design a tax code for fewer than 200 people.

Commission Finding #6: The Complexity of Vermont's Education Funding System Obscures Basic, if Difficult, Tax Structure Issues.

The Commission will not offer specific recommendations regarding the Statewide Education Tax due to its future mandate to examine these issues in depth. The Commission's modest findings regarding this tax are based on testimony, study, and the development of fourteen property tax models.

Overall, the majority believes that the public discourse regarding this tax, particularly notions that it is too complicated to understand, obscure the straightforward, if intractable, tax structure policy debate. The basic tax structure tension is rooted in equity. This manifests itself in the discussion over the selection of the "right" tax for the education system, either the property tax or income tax. The selection of a "right" tax then triggers a difficult tax shift that invokes basic tax policy notions of equity and ability to pay.

<u>Complexity Obscures the Underpinning of the Tax</u>

Vermont's Statewide Education Tax is both unique and complex. Each year, the Legislature tends to amend Vermont's Statewide Education Tax to address policy concerns or revenue shortfalls. These changes tend to layer complexity atop complexity making the system poorly understood by the public. This detracts from the underlying tension found within the tax. That tension is the lingering disagreement regarding whether school funding should be paid for by a property tax or income tax.

It is important to recall that the current system has evolved from a true compromise. Some policymakers wanted an income tax to pay for education. Other policymakers wanted a property tax. What emerged was a deal with a hybrid tax system where some taxpayers paid based on their income while others paid based on their property value. Accordingly, it defies easy characterization.

- The long tradition of funding education through property taxes would argue for calling it a property tax with an income tax component.
- That 70 percent of households pay based on income indicates that the tax most closely resembles an income tax but allows those with high incomes to pay based on their property value.

It appears to the Commission that an individual's original decision regarding Act 60's political compromise, the decision on what the "right" tax is, informs their opinion of the tax structure. This creates an odd tax system binary.

- Income tax adherents believe that Vermont has a dual system of education funding where some residents invest in education through their income

- Property tax adherents view Vermont as having a property tax system that provides tax relief for homeowners with a household income up to $90,000

From a tax structure perspective, these two starting points yield distinct issues, options, and challenges.

One major result from the lingering lack of acceptance regarding the Statewide Education Tax is that taxpayers who pay based on income and taxpayers who pay based on property may argue that the other side has a better deal.

- For taxpayers with a household income less than $90,000, income sensitivity and rebate programs may be a better deal than paying full amount of educational property taxes; however, they would pay less in taxes if every household paid based on income.

- For taxpayers with a household income greater than $90,000, the current system may be a better deal than paying based on income; however, property tax rates would be lower if income sensitivity and rebate program were eliminated and everyone paid based on their property value.

They're both right.

This equity double bind is confounding. The current tax system shields the wealthy from the full force of an income tax. The current tax system protects many Vermonters from the full force of the property tax. Meanwhile, taxpayers in the middle class tend to be caught in between.

Tax Shifts and Changing the Statewide Education Tax

The Commission created 12 property tax models, including pure income, pure property, and hybrid systems. These models shared only one feature. They shifted the tax significantly.

For example, consider the following data created in response to arguments made to the Commission that the current eligibility level for income sensitivity is too high. The table below depicts the number of households affected and average tax difference for households with a Household Income between $75,000 and $90,000 if Income Sensitivity was removed.

Household Income	Households Affected	Average Difference
$75,000 - $85,000	8693	$1231 Tax Increase
$85,000 - $90,000	3300	$1216 Tax Increase

Large tax shifts occurred in each model prepared and analyzed by the Commission.

A move toward the property tax would likely favor higher income taxpayers at the expense of middle and low-income taxpayers. A move toward an income tax approach would likely favor low, middle, and upper middle class taxpayers while increasing taxes on Vermont's high earners. The status quo squeezes middle and upper middle class Vermonters as they lack access to income sensitivity yet are not wealthy enough to make their tax payments a smaller fraction of their income in line with other income classes.

Both sides would prefer a different result, but there are no miracle cures; instead, policymakers and Vermonters will need to ask themselves hard questions about the traditional tax decision points of ability to pay, equity, and economic competiveness before making structural changes to this important tax.

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SECTION THREE: THE COMMISSION'S RECOMMENDATIONS

The Commission applied its principles to the facts of the tax system. The Commission made findings that attempt to clarify aspects of the tax system where public discourse was divorced from data. Next, the Commission's deliberations focused on crafting clear policy choices that address the challenges, both real and perceived, facing Vermont's tax system.

RECOMMENDATION 1: RESTRUCTURE THE PERSONAL INCOME TAX

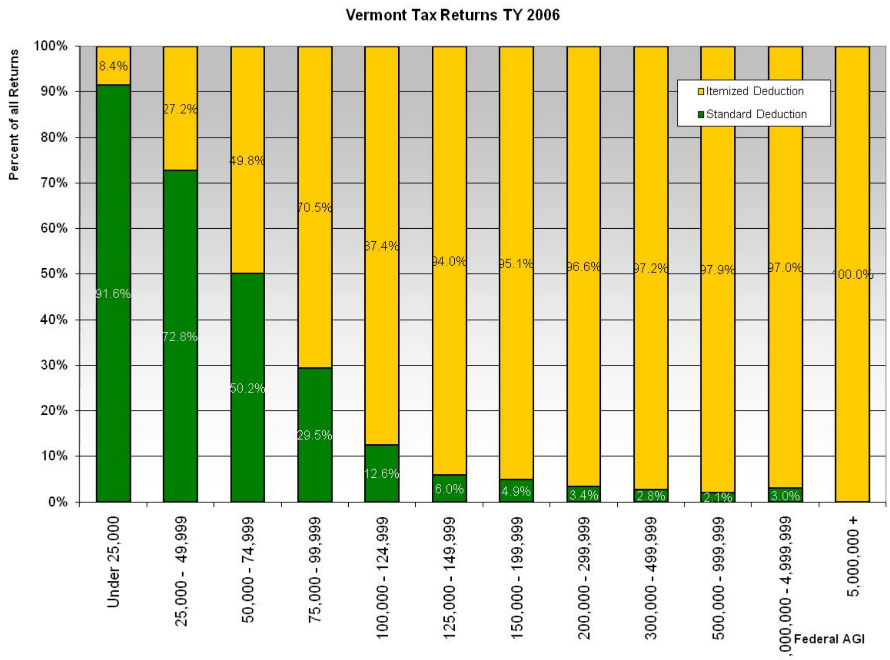
- 1A: Shift tax base from federal Taxable Income to federal Adjusted Gross Income.
- 1B: Eliminate standardized and itemized deductions.
- 1C: Implement a lower, flatter rate and bracket structure.
- 1D: Implement a residential credit as a transparent alternative to deductions.
- 1E: Evaluate all remaining personal income tax expenditures for opportunities for removal.
- 1F: Reduce the number of filing statuses from four to two, single and joint.

The Commission recommends a complete restructuring of the Personal Income Tax. Recommendation 1A moves the tax base to federal Adjustable Gross Income in line with the majority of states thereby allowing an apples to apples comparison with other states. Also, the new tax base gives Vermont's policymakers an opportunity to exert local control over Vermont's tax policy decisions by eliminating automatic federal pass through deductions.

An Adjusted Gross Income base removes all itemized deductions. Commission recommendation 1B encourages the Legislature not to add these policy choices back as Vermont specific deductions. The Commission recommends the elimination of these expenditures as they violate the Commission's principle of neutrality and may not accomplish public policy goals despite their considerable expense. Also, removal of deductions provides the revenue necessary to buy down income tax rates, place all taxpayers on a level playing field, and eliminate the opaque maze of deductions that are deployed, most valuably, by a small group of taxpayers.

<u>Distribution and Use of Deductions</u>
In Tax Year 2006, two-thirds of all Vermont tax filers took the standard deduction along with other available exemptions, reducing their Adjusted Gross Income by $2.13 billion.[22] One-third of taxpayers itemized their deductions, reducing their Adjusted Gross Income by approximately $2.6 billon. Tax filers who choose the standard deduction are largely clustered at lower incomes with itemizers clustered among middle and high incomes.

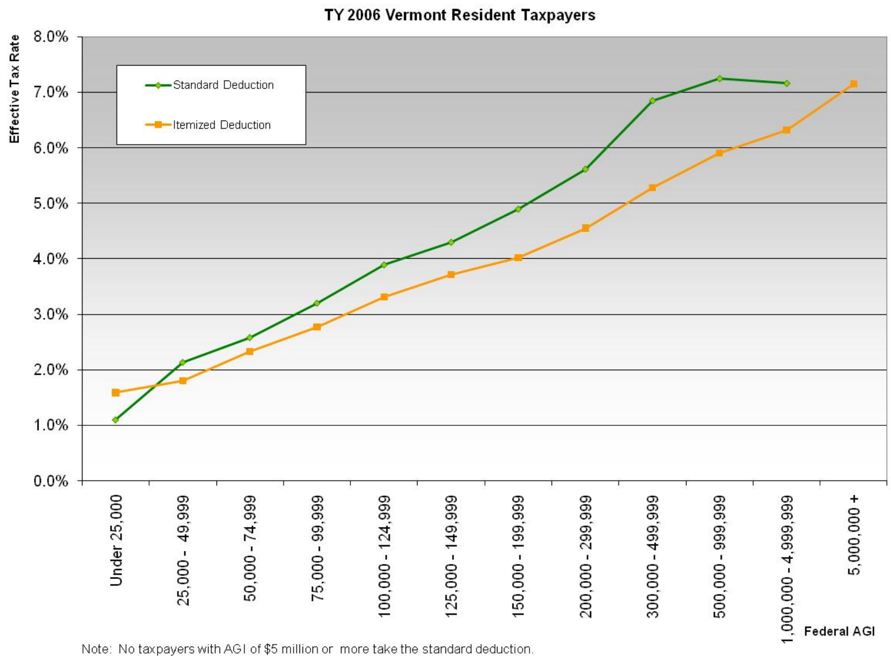
[22] All statistics regarding the value of deductions are courtesy of the Vermont Department of Taxes. They can found either on the Department's web site or on the Commission's web site.



Source: VT Department of Taxes

The results of this distribution are mixed.

On average, Vermont's standard deduction population deducted $5,872 in Tax Year 2006. The itemized deduction population reduced their income by $20,019 in Tax Year 2006. By percentage, the results were similar: Standard deduction filers were able to reduce their Adjusted Gross Income by 19 percent while the itemized deduction population on average reduced their Adjusted Gross Income by approximately 20 percent. Yet tax filers that itemize deductions tend to have a lower effective tax rate than those with standard deductions, and this trend strengthens as income rises. The chart on the next page compares effective tax rates by income class for standard and itemized deductions.



The tax system favors tax filers that itemize deductions and may do so by substantial dollar amounts at the top end of the tax system, and this preference may be undesirable given the principle of neutrality.

Neutrality means that the fewer economic decisions that are made for tax reasons the better. The primary purpose of taxes is to raise needed revenue, not to micromanage the economy, society, or the environment. Therefore, the tax system should not favor certain industries, activities, or products. The tax system should minimize interference in spending decisions and make any such involvement explicit. Here, the tax code favors a certain class of expenses based on their status as itemized deductions. Beyond the uneven distribution of deductions, the Commission explored the choices that drive this difference to see whether they warrant continuation within a reformed tax structure.

<u>The Cost and Utility of Personal Income Tax Deductions</u>

Itemized deductions are tax expenditures. The Commission voiced its skepticism regarding tax expenditures earlier in this report and will recommend fundamental reform to enhance scrutiny of tax expenditures. Again, the Commission's primary concern regarding tax expenditures is that they are expensive, add complexity to the tax system, and may not accomplish their intended purpose to the extent we can understand the purpose of these expenditures in the absence of stated legislative intent. Itemized deductions are no different, and policymakers must balance the presumed utility of the tax expenditure versus the alternative of lowering the rates or strengthening programs.

Lowering and Flattening Tax Rates

Moving to Adjusted Gross Income without deductions increases the tax base substantially by broadening the base and removing the primary ways to shield personal income from taxation. Recommendation 1C uses the revenue generated by this change to lower and flatten the tax rates and brackets for all Vermonters. The new tax rates and brackets, set forth below, will be more competitive and track more closely Vermont's effective tax rates.

AGI (Joint Filers)		
Over	**But Not Over**	**Tax Rate**
$0	**$50,000**	**3%**
$50,000	**$150,000**	**4.5%**
$150,000		**6.95%**

AGI (Single Filers)		
Over	**But Not Over**	**Tax Rate**
$0	**$30,000**	**3%**
$30,000	**$90,000**	**4.5%**
$90,000		**6.95%**

These rates simplify Vermont's rate structure by moving from five brackets and rates to three brackets and rates. Economic competitiveness will be enhanced as all rates are reduced, including a 23 percent reduction of the top rate. This will lower the rate for capital gains as well. Moreover, Vermont's tax system will appear similar to many other state tax systems.

Recommendation 1D establishes a simple residential credit. The credit's eligibility criteria and value are listed below:

- Credit is available only to Vermont residents.
- Credit is available only to those with an Adjusted Gross Income less than $125,000.
- Credit reduces taxes owed by $350 for the tax filer.
- Credit reduces taxes owed by $150 for each spouse, partner, or child capped at an $800 total reduction in taxes on each tax form.

This non- refundable credit is both vital and beneficial.

The credit is vital to maintain the current progressive distribution of the code by allowing some taxpayers to avoid paying tax on their first dollar of income. Failure to enact the credit would destroy the progressivity of the code disrupting Vermont's longstanding commitment to tax equity.

The credit would be beneficial in the following ways:

- More transparent than deductions: The current mix of deductions is worth different values to different taxpayers. Here, each eligible taxpayers would get the same dollar reduction in tax owed.
- Means tested: Means testing acknowledges that some taxpayers do not need relief from paying on their first dollar allowing the Commission to concentrate revenue on those who need tax relief most. Those above the eligibility amount benefit enough from lowered tax rates to ensure a similar distribution of effective rates to the status quo.
- Targeted to Vermonters: Targeting allows Vermont to promote its legitimate interest in encouraging families to move and stay in Vermont.

Income tax rates could be made lower or the credit could be strengthened. The primary way to accomplish either of these goals in revenue neutral tax reform would be to eliminate tax expenditures. Recommendation 1E urges the Legislature to evaluate all remaining personal income tax expenditures for opportunities for removal and reinsertion into the tax base.

Recommendation 1F simplifies the personal income by reducing the number of filing statuses from four to two. The four filing status structure provides preferential treatment to certain family configurations. While sympathetic, the Commission's position on these laudable policy goals is that spending made within the tax system should be made explicit via a direct credit or appropriation.

Recommendation 2: Broaden the Sales Tax Base

- 2A: Levy the general sales tax on all consumer-purchased services with limited exceptions for certain health and education services and business-to-business service transactions.
- 2B: Eliminate all consumer-based sales tax expenditures retaining only the exemptions for food and prescription drugs.
- 2C: Cut the sales tax rate from 6 percent to 4.5 percent.
- 2D: Move as aggressively as possible with other states to collect tax revenue due on Internet purchases.
- 2E: Levy a sales tax on soda by removing its tax exemption as a food product.

Consumer purchasing patterns have changed dramatically, eroding the tax base. This pattern seems unlikely to change. Vermont has a choice: tolerate an eroding tax base or expand the tax base.

When facing this dilemma, most states choose to add an ad hoc set of services to the tax base annually. Soft political targets are chosen for taxation. The Commission prefers a bright-line rule strengthening the sales tax base as opposed to ad hoc revenue generation.

Recommendation 2A broadens the sales tax base by taxing all consumer-purchased services with a limited exceptions for certain health and education services. This rule would improve structural equity by treating all consumer transactions essentially the same and mitigate the long-term erosion of the sales tax base.

For example, Vermonters would now pay tax on everyday service transactions such as dry cleaning, haircuts, car repair, dog grooming, professional services, tutoring not provided by an academic institution and many others. The recommendation exempts three types of transactions:

- Business-to-business services: These taxes are not within the original contemplation intention of the general sales tax on consumer purchases. Also, a tax on business-to-business transactions may cause market distortions such as pyramiding and an incentive to move contract services in house.
- Health services exempt from taxation would be those delivered by licensed health care professionals such as physicians, registered nurses, and therapists, or by personal care aides under the supervision of health care professionals, for the diagnosis, prevention, treatment, cure, or relief of a health condition, illness, injury, or disease.
- Education services exempt from tax would include those provided by a Vermont public or independent school, or a postsecondary school that offers or operates a program of college or professional education for credit or a degree in Vermont.

The latter two exceptions permitted are designed to avoid thorny administrative and jurisdictional issues.

Recommendation 2B broadens the sales tax base further by eliminating all sales tax-based exemptions except for food and prescription drugs. Sales tax exemptions, like all tax expenditures, must be scrutinized to determine whether these expensive policy choices are accomplishing their stated goals. The Commission prefers expansion of the tax base unless this can be demonstrated.

The Commission recommends pairing this substantial base broadening with a rate reduction. Recommendation 2C uses some of the revenue from the expanded sales tax base to cut the sales tax rate from 6 percent to a rate of 4.5 percent.[23] This sales tax rate is below both the national median and mean for state sales tax rates. Vermont's limited use of local option taxes makes this rate even more competitive nationally.

Also, it is important to note that some revenue created by this base expansion ($13.3 million) would pay for the Commission's income tax recommendations as well.

The Commission unanimously supports recommendation 2D, which urges Vermont to move as aggressively as possible with other states to tax the sale of goods on the Internet. It is increasingly clear among the states that the explosive growth in e-commerce presents a devastating threat not only to state sales tax collections but to the health of retail commerce in their downtowns. The lack of tax collection on products purchased on the Internet, a loophole dating from the genesis of e-commerce, creates a major competitive disadvantage for location-based retail and denies states sales tax owed by their in-state customers. It is the firm recommendation of the Blue Ribbon Tax Commission that Vermont join the vanguard states in pressing through its congressional delegation for a near-term solution to the streamlined tax initiative that will enable states to collect sales tax due them in e-commerce transactions.

A tax on sugar-sweetened beverages is one of the emerging consumption tax debates nationwide. The Commission took extensive testimony on this issue focusing on the merits and demerits of levying a per-ounce excise tax on sugar to deter consumption and fund public health programs. The Commission was unable to support this tax as part of its recommendations; however, the Commission recommends that Vermont not privilege soda by giving the product the same tax exemption as food. Accordingly, recommendation 2E excludes soda from the sales tax exemption for food as defined by the Streamlined Sales Tax Agreement.

The sales tax base is eroding. Vermont should move as aggressively as possible to reconfigure its sales tax for the twenty-first century. These recommendations, though bold, would set Vermont on a sustainable path.

RECOMMENDATION 3: ENHANCE SCRUTINY OF TAX EXPENDITURES

- 3A: Develop a legislative intent for each tax expenditure.
- 3B: Report the foregone revenue value of each tax expenditure biennially in the tax expenditure budget and refine the capacity to evaluate these values annually.
- 3C: Sunset all tax expenditures that remain in the tax code in a multiyear cycle so that the Legislature evaluates and affirms these policy choices and require a sunset for new tax expenditures as a matter of good, transparent public policy.
- 3D: Require an evaluation of the valuation of tax exempt properties on the grand list, particularly those that qualify for the public, pious, and charitable exemption from the

[23] Appendix C contains the Commission's sales tax modeling. This includes a chart setting forth the base broadening approaches considered by the Commission and the tax rate if all revenue from base expansion was used to reduce the sales tax rate.

property tax. Any such mandate ought to be accompanied by a sufficient appropriation from the Legislature to avoid levying an unfunded mandate on local officials.

Tax Expenditures weaken the tax system's foundation unless properly evaluated on a regular basis. Proper evaluation and scrutiny for tax expenditures includes stating the intent of the policy choice, its cost, and its continued necessity so that Vermonters understand the value of these public investments. Recommendations 3A, 3B, and 3C would place Vermont on the forefront of accountability and transparency nationwide.

It is instructive to evaluate the current state of tax expenditure reporting with the regime recommended by the Commission. Let's return to Vermont's exemption for residential fuels. Currently, the Legislature's tax expenditure reporting provides this information.

3.021 Electricity, oil, gas, and other fuels for a residence
Statute: 32 V.S.A. § 9741(26)
Enacted: 1977
Expenditure: $45,700,000

The Commission's recommendations might lead to a change in this reporting in the following way.

3.021 Electricity, oil, gas, and other fuels for a residence
Intent: To provide fuels tax-free to residents with income up to 400 percent of the federal poverty level.
Statute: 32 V.S.A. § 9741(26)
Enacted: 1977
Expenditure: $45,700,000
Sunset Date: (Cycle 1) June 30, 2012

Three important improvements would be made. First, the intent requirement provides a starting point to understand whether or not the policy choice works. Second, the sunset repeals the expenditure unless voted on by the Legislature making the spending choice similar to a direct appropriation. The reference to "Cycle 1" is the three-year review cycle for tax expenditures recommended by the Commission. This cycle is to help the Legislature conduct a thorough review of individual expenditures, a near impossibility on an annual basis given the number of expenditures and the complexity of the policy choices. Third, transparency and oversight likely removes some of the incentive and platform to add additional tax expenditures. Moreover, the onus is placed on the beneficiaries of all tax credits, exemptions, special districts, and preferred rates to prove once and for all that they work in a cost effective manner.

The Commission recommends the elimination of many tax expenditures within its specific recommendations; however, many tax expenditures remain. The Commission would urge reconsideration of every single tax expenditure, as the elimination of additional tax expenditures would provide an enhanced opportunity for reform.

Recommendation 3D aims to cure a specific defect in the current property tax expenditure reporting. The Commission heard testimony to the effect that the bulk of tax-exempt property is not reported with precision. Specifically, no distinction is made between public, pious, and charitable properties, and the true value of these properties may be under reported due to a property's unusual nature, scarce resources for listers, and intense time pressure. It is crucial that Vermonters understand the true value of any and all tax expenditures, particularly within the Education Fund's closed loop funding system. Any such mandate ought to be accompanied by a sufficient appropriation from the Legislature to avoid levying an unfunded mandate on local officials.

RECOMMENDATION 4: INVEST IN TAX POLICY RESOURCES

- Recommendation 4A: Develop or ascertain a tax incidence study so that the Legislature may understand the full ramifications of its tax policy choices.

The Concept of Tax Incidence

The Vermont Department of Taxes and Legislative Joint Fiscal provide excellent data and policy analysis. The small size of the state permits outsized accuracy when considering legislative changes to tax policy. Yet the Tax Department is providing policymakers with only a snapshot. The Department uses past data to determine the projected initial impact of a tax change. This can be rather precise in the case of examining resident and non-resident income tax filers. It can be less helpful with important tax types like the sales tax or rooms and meals. In these cases, tax incidence analysis can help determine the percentage of Vermonters who pay a particular tax. Overall, this helps determine the real tax contribution made by Vermont's households.

Tax incidence studies are extraordinarily useful. They are also potentially expensive and can require substantial resources to develop and maintain. Yet, it is important to know both whom the Legislature intends to tax and whom it actually taxes. A dynamic tax incidence study and model is the best way to understand these basic and crucial questions. Therefore, the Commission recommends that Vermont develop or obtain this capacity.

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SECTION FOUR: OTHER TAXES

A full examination of the tax system involves a great many subjects and innumerable details. By necessity, the Commission focused on the core concepts and decision points within the tax system. The report discusses briefly other areas of the tax system where the Commission did not offer recommendations. A lack of recommendation for reform is not a full-fledged endorsement of the tax. Simply, it means that the Commission decided that it required less immediate attention than other segments of the tax structure.

Estate Tax

The Commission declined to recommend reform of the Estate Tax. Vermont delinked from the federal estate tax due to increasing federal uncertainty. Generally, the Commission would urge Vermont's policymakers to exert maximum local control over tax policy decisions. Therefore, the Commission would defer to the Estate Tax changes made in the previous legislative session. The minority perspective includes a recommendation to reform the Estate Tax.

Property Tax

Sliding Scale Property Tax

It is not clear to the Commission why property tax exemptions function like a light switch, turning either on or off. The ability to pay property taxes is typically not an all or nothing proposition. Yet, large non-profits and wealthy colleges are exempted the same as clapboard churches and community non-profits. Therefore, the Legislature ought to consider sliding scale property taxes for various classes of exempt properties.

Current Use

The Commission declined to recommend changes to the Use Value Appraisal Program, more commonly known as Current Use. Current Use is distinct from other tax expenditures in that it functions like a program. The Commission's majority expressed concern over the cost of this property tax expenditure and urges the Legislature to evaluate the program with the enhanced scrutiny that it recommends for all tax expenditures.

Natural Resource Taxes

Extraction Taxes

The Commission declined to make a recommendation on extraction taxes. Commission member Schubart advocated for the initiation of an extraction tax for all natural resources that cannot be restored by man, including stone, aquifer, oil, gas, coal, gravel, topsoil, and sand. Wood would not be subject if a reforestation plan is filed and executed within three years. Commission member Hoyt expressed a willingness to explore extraction taxes; however, she expressed concern that the broader environmental and land management issues that these taxes would raise were beyond the scope of the Commission's work and resources. Commission member Sayre declined to support a change in the current extraction tax policy.

Property Tax

Education Governance and Finance

Section 46 of Act 160 of the 2010 Legislative Session extended the scope and duration of Vermont's Blue Ribbon Tax Structure Commission. The Commission is required by law to review the "Future of Education Governance and Education Finance" in Vermont at the conclusion of tax reform. The Commission devoted substantial time and resources to the Statewide Education Tax; however, it will delay recommendation of specific proposals in deference to this new legislative charge.

The Commission does not believe that delaying recommendations on the statewide education tax diminishes its work. The tax code is ripe with opportunities for improvement, education tax challenges notwithstanding. Outsize attention to education taxes should not distract from efforts to reform the tax system. The Commission's preliminary modeling of this tax type can be found in Appendix D.

Excise Taxes

Gasoline Tax

Commission member Schubart proposed a substantial increase in the gas tax. The tax would be used to incent the use of more efficient and environmentally friendly vehicles. The transition period until the tax phases in would be five years allowing Vermonters to prepare and plan new car and truck purchases. The Commission declined to recommend this change in part due to the lack of public transportation in large swaths of Vermont.

Cigarette Tax

The Commission heard testimony on a specific proposal to raise the cigarette tax by a dollar to reduce smoking and fund public health programs. The Commission declined to endorse this recommendation. The Commission's position is based on its principle of sustainability. These programs, if they work, build a health policy structure atop a declining revenue source.

THE MINORITY PERSPECTIVE

William R. Sayre

Consensus and Dissent

The Commission's work was marked by civility and mutual respect. All three members approached the Commission's examination of the tax system, deliberations, and recommendations with open minds and remarkable willingness to consider alternative viewpoints. As the tax reform commission's concludes, I find that my respect for each member has grown and my belief in the ability of Vermonters to work together on difficult challenges enhanced. That the Commission did not agree on every recommendation does not diminish these feelings or the Commission's work.

Commission members, like Vermont's policymakers and public, approached tax reform with divergent opinions. The information examined during tax reform challenged some of these views and reinforced others. Overall, the Commission strived to find agreement whenever possible despite starting from different perspectives. The Commission's report stresses areas of consensus without minimizing legitimate differences.

The purpose of the minority perspective is to provide a useful frame for policymakers, taxpayers, and other interested parties to discuss the Commission's work. Many possible solutions exist to the persistent problems of tax reform, and the alternative policy choices offered by the minority give Vermont's policymakers and taxpayers a broader range of choices to consider as they strive to improve Vermont's tax system. It is my hope that the Commission's recommendations and minority perspective will, when taken together, offer the Legislature a way forward that makes Vermont's tax system as competitive as possible in the twenty-first century.

The minority perspective tracks the Commission's report. I offer additional context and content on the Commission's guiding principles, findings, and recommendations. Also, the minority perspective includes alternative recommendations for policymakers.

Principle-based Reform

The Commission reached consensus on the principles set forth below.

- Fairness, Actual and Perceived
- Economic Competitiveness
- Simplicity
- Transparency
- Tax Neutrality
- Sustainability
- Executive and Legislative Accountability to Tax Payers
- R
  evenue Neutrality and Interoperability

The Commission's principles provide a useful guide post, but they are open to interpretation and contradiction. Consider the interaction between a flat tax on personal income and the principle of fairness. A flat tax levies the same tax rate on all income. Is this fair or unfair?

- Treating all Vermonters equally by levying the same tax rate on every dollar of income would honor fairness for many people.
- Fairness can also mean progressive taxation, a tax structure where an individual or family's tax liability as a fraction of income rises with income and ability to pay.[24]

Reasonable people can disagree legitimately about these competing views of fairness. Furthermore, the flat tax demonstrates how the Commission's guiding principles can be contradictory.

The principle of competitiveness supports the flat tax as it would promote lower, flatter income tax rates. Yet, the Commission's flat tax modeling revealed that the overall tax burden would shift toward low- and middle-income Vermonters, challenging the Commission's commitment to fairness. A tax structure could mitigate this distribution problem with deductions or credits, but these would add complexity to the tax code and run counter to the principle of simplicity. This discussion demonstrates how no tax concept is perfectly principled; instead, policymakers must balance contradictory principles.

While balancing principles, I believe that economic competitiveness ought to be the touchstone for reform. Vermont competes economically with states regionally and nationally and countries across the globe. An economically competitive tax structure must be responsive to this competition in the following ways.

[24] Encyclopedia of Taxation cite.

- Create Interstate Competitiveness: Vermont should design a tax system with a specific competitive goal in mind that produces the revenue and budget necessary to meet that goal.
- Spur Economic Development: The tax code can be used judiciously to encourage entrepreneurial development, such as in Vermont's captive insurance industry and other homegrown industries and businesses.
- Encourage Residency: Vermont has a substantial number of vacation homeowners, retirees, and part-time residents. The tax system can and should be used to incent these people with some allegiance to Vermont to live here and invest.

These keys to an economic competitiveness-based approach would give Vermont an opportunity to distinguish itself in a principled way and grow a sustainable tax base.

Beyond the principles, the rest of the Commission process as described in the main report describes fully the Commission's work. I am proud of the Commission's efforts to engage in a thorough, deliberate, and transparent public process. In particular, the Commission made consistent efforts to connect with Vermont's business community. As a group and individually, commission members engaged in a dialogue with members of the business community at the Commission's hearings, events hosted by business trade groups, and in private conversation. While agreement may be elusive on how to reform the tax system, the Commission offered an open environment for all Vermonters to provide input.

The Commission's Findings

Each commission member felt compelled to honor the task set before us by Governor Douglas and the legislature. We were to examine the tax system and make honest, apolitical judgments. Our review of the tax system revealed some natural tension between long-standing points of view on tax policy and the data. The majority's findings elevate this tension in order to shed light on certain common tax claims that impact public discussion. Like our guiding principles, these findings are open to some interpretation.

My goal in this section is to add additional perspective to each of the majority's findings. This is not meant to contradict my colleague's findings; rather, it is meant to augment and balance their work. Let us turn specifically to each finding.

> Majority Finding 1: The Vast Majority of Vermonters Pay Taxes. Vermont's tax system has a remarkably even distribution if one considers income, sales, and property taxes. Claims that some Vermonters do not pay their fair share are typically based on personal income tax distribution and ignore other taxes and rising income inequality.

The majority urges Vermonters to ignore the distinction between tax types and consider the total tax burden borne by tax filers as measured by a percentage of Adjusted Gross Income. This approach, while illuminating in some respects, ignores three facts that make the income tax distinct from other taxes. Also, it does not address sufficiently the tax burden borne by Vermonters.

Economic Competitiveness

Of all the taxes, the income tax is the one most generally used to judge economic competitiveness and business climate in a state. This is true particularly for the many hardworking entrepreneurs that have built their business in Vermont or are considering doing so. Many of these job creators will organize their businesses as pass-through organizations paying business profits through the income tax code, for while their costs are set here in Vermont they compete globally.

Community Wisdom

The majority acknowledged the primacy of the income tax in public discourse. Individuals and business leaders have stressed to the Commission the importance of income tax rates and the difficulty of overcoming high rates in a competitive environment. I believe that it is important to be mindful of the community's considered judgment regarding the income tax's importance.

Choice and Taxes

Tax filers may, if they so choose, make choices that reduce or eliminate the need to pay the sales tax or property tax. Some consumers may choose to live frugally and consume very little in the way of goods and housing. Our tax structure does not interfere with that choice. Just by way of contrast, the income tax is a compulsory tax. This distinction makes comparing the income tax, sales tax, and property tax less appropriate.

Tax Burden

Regardless of the tax mixture, Vermont's tax burden is too high. National rankings vary, but Vermont is ranked consistently between 2nd and 12th. This marks Vermont as less competitive than it could be and should be. People and capital are highly mobile, and policymakers ought to focus on how to reduce this burden across tax types.

> Majority Finding 2: Vermont's Choice of Income Tax Base Promotes High Marginal Rates and Lower Effective Rates. Vermont's choice of tax base makes tax rates unnecessarily high as federal deductions pass through and lower income amounts. The effective tax rates paid by Vermonters are competitive with other states.

The Commission agreed unanimously that Vermont ought to adopt Adjusted Gross Income as its tax base. This choice would provide Vermont with enhanced local control and an opportunity to perhaps implement the tax reforms recommended by the majority or minority. One additional comment is appropriate regarding this finding.

Income tax deductions are not the only force driving up Vermont's marginal income tax rates. Uncompetitive income tax rates can be caused by misplaced policy choices, unsustainable spending levels, the progressive tax structure, tax exemptions, and many other factors. State government spending levels are beyond the Commission's mandate, but the current five-bracket structure was a matter of primary concern for this Commission. I am pleased that the Commission agreed unanimously to recommend a lower, flatter rate structure.

> <u>Majority Finding 3: Changing Consumer Buying Patterns are Eroding Vermont's Sales Tax Base and Should be the Focus of Policymakers</u>. Rising purchases of services over goods and growing Internet sales are eroding Vermont's sales tax base.

The majority illuminates two very important issues facing Vermont's tax structure. I agree that changing purchasing patterns are eroding the execution and logic of the general sales tax. This is a grave concern, and it is why I join my colleagues in unanimously supporting efforts to tax Internet sales and collect that revenue. The current ability of Internet retailers to compete without collecting sales tax is unfair, and this change may allow Vermont's brick and mortar businesses to compete more effectively. My discomfort with the finding stems from the attention it deflects from the serious consequences of Vermont's decision to levy a sales tax while New Hampshire and other states do not.

> <u>Majority Finding 4: Tax Expenditures Form a Shadow Budget that Requires Greater Scrutiny</u>. The tax system spends over $1 billion annually with little oversight. Tax expenditures, policy choices made within the tax system, are costly and complex decisions that lack sufficient transparency.

I support efforts to ensure that sufficient oversight is provided for every taxpayer dollar. Furthermore, I support transparency for tax exemptions. Yet, the language of tax exemptions can be somewhat misleading. It is useful to consider a basic philosophical argument regarding tax expenditures.

Tax expenditures purport to measure "foregone revenue." This assumes that the government has a right to every dollar. By this reasoning, all income not collected by the income tax could be foregone revenue just waiting expropriation. While this takes the argument to its outer limits, it is important to recall that tax policy and tax reform are not exercises in finding new revenue. Accordingly, I would object to referring to this spending of foregone revenue and tax expenditures and prefer to label these policy choices as tax exemptions.

> <u>Majority Finding 5: There is Insufficient Data to Claim that Vermonters are Migrating Due to High Taxes as Current Statistics Demonstrates an In-Migration of Income</u>. Available data suggests that those entering Vermont earn more than those leaving. Also, Vermont's upper tax brackets are populated by high-income events, not high-income earners. While the data cannot determine something as subjective as why people are moving, it can demonstrate that definitive claims of the wealthy moving out of Vermont due to taxes lack data beyond well repeated anecdotes.

High-income earners have been the subject of much recent discussion in Vermont. The Commission's work in this regard is useful as it provides the first data for policymakers and the public to scrutinize. Unfortunately, the data is not conclusive and may raise as many questions as it answers.

Overall, migration data depicts a modest inflow of income generated by people moving into Vermont as compared to those leaving. The data leaves the impression that Vermont does not have an issue with people leaving due to high taxes, and this impression may provide policymakers with a false sense of security. The data does not present the number of migrants and how they compare to the migration patterns of our competing states. For example, is the net income gain due to our young people leaving to find for more lucrative work?

Overall, Vermonters should not be satisfied if anyone is leaving Vermont due to high taxes, and there is substantial anecdotal evidence that it happens frequently. Policymakers can and should use the tax system to attract more high-income tax filers to Vermont, particularly through demonstrating competiveness in our income tax, estate tax, corporate income tax, and programs to foster economic development.

> Majority Finding 6: Vermont's Education Funding System is Complicated but the Basic Tax Structure Choices are Straightforward. Vermont's Statewide Education Tax is both unique and complex. It is a hybrid tax system, and making it more like a pure income tax or pure property tax will involve a significant tax shift. The conversation about this shift is rooted in the basic tax issues of ability to pay, equity, and progressivity rather than anything unique about the tax.

I agree with my colleague's finding. The education tax system is complex and not much improved since its inception despite annual legislative changes. Furthermore, I would agree that fairness is the fundamental tax structure issue question presented by the tax, along with sensitivity to taxes and spending choices.

Fairness

Ability to pay is one of the major drivers of tax fairness. Starting prior to the adoption of Act 60, Vermont initiated a circuit breaker program to help homeowners of modest means with their property taxes. In contrast, Income Sensitivity, the dominant property tax assistance program, stretches the threshold to determine ability to pay to $90,000 plus annually in Household Income. It is a matter of concern that the legislature would make a decision holding that taxpayers with up to $90,000 in Household Income require state aid to pay their taxes. Like all other tax expenditures, Income Sensitivity ought to be scrutinized carefully to determine what this property tax relief program accomplishes and whether it can be much longer sustained financially.

Sensitivity

I would add to my colleague's work by stressing that complexity plays the role of desensitizing taxpayers from their decisions. Taxpayers make different choices when they are sensitized to the costs. Income sensitivity, and the confusion it engenders, leads education consumers to make choices that would likely be different if they were properly sensitized to the tax. This sensitization would ultimately slow the unsustainable rise of Vermont's property taxes.

The Commission's Recommendations

This section of the minority report will review the Commission's recommendations focusing on three main areas of concern. First, I will identify the common ground the Commission found as there is great strength in that unity. Second, I will identify the decision points where we chose to recommend a different solution to the same policy challenge. Third, I outline the specific recommendation I would offer the Legislature, including recommendations for reform distinct from those of my colleagues.

RECOMMENDATION 1. RESTRUCTURE THE PERSONAL INCOME TAX:

- 1A: Shift tax base from federal Taxable Income to federal Adjusted Gross Income.

The Commission unanimously recommends that Vermont adopt federal Adjusted Gross Income as its tax base. I endorse this recommendation for reform given the opportunity it represents to enhance economic competitiveness and increase local control.

Competitiveness:

An Adjusted Gross Income base gives Vermont an opportunity to become more competitive and be acknowledged as such. I believe strongly that Vermont should, where possible and through the means available to it, address tax rates that are out of step with the jurisdictions it competes against regionally and nationwide. The broader tax base gives Vermont the opportunity to lower and flatten tax rates. Also, an Adjusted Gross Income tax base provides a truer comparison with most the states we compete with across the Nation.

It is important to note, however, that broadening the tax base to lower marginal rates is not enough to enhance competitiveness. Policymakers ought to strive to lower the tax burden as well. This means reducing the gap between marginal and effective rates and then finding ways to reduce the overall effective income tax rate as well.

Local Control

Vermonters have a long and noble tradition of local control. An Adjusted Gross Income base would return many tax policy choices, and the accountability for them, to Vermont's policymakers. This local control should only be abandoned if there is a compelling reason to do so. For example, Vermont's piggyback income tax system, where one paid a percentage of federal liability, was an appropriate tradeoff of local control as it was profoundly simple to understand, use, and administer. The Commission rejected this approach due to lingering uncertainty about tax changes at the federal level. Perhaps future clarity by the federal government regarding tax policy will allow this approach again in the future.

- 1B: Eliminate standardized and itemized deductions.

Recommendation 1B is an excellent example of the Commission's process in action. The Commission examined deductions, and we recognized the same policy challenge. After much collaborative work, we chose to recommend different solutions.

I agree with my colleagues that the deductions within the current tax base create some inequity and economic distortion. Therefore, I agree with my colleagues that Vermont's policymakers ought to impose some limit on itemized deductions. Despite this conceptual agreement, I would endorse a more conservative approach.

The Commission modeled several itemized deduction caps.

- A cap based on a percentage of a tax filer's Adjusted Gross Income
- A hard dollar cap
- A hybrid cap that allows a percentage of Adjusted Gross Income until a dollar threshold is reached

Each cap imposed some cost control and allowed for rate cuts. Ultimately, I endorsed an itemized deduction cap whereby tax filers are limited to itemized deductions in the amount of 30 percent of their Adjusted Gross Income. This approach honors the expectations that people have developed over time in their personal lives and business affairs.

<u>Honoring Expectations</u>
Tax filers, the business community, and non-profits have come to rely on itemized deductions. Removal of these deductions may create turbulence for the one-third of taxpayers utilizing these deductions and impact negatively the industries and non-profit organizations that benefit from these incentives. Consider the amount of revenue diverted from the tax base in support of certain deductions in Tax Year 2008.

- Mortgage Interest Deduction: $645,352,025
- State and Local Tax Deduction: $464,701,200[25]
- Real Estate Tax: $ 383,875,228
- Charitable Contributions: $239,090,505
- Medical Expenses: $128,275,332[26]

It is true that some of this spending would occur without Vermont allowing these deductions. Deductions are more valuable at the federal level than state level, and some spending would

[25] Beginning in Tax Year 2009, Vermont limited itemized deductions for state and local taxes paid to $5,000.
[26] Deduction values are provided by the Vermont Department of Taxes for Tax Year 2006.

occur regardless of preferred tax treatment. Yet, it is fair to say that eliminating them completely would be disruptive to some taxpayers and groups.

It is important to note one additional feature of the itemized deduction cap contemplated by the Commission. The Commission, when considering an itemized deduction cap, agreed unanimously that such a cap should not pick and choose among federal deductions. The Commission sought to honor the principle of neutrality and allow Vermonters the freedom to choose their particular deductions even if the total amount is capped.

- 1C: Implement a lower, flatter rate and bracket structure.

The Commission agreed unanimously that tax reform provides an important opportunity to make Vermont's tax rates more competitive. I agree with my colleagues that Vermont can and should adopt a lower, flatter tax structure.

- 1D: Implement a residential credit as a transparent alternative to deductions.

I favor the retention of itemized deductions. Therefore, I would favor the retention of a standard deduction and personal exemptions as well. Specifically, I favor a standard deduction and personal exemptions linked to the Federal Poverty Level, comporting with the rationale that some income should be shielded from taxation for all tax filers so that people may purchase necessities. While I appreciate the majority's desire to simplify the code with a tax credit, I am less supportive of a credit that is means tested to help more than ninety percent of Vermonters. I would favor narrower credits designed to help Vermonters of modest means or deductions/credits offered to every tax filer.

- 1E: Evaluate all remaining personal income tax expenditures for opportunities for removal.

I support efforts to ensure that sufficient oversight is provided for every taxpayer dollar. Furthermore, I support transparency for tax exemptions. I am unable to support my colleague's recommendation for reasons I will set forth in the specific tax expenditure recommendation.

- 1F: Reduce the number of filing statuses from four to two, single and joint.

I support efforts for increased simplicity in the tax system. Therefore, I would support the adoption of this type of change notwithstanding the fact that my preferred income tax model does not utilize this policy choice.

RECOMMENDATION 2: BROADEN THE SALES TAX BASE

- 2A: Levy the general sales tax on all consumer-purchased services with limited exceptions for certain health and education services and business-to-business transactions.
- 2B: Eliminate all consumer-based sales tax expenditures retaining only the exemptions for food and prescription drugs.
- 2C: Cut the sales tax rate from 6 percent to an effective rate of 4.5 percent.
- 2D: Move as aggressively as possible with other states to collect tax revenue due on Internet purchases.
- 2E: Levy the sales tax on soda by removing its tax exemption as a food product.

One of the Commission's great virtues was its willingness to work collaboratively on ideas beyond our comfort zones. As such, I considered the broadening of the sales tax base to include services. It is instructive to consider the development of the majority's sales tax proposals to understand my reticence in supporting them.

The original concept of broadening the sales tax base to include services and tax exemptions had three points of merits. Broadening the sales tax base may have promoted sustainability in the revenue stream, offered equality between purveyors of goods and services, and offered the opportunity for a substantial rate cut. These contentions were buoyed by the data offered in the majority's opinion. Specifically, two-thirds of consumer purchases are for services, and tax exemptions represent an enormous expansion of the base.

<u>Sustainability of the Sales Tax Base</u>

The Commission reviewed each tax base, and the erosion of the sales tax base is a matter for concern. Taxing services would broaden this base making it potentially more sustainable over time. Yet, the best way to sustain a tax base is to grow it. This concern will be explored more fully later in the section.

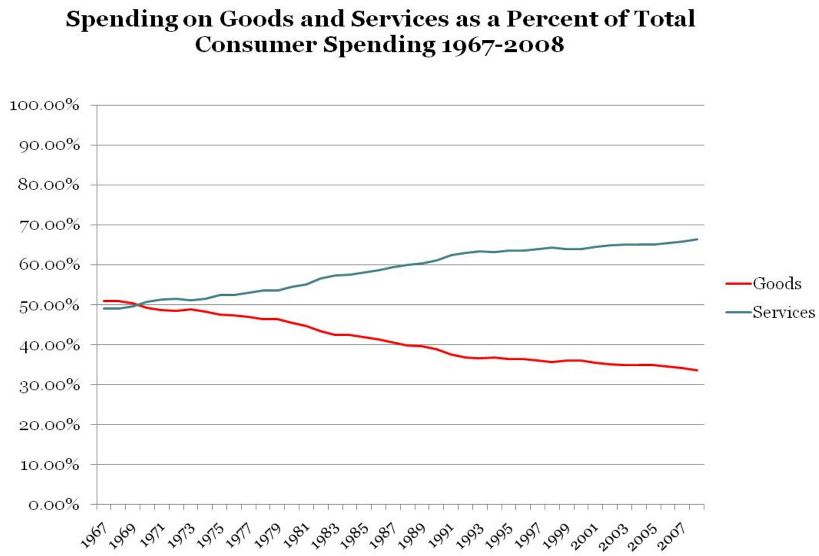
<u>Equality</u>

Currently, the purveyors of retail goods have their product taxed. Service providers do not. This may create some distortion in consumer choices that may be addressed by taxing both forms of consumption equally.

<u>Economic Competiveness</u>

Economic competitiveness through a substantial sales tax rate cut was the primary driver of my decision to consider sales tax base expansion. The data led to a hypothesis that taxing consumer services could lower the rate substantially. Specifically, the Commission began by targeting a sales tax rate perhaps as low as two percent. The Commission theorized that a sales tax as low as two percent would provide policymakers and the public reason to consider such a dramatic policy change. Further inquiry revealed that these rates would be difficult to achieve.

Reconsider the chart offered by the majority and set forth on the next page.



Not all of these services are equivalent to consumer goods. Some of these services are offered by government entities, the health care sector, educational institutions, and non-profit organizations. Taxing these entities would be either impossible or impractical. Furthermore, some tax exemptions, such as the exemptions for food and prescription drugs, proved undesirable to the majority. These limitations shrank the potential tax base and led to two conclusions. Simply, the Commission would ne unable to maximize competitiveness through a rate reduction and the use of tax exemptions would provide a platform for other tax exemptions in the future.

The inability to tax all consumption made cutting the tax rate to two or three percent nearly impossible. Instead, the Commission could only model changes that would decrease the rate by a penny or two. This would not be a significant enough boost to economic competitiveness to offset dramatic expansion of the base to most consumer services and currently exempt items. The number of exemptions granted from the broad rule of the tax may give rise to the potential for future exemptions to the code further eroding the rule. In the end, these specific issues with the concept weakened it to the point that it failed to overcome my three larger issues with the proposed change.

My two initial fears regarding the consideration of broadening the sales tax base were the creation of tax capacity and the sad history of our competitive border with New Hampshire.

<u>Tax Capacity</u>

I define tax capacity in this instance as the ability to overcome political objections in the future to raise a specific tax rate. Presently, the majority recommends broadening the sales tax base and lowering the rate. This is part of a grand bargain. In the future, Vermont will again face a fiscal crisis, and policymakers may be tempted to raise the rate. They may not recall that the rate reduction was part of a bargain to lower rates and expand the base. Consequently, Vermonters are left with a broadened base and the same or higher rates. Creating this type of tax capacity is a concern and may make Vermont less competitive in the future.

The Lessons of New Hampshire

Vermont can look to the border shared with New Hampshire to see and understand the competitive impact of levying a broad-based tax next to a jurisdiction that does not levy that same tax. The result of broadening the sales tax base may be the further erosion of the retail economy in Vermont and the exodus of service providers along Vermont's Eastern border. Worse yet, the same dynamic currently seen with retailers along the New Hampshire border may appear along the borders with Massachusetts and New York with service providers. Beyond our contiguous borders, Vermont-based businesses have clients across the country, placing Vermont's businesses at a competitive disadvantage.

Vermont may not be able to change the retail environment along the New Hampshire border. While Vermont may not be able to make it better, it can make things worse. The majority's recommendations are rooted in principle and an earnest desire to address important twenty-first century tax issues, and I respect that intent. Yet Vermont cannot afford to hamper its interstate economic competitiveness.

Compliance and Administration

Taxing service will place an administrative burden on Vermont's businesses and the Tax Department. Service providers will be forced to implement a radical change, separating transactions from businesses and consumers. The Tax Department will need to enhance their ability to audit an entirely new tax structure. The short term implementation costs may be expensive and cumbersome.

- 2B: Eliminate all consumer-based sales tax expenditures retaining only the exemptions for food and prescription drugs.

The Commission spent considerable time deliberating on this issue. My position on this issue evolved similar to my position regarding the taxation of services. Originally, I was open to the idea of removing all sales tax exemptions. For example, I would be willing to consider endorsing the replacement of the sales tax exemption for food with specific credit that provides funds to Vermonters of modest means to buy food. My support for this type of change eroded as the Commission failed to hold the line and endorse an exception-free rule.

- 2C: Cut the sales tax rate from 6 percent to an effective rate of 4.5 percent.

As stated previously, I favor enhancing economic competitiveness by reducing the sales tax rate substantially. Substantially means a sales tax rate of approximately two percent. Neither the majority nor minority supported a proposal capable of hitting that target rate.

- 2D: Move as aggressively as possible with other states to collect tax revenue due on Internet purchases.

I join my colleagues in unanimously supporting efforts to tax Internet sales and collect the tax. The current ability of Internet retailers to compete without collecting sales tax is unfair, and this change may allow Vermont's brick and mortar businesses to compete more effectively.

- 2E: Levy the sales tax on soda by removing its tax exemption as a food product.

This recommendation will make Vermont's retailers less competitive by creating another good where Vermont levies tax while others do not. Also, the policy choice to tax soda opens the Pandora 's Box of taxing supposed "junk" food. The challenge, from my perspective, is that it is unclear where policymakers draw the line once one food product is taxed for health reasons. This change opens the door onto a slippery policy slope, one which may lead us away from competitiveness and freedom of personal choice.

RECOMMENDATION 3: ENHANCE SCRUTINY OF TAX EXPENDITURES

- 3A: State a legislative intent for each tax expenditure.
- 3B: Report the foregone revenue value of each tax expenditure biennially in the tax expenditure budget and refine the capacity to evaluate these values.
- 3C: Sunset all tax expenditures that remain in the tax code in a three-year cycle so that the legislature evaluates and affirms these policy choices and require a sunset for new tax expenditures as a matter of good, transparent public policy.
- 3D: Require an evaluation of the valuation of tax exempt properties on the grand list, particularly those that qualify for the public, pious, and charitable exemption from the property tax. Any such mandate ought to be accompanied by a sufficient appropriation from the Legislature to avoid levying an unfunded mandate on local officials.

Overall, I believe my colleagues are offering a well-intentioned approach; however, the oversight proposed is susceptible to creating unnecessary uncertainty.

<u>Uncertainty</u>
Taxpayers, both individuals and businesses, make decisions based on the tax system. The corollary to this statement is that predictability is very important tax filers. Sun setting all tax exemptions in a multi-year cycle increases uncertainty and decreases predictability. It is unclear to me that this is preferable to making timely decisions regarding the efficacy of an individual tax exemption.

The legislative process can be challenging for policymakers and the public. Perspective is lost on occasion as the exigencies of the moment dominate a particular session. I am concerned that tax exemptions could become caught within emergent hot-button issues and the horse trading that accompanies them. Simply, the underlying compromise that led to the tax exempt status may be lost. This runs counter to the Commission's principal of transparency, which states that "tax legislation should be based on sound legislative procedures and careful predictive analysis."

That public dollars should receive sufficient oversight is without dispute. The idea that Vermont can and should do a better job incenting growth through the judicious use of targeted tax policy is uncontroversial. Yet, micromanaging the legislative process may not be the best way to accomplish these goals.

RECOMMENDATION 4: INVEST IN TAX POLICY RESOURCES

- 4A: Develop or ascertain a tax incidence study so that the Legislature may understand the full ramifications of its tax policy choices.

I agree with the Commission's recommendation that Vermont ought to invest in resources that allow tax policy to be considered in a dynamic way. It is imperative that policymakers understand both whom they intend to tax and the actual burden of that tax. The incidence of business taxes, and its comparison to the tax levy on businesses in other states, would be a most welcome addition to the tax debate.

ALTERNATIVE RECOMMENDATIONS

I offer recommendations to improve the Personal Income Tax, Sales Tax, Estate Tax, and Corporate Income Tax. Also, I offer commentary on the Statewide Education Property Tax. As with the majority's recommendations, more information regarding these proposals can be found in the relevant appendices.

ALTERNATIVE RECOMMENDATION 1: RESTRUCTURE THE PERSONAL INCOME TAX

- 1A: Shift tax base from federal Taxable Income to federal Adjusted Gross Income.
- 1B: Cap itemized deductions at thirty percent of a tax filer's Adjusted Gross Income with a standard deduction and personal exemptions linked to the Federal Poverty Level.
- 1C: Broaden the personal income tax base by removing tax-exempt status of employer-provided benefits.
- 1D: Implement a lower, flatter rate and bracket structure.

Recommendation 1A moves the tax base to federal Adjustable Gross Income in line with the majority of states thereby allowing an apples to apples comparison with others states. Also, the new tax base gives Vermont's policymakers an opportunity to exert local control over Vermont's tax policy decisions by eliminating automatic federal pass through deductions.

An Adjusted Gross Income base removes all itemized deductions. Alternative recommendation 1B caps itemized deductions at 30 percent of Adjusted Gross Income. The cap prevents itemizers from using deductions to avoid paying income tax entirely, ensuring tax ubiquity. Furthermore, this provides some opportunity to enhance economic competitiveness by broadening the base.

The majority takes natural steps to broaden the income tax base, but I believe significant additional opportunity exists to broaden the base. Specifically, the majority's approach neglects one of the most significant and pervasive forms of untaxed income in America: employee-provided benefits – both health care and otherwise. Therefore, alternative Recommendation 1C broadens the base further by characterizing employer-provided benefits as income for tax purposes.

The unusual tax-free treatment of health care is rooted in a series of policy choices made by the federal government during the Second World War The economic distortions caused by this decision and its consequences for the cost and delivery of health care have been profound, but they are beyond the scope of our work on the tax structure. It is fair to say, however, that employee-provided benefits now represent an enormous exclusion from the tax base both federally and in Vermont.

The value of the employer provided health benefits would be a substantial addition to the tax base.

Employee Provided Benefits	United States	Vermont
2009 Value in Billions	$131	$1.41[27]

Multiplying the value of these benefits by Vermont's average effective tax rate over the past thirty-two years (3.08 percent) yields a tax value of $42.3 million, equal to approximately 8.3 percent of income tax collected by Vermont in Tax Year 2008. The value is likely higher given that benefits are more common for high-income earners. The base could be expanded further by taxing other employer-provided benefits.

Employer-provided benefits represent an important exception to the general rules of the income tax and an opportunity to reform the tax system in a way that aligns with our shared principles of neutrality, competitiveness, and sustainability. Furthermore, the logic of ending this historic and costly distortion and broadening the tax base is taking hold at the federal level.

The recent federal health care reform created an excise tax on employer-provided health plans. Specifically, the tax is levied on the excess value of high-value health care plans. Plans in excess of the proscribed value will be taxed at forty percent of their value. While the tax will not be levied until 2018, the federal government requires employers to list the value of these benefits on federal W-2 forms in Tax Year 2012. These changes to federal law presage greater change. Vermont can embrace this change and move strategically to restructure its tax system to include health care benefits and other employer-provided benefits.

Alternative recommendation 1D uses the base broadening achieved by the cap on itemized deductions, tax on employer provided benefits including health care, and reduction in the Income Sensitivity program to lower and flatten the tax rates and brackets for all Vermonters. The new tax rates and brackets mirror the majority's recommendation. These rates simplify Vermont's rate structure by moving from five brackets and rates to three brackets and rates. Economic competitiveness will be enhanced as all rates are reduced, including a 27 percent reduction of the top rate compared to Tax Year 2008.

ALTERNATIVE RECOMMENDATION 2: MODIFY THE ESTATE TAX

- 2A: Align Vermont's Estate Tax with the Federal Estate Tax.

[27] Joint Fiscal Office analysis of BISCHA data.

Vermont decoupled from the federal exclusion amount effective January 1, 2011. The exclusion amount is now $2.75 million, below the federal exclusion amount of $5 million for individuals and $10 million for couples. The structural reason for this difference is unclear given Vermont's long adherence to the federal exclusion amount. We must place Vermont in a more competitive tax structure to retain and attract wealth and to encourage the entrepreneurial risk-taking that creates jobs and broadens the tax base. Therefore, Vermont's recent estate tax policy choice may be a step in the wrong direction.

ALTERNATIVE RECOMMENDATION 3: RESTRUCTURE THE CORPORATE INCOME TAX

- 3A: Adopt a Single Sales Factor in place of the current apportionment formula.
- 3B: Eliminate the Throwback Rule.
- 3C: Consider implementing a lower, flatter corporate income tax.

Vermont passed Mandatory Unitary Combined Reporting as a corporate income tax regime in 2004. While controversial and cumbersome for businesses, it appears to be here to stay. Therefore, I recommend that Vermont's policymakers address two anti-competitive features of the current law. Alternative recommendations 3A and 3B address these two issues by adopting a single sales factor in place of the current four-part "double-weighted sales factor formula" and eliminating the Throwback Rule.

Alternative recommendation 3A shifts the apportionment formula from a mixture of property, payroll, and a double weighting on sales to one based entirely on the sales of a corporation in Vermont. This would likely have salutary effects on job creation and investment. Vermont businesses would have a powerful incentive to expand facilities and payrolls in Vermont. Also, out-of-state businesses would have a powerful incentive to locate in Vermont. Accordingly, this tax policy change may spur economic development.

Alternatively, recommendation 3B proposes to end the Throwback Rule, which "provides that if a corporation is not taxable in a state in which it makes sales, those sales are to be treated as if they were made to customers located in the state from which the goods fulfilling the sale were shipped."[28] The elimination of the Throwback Rule would not make Vermont as competitive as ending the current apportionment formula, but it may improve competiveness regionally and nationally.

Alternative Recommendation 3C recommends consideration of a lower, flatter corporate income tax. This would include a flat tax on corporate income and rates that make Vermont more competitive regionally and nationally. Currently, Vermont is one of only fifteen states to utilize a progressive Corporate Income Tax. The rationale for a progressive tax structure is less

[28] http://www.cbpp.org/files/3-27-01sfp.pdf

persuasive regarding corporate taxation. Furthermore, the current bracket structure means that corporations benefit only slightly from the system's progressivity. Therefore, a flat rate structure is recommended. The next step would be lower rates.

Corporate income tax rates send a powerful message about competiveness. Vermont could distinguish itself by making these rates much more competitive for a modest amount of revenue, For example, consider two scenarios.[29]

Flat Corporate Income Tax Rate of 6.5 percent

- The rate would be the lowest in New England.
- The rate would be ranked twenty-first lowest nationally.
- The flat tax at 6.5 percent would reduce revenue by $14.1 million.

Set Flat Tax Rate at 5.99 percent

- The rate would be the lowest in New England.
- The top rate would be ranked eleventh lowest nationally.
- The flat tax at 5.99 percent would reduce revenue by $18.1 million.

Revenue neutral tax reform made this recommendation challenging as it required raising taxes somewhere else. The legislature is under no such constraints, and they may look to this reform as a cost-effective way to signal Vermont's economic competitiveness to businesses.

ALTERNATIVE RECOMMENDATION 4: MODIFY THE STATEWIDE PROPERTY TAX

- 4
  A: Explore alternative ways to make the tax structure more competitive by reducing property tax adjustments in favor of other forms of tax relief.

Reform is about hard choices. The Commission's study of the tax structure revealed many decision points where policymakers may need to choose between difficult alternatives. As the majority points out, tax exemptions provide an enormous pool of revenue where Vermont may need to weigh the efficacy of the current policy choice in accomplishing the goals of the system. The Statewide Education Property Tax features several large tax exemptions that deserve scrutiny and reconsideration.

Property tax adjustments will represent a $148,300,000 tax exemption by Fiscal Year 2012.[30] Some version of the property tax adjustment is desirable. For example, Vermont has offered program relief to low-income Vermonters for the past forty years through the Circuit Breaker program. Yet, Vermont now subsidizes households with a Household Income up to $90,000. Some would argue that this is beyond any reasonable limit of low-income or modest means.

[29] Corporate Income Tax estimate provided by the Legislative Joint Fiscal Office. .
[30] Data from the biennial tax expenditure report is found in Appendix C.

Therefore, policymakers ought to explore using this potential revenue to enhance the competiveness of the system is some other aspect.

For example, the Commission explored 12 property tax models. These models examined a wide array of policy choices that ranged from complete elimination of Income Sensitivity to a pure income tax. Several of these models decreased property tax adjustment dollars and redeployed those dollars by cutting rates elsewhere in the tax code. My alternative income tax recommendation is funded in just this way.

Tax reform is about choices. Each year, Vermont makes a policy choice to adjust the property tax. That choice is expensive and growing along with the cost of education. Education spending has risen over the past ten years from $822.7 million to $1.463 billion this year.[31] It is unclear to me, as a matter of sustainability, competiveness, and equity, that Vermont can continue to desensitize tax payers to this type of spending choice. Moreover, within the context of reform, it is fitting and proper to ask whether this is the best intervention of scarce dollars in the tax system.

The Commission will not offer recommendations on the Statewide Education Property Tax due to its prospective mandate to examine Vermont's education finance and governance system. For now, I would ask policymakers and the public to keep an open mind and demonstrate a willingness to examine hard choices.

ALTERNATIVE RECOMMENDATION 5: STANDARD DEFINITION OF INCOME

My final alternative recommendation is simple but vital for restoring common sense to the tax system. Vermont ought to use the same definition for income for both the income tax and statewide property tax to the maximum extent possible. This will do much to improve taxpayer understanding of the tax and make the system simpler to administer.

[31] Statistics based on JFO education balance sheets and double counts tuition payments.

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NOTE ON REVENUE NEUTRALITY

The appendices provide the essential data behind the commission's work. This includes the data demonstrating the Commission's commitment to revenue neutrality. Both the majority and minority positions are revenue neutral as described below.

Majority Balance Sheet

The Majority endorses Personal Income Tax Model 13 and the sales tax modeling described in Appendix B.

- Majority reduces Vermont's Income Tax by $13.27 million.
- Majority increases sales tax by $22.75 million.
- All modeling reserved $10 million so that reform would be revenue neutral for target implementation year of Fiscal Year 2012 or later.
- Net change is negative $520,000.

Minority Balance Sheet

Minority endorsed Personal Income Tax Model 14. The minority balance sheet relies on two critical assumptions. First, the minority recommendations redeployed income sensitivity adjustment revenue. This would require increasing the property tax. Appendix D presents tax models that make this adjustment. Second, the minority assumes that the value of taxing employer provided benefits, specifically health care, is at least the value of multiplying those benefits ($1.41 billion) times the average effective tax rate in 2008 of 3.25 percent.

- Minority reduces Vermont's Income Tax by $90.04 million.
- Minority increases property tax by $54.2 million.
- Minority assumes $45.8 million from taxation of employer provided health benefits.
- All modeling reserved $10 million so that reform would be revenue neutral for target implementation year of Fiscal Year 2012 or later.

- N
  et change is negative $40,000.

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APPENDIX A: THE PERSONAL INCOME TAX

The Commission examined Vermont's income tax structure identifying four decision points.

- Definition of the tax base.
- Treatment of deductions and exemptions.
- Number and structure of brackets.
- Number and structure of rates.

The Commission generated options for each decision point.

Defining the Tax Base
The Commission considered four potential income tax bases.

- Federal Total Income.
- Federal Adjusted Gross Income.
- Federal Taxable Income (Current Law)
- Vermont Specific Tax Base.

Treatment of Deductions and Exemptions
The Commission reviewed three conceptual choices regarding deductions and exemptions.

- Allow deductions to pass through. (Current Law)
- Limit deductions and exemptions.
- Eliminate deductions and exemptions.

The Commission created personal income tax models with the following parameters:

- Limit deductions by percent of income.
- Limit deductions by dollar amount.
- Limit deductions by combination of percent and dollar amount.
- Eliminate deductions.

Bracket Structure
The Commission modeled three bracket structures.

- Five Bracket Structure. (Current Law)
- Three Bracket Structure. (Majority and Minority Recommendation)
- Single Bracket Structure.

The commission retained the current five bracket structure for the majority of its modeling. This allowed the Commission to focus on principled changes to the tax structure rather than a preferred rate. Rate driven models included a flat tax and a lower, flatter tax bracket structure developed as the Commission became more certain about its final recommendations.

Rate Structure

The majority of the Commission's modeling utilized a "let the chips fall where they may" strategy where the enhanced revenue from base broadening was devoted exclusively to rate reduction. This included modeling of a flat tax on Adjusted Gross Income, flat tax of Taxable Income, and piggyback tax similar to Vermont's former tax system.

Personal Income Tax Models

The Commission's work on each decision point resulted in fourteen personal income tax models. The methodology used by the Vermont Department of Taxes to build the models is provided below.

Methodology

All of the income tax models developed for the BRTC start with individual Vermont income tax return data for tax year 2008. Each year in December the Department of Taxes goes through a data cleaning process on a complete file of processed returns in preparation for publication of the annual income tax statistics. The file for tax year 2008 returns (filed in 2009) was "frozen," meaning that amended returns processed after December 2009 are not included. In this way, the results could be replicated and alternate scenarios compared against a constant baseline computed tax.

Each model considered a small number of discrete changes to the state's tax code in effect for the 2008 tax year[32] in order to assess the impact of isolated changes, holding other features of tax law constant. In most models requested by the commission, the starting point for tax calculation was federal adjusted gross income (AGI) as reported on Form IN-111, the Vermont income tax form. One scenario used federal taxable income as the starting point, as reported on the same form. In all cases the new parameters were applied to each return, which was recalculated and the new tax liability compared to the baseline tax for that return.

Any models that required data not available on the Vermont income tax return, such as itemized deductions and personal exemptions or federal tax, involved matching state and federal returns. This step was avoided where possible for several reasons. First, there is never a complete match between the federal and state returns data, which decreases the population for analysis.[33] Second, the IRS schedule for releasing income tax data to the states usually

[32] The models for the BRTC do not include legislative changes made to Vermont's income tax system in 2009 and 2010, most notably the taxation of capital gains and the add back of the federal deduction for state income taxes.

[33] Approximately 10% of returns do not have a match in the federal extract file Vermont receives from the IRS. However, the Department has not found any systematic bias in using federal data to examine tax burden changes among different income classes of taxpayers.

means using older data, creating greater problems with reliability in the current economic environment of volatile and rapidly falling incomes. Additional problems arise when the data do not match or where values must be imputed.

For each alternative scenario, the new calculated tax under the specified assumptions was compared to the computed tax from line 26 on VT Form IN-111 for each filer. The results are grouped by income class cohort and for resident and non-resident taxpayers to provide a picture of the shift in tax burden among the income classes and between in-state and out-of-state filers. Each income cohort is a blend of taxpayers who do better under the proposed tax changes and others who do worse. Total tax liabilities were aggregated to assess revenue neutrality. For most scenarios, an additional analysis was done that provided detail on the number of filers who saw a tax increase or decrease and the average change in their tax liability.

Scenario 1: Flat Tax on VT Taxable Income--5.25% Rate (In-State Filers)

Income Class	Returns	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Computed Tax TY08	Tax on 5.25% of TI	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	4,462	-177,635,303	0	4,248,980	356,270	251,423	-104,847	-24	-0.20%	-0.14%
None/Missing	194	0	0	32,383	1,434	1,863	429	2		
.01 - 4,999	28,573	73,960,735	73,586,542	2,787,225	110,730	152,963	42,233	1	0.15%	0.21%
5,000 - 9,999	26,665	197,254,560	195,115,268	15,288,091	545,293	794,740	249,447	9	0.28%	0.40%
10,000 - 14,999	23,056	287,369,187	282,608,143	56,481,182	1,968,743	2,873,868	905,125	39	0.69%	1.00%
15,000 - 19,999	21,647	378,681,506	371,835,632	117,208,745	4,037,451	5,914,443	1,876,992	87	1.07%	1.56%
20,000 - 24,999	21,127	474,994,871	466,044,555	198,049,226	6,847,698	10,027,207	3,179,509	151	1.44%	2.11%
25,000 - 29,999	19,914	546,617,221	537,794,416	271,573,194	9,428,512	13,801,991	4,373,479	220	1.72%	2.52%
30,000 - 34,999	17,811	577,774,800	568,649,044	317,309,186	11,040,074	16,169,602	5,129,528	288	1.91%	2.80%
35,000 - 39,999	15,362	575,042,811	566,289,297	333,076,175	11,622,950	16,992,766	5,369,816	350	2.02%	2.96%
40,000 - 44,999	13,235	561,350,152	553,013,224	336,303,480	11,856,459	17,116,975	5,260,516	397	2.11%	3.05%
45,000 - 49,999	11,650	552,785,590	545,119,870	338,723,098	12,467,003	17,266,766	4,799,763	412	2.26%	3.12%
50,000 - 59,999	20,581	1,129,024,415	1,114,677,820	712,367,001	26,985,383	36,259,828	9,274,445	451	2.39%	3.21%
60,000 - 74,999	24,217	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	54,318,767	13,735,730	567	2.49%	3.34%
75,000 - 99,999	27,831	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	84,279,527	16,641,177	598	2.82%	3.51%
100,000 - 124,999	13,877	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	55,598,854	3,975,530	286	3.36%	3.62%
125,000 - 149,999	6,663	908,403,851	888,337,574	667,859,958	33,739,775	32,969,723	-770,052	-116	3.71%	3.63%
150,000 - 199,999	6,127	1,048,379,202	1,019,866,301	781,606,592	42,493,266	37,942,993	-4,550,273	-743	4.05%	3.62%
200,000 - 299,999	3,861	926,769,873	901,779,529	705,883,737	43,187,104	33,759,208	-9,427,896	-2,442	4.66%	3.64%
300,000 - 499,999	1,811	678,854,945	659,605,289	528,404,263	35,584,727	24,360,837	-11,223,890	-6,198	5.24%	3.59%
500,000 - 999,999	795	529,161,175	515,661,722	416,765,067	30,866,722	18,774,410	-12,092,312	-15,210	5.83%	3.55%
1,000,000 +	400	1,248,216,895	1,226,040,474	864,662,490	64,551,740	33,404,169	-31,147,571	-77,869	5.17%	2.68%
Total In-state	**309,859**	**16,080,851,580**	**15,969,149,057**	**10,513,945,526**	**507,536,045**	**513,032,923**	**5,496,878**		3.16%	3.19%

Scenario 1: Flat Tax on VT Taxable Income--5.25% Rate (Nonresident Filers)

Income Class	Returns	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Computed Tax TY08	Tax on 5.25% of TI	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	810	-1,472,509,116	0	394,366	7,535	8,789	1,254	2	#DIV/0!	#DIV/0!
None/Missing	35	0	0	0	0	0	0	0	#DIV/0!	#DIV/0!
.01 - 4,999	4,161	12,354,762	9,670,086	514,950	11,733	17,042	5,309	1	0.12%	0.18%
5,000 - 9,999	4,660	33,701,920	23,073,681	4,631,043	105,742	154,452	48,710	10	0.46%	0.67%
10,000 - 14,999	3,070	38,110,465	23,676,204	10,422,859	213,577	311,911	98,334	32	0.90%	1.32%
15,000 - 19,999	2,925	51,193,577	30,689,215	19,851,947	388,045	567,772	179,727	61	1.26%	1.85%
20,000 - 24,999	2,745	61,586,555	38,869,512	28,647,594	599,739	876,312	276,573	101	1.54%	2.25%
25,000 - 29,999	2,490	68,321,385	43,617,363	35,711,298	762,798	1,113,580	350,782	141	1.75%	2.55%
30,000 - 34,999	2,219	72,037,148	46,031,834	40,235,697	847,420	1,236,989	389,569	176	1.84%	2.69%
35,000 - 39,999	1,964	73,599,120	45,099,602	42,489,683	858,641	1,246,620	387,979	198	1.90%	2.76%
40,000 - 44,999	1,697	72,087,328	41,353,272	43,312,338	839,221	1,189,328	350,107	206	2.03%	2.88%
45,000 - 49,999	1,560	74,100,456	40,774,365	54,202,887	839,942	1,141,268	301,326	193	2.06%	2.80%
50,000 - 59,999	2,722	149,469,599	80,419,039	92,747,439	1,714,956	2,260,802	545,846	201	2.13%	2.81%
60,000 - 74,999	3,558	239,429,439	119,969,754	155,003,241	2,646,791	3,414,365	767,574	216	2.21%	2.85%
75,000 - 99,999	4,230	366,621,965	167,723,872	248,935,475	3,894,512	4,732,253	837,741	198	2.32%	2.82%
100,000 - 124,999	2,577	286,988,884	127,170,909	201,599,136	3,160,911	3,342,074	181,163	70	2.49%	2.63%
125,000 - 149,999	1,499	204,028,628	84,001,724	148,197,412	2,156,234	2,084,185	-72,049	-48	2.57%	2.48%
150,000 - 199,999	1,657	285,453,615	126,460,206	206,064,761	2,565,456	2,281,406	-284,050	-171	2.03%	1.80%
200,000 - 299,999	1,565	380,583,958	162,713,891	281,144,225	3,206,943	2,526,872	-680,071	-435	1.97%	1.55%
300,000 - 499,999	1,219	465,521,268	180,673,060	353,301,394	2,713,800	1,886,520	-827,280	-679	1.50%	1.04%
500,000 - 999,999	1,111	773,496,694	289,129,738	612,976,033	3,364,677	2,082,513	-1,282,164	-1,154	1.16%	0.72%
1,000,000 +	1,572	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	5,924,542	-4,635,028	-2,948	0.10%	0.05%
Total Out-of-state	**50,046**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**38,399,595**	**-3,058,648**		0.32%	0.30%

Total	**359,905**	**36,105,846,558**	**28,762,274,940**	**25,999,710,743**	**548,994,288**	**551,432,518**	**2,438,230**	**7**

Model 1: Revenue neutral flat tax on federal Taxable Income with no deductions or exemptions. Rate is 5.25 percent.

Scenario 2: Flat Tax on AGI--3.4% Rate (In-State Filers)

Income Class	Returns	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Computed Tax TY08	Tax on 3.4% of AGI	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	4,462	-177,635,303	0	4,248,980	356,270	155,501	-200,769	-45	-0.20%	-0.09%
None/Missing	194	0	0	32,383	1,434	2,021	587	3		
.01 - 4,999	28,573	73,960,735	73,586,542	2,787,225	110,730	2,523,508	2,412,778	84	0.15%	3.41%
5,000 - 9,999	26,665	197,254,560	195,115,268	15,288,091	545,293	6,677,628	6,132,335	230	0.28%	3.39%
10,000 - 14,999	23,056	287,369,187	282,608,143	56,481,182	1,968,743	9,560,510	7,591,767	329	0.69%	3.33%
15,000 - 19,999	21,647	378,681,506	371,835,632	117,208,745	4,037,451	12,494,745	8,457,294	391	1.07%	3.30%
20,000 - 24,999	21,127	474,994,871	466,044,555	198,049,226	6,847,698	15,679,429	8,831,731	418	1.44%	3.30%
25,000 - 29,999	19,914	546,617,221	537,794,416	271,573,194	9,428,512	18,141,758	8,713,246	438	1.72%	3.32%
30,000 - 34,999	17,811	577,774,800	568,649,044	317,309,186	11,040,074	19,207,803	8,167,729	459	1.91%	3.32%
35,000 - 39,999	15,362	575,042,811	566,289,297	333,076,175	11,622,950	19,052,974	7,430,024	484	2.02%	3.31%
40,000 - 44,999	13,235	561,350,152	553,013,224	336,303,480	11,856,459	18,661,011	6,804,552	514	2.11%	3.32%
45,000 - 49,999	11,650	552,785,590	545,119,870	338,723,098	12,467,003	18,250,237	5,783,234	496	2.26%	3.30%
50,000 - 59,999	20,581	1,129,024,415	1,114,677,820	712,367,001	26,985,383	37,143,869	10,158,486	494	2.39%	3.29%
60,000 - 74,999	24,217	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	53,284,652	12,701,615	524	2.49%	3.28%
75,000 - 99,999	27,831	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	78,215,320	10,576,970	380	2.82%	3.26%
100,000 - 124,999	13,877	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	49,925,511	-1,697,813	-122	3.36%	3.25%
125,000 - 149,999	6,663	908,403,851	888,337,574	667,859,958	33,739,775	28,691,204	-5,048,571	-758	3.71%	3.16%
150,000 - 199,999	6,127	1,048,379,202	1,019,866,301	781,606,592	42,493,266	32,765,699	-9,727,567	-1,588	4.05%	3.13%
200,000 - 299,999	3,861	926,769,873	901,779,529	705,883,737	43,187,104	27,904,054	-15,283,050	-3,958	4.66%	3.01%
300,000 - 499,999	1,811	678,854,945	659,605,289	528,404,263	35,584,727	19,458,056	-16,126,671	-8,905	5.24%	2.87%
500,000 - 999,999	795	529,161,175	515,661,722	416,765,067	30,866,722	14,598,570	-16,268,152	-20,463	5.83%	2.76%
1,000,000 +	400	1,248,216,895	1,226,040,474	864,662,490	64,551,740	27,528,295	-37,023,445	-92,559	5.17%	2.21%
	309,859	**16,080,851,580**	**15,969,149,057**	**10,513,945,526**	**507,536,045**	**509,922,355**	**2,386,310**		3.16%	3.17%

Scenario 2: Flat Tax on AGI--3.4% Rate (Nonresident Filers)

Income Class	Returns	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Computed Tax TY08	Tax on 3.4% of AGI	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	810	-1,472,509,116	0	394,366	7,535	25,307	17,772	22	0.00%	0.00%
None/Missing	35	0	0	0	0	0	0	0		
.01 - 4,999	4,161	12,354,762	9,670,086	514,950	11,733	312,878	301,145	72	0.09%	2.53%
5,000 - 9,999	4,660	33,701,920	23,073,681	4,631,043	105,742	742,875	637,133	137	0.31%	2.20%
10,000 - 14,999	3,070	38,110,465	23,676,204	10,422,859	213,577	743,101	529,524	172	0.56%	1.95%
15,000 - 19,999	2,925	51,193,577	30,689,215	19,851,947	388,045	955,244	567,199	194	0.76%	1.87%
20,000 - 24,999	2,745	61,586,555	38,869,512	28,647,594	599,739	1,203,413	603,674	220	0.97%	1.95%
25,000 - 29,999	2,490	68,321,385	43,617,363	35,711,298	762,798	1,353,970	591,172	237	1.12%	1.98%
30,000 - 34,999	2,219	72,037,148	46,031,834	40,235,697	847,420	1,396,826	549,406	248	1.18%	1.94%
35,000 - 39,999	1,964	73,599,120	45,099,602	42,489,683	858,641	1,352,731	494,090	252	1.17%	1.84%
40,000 - 44,999	1,697	72,087,328	41,353,272	43,312,338	839,221	1,255,096	415,875	245	1.16%	1.74%
45,000 - 49,999	1,560	74,100,456	40,774,365	54,202,887	839,942	1,166,908	326,966	210	1.13%	1.57%
50,000 - 59,999	2,722	149,469,599	80,419,039	92,747,439	1,714,956	2,291,440	576,484	212	1.15%	1.53%
60,000 - 74,999	3,558	239,429,439	119,969,754	155,003,241	2,646,791	3,321,072	674,281	190	1.11%	1.39%
75,000 - 99,999	4,230	366,621,965	167,723,872	248,935,475	3,894,512	4,411,203	516,691	122	1.06%	1.20%
100,000 - 124,999	2,577	286,988,884	127,170,909	201,599,136	3,160,911	3,001,858	-159,053	-62	1.10%	1.05%
125,000 - 149,999	1,499	204,028,628	84,001,724	148,197,412	2,156,234	1,820,435	-335,799	-224	1.06%	0.89%
150,000 - 199,999	1,657	285,453,615	126,460,206	206,064,761	2,565,456	1,977,815	-587,641	-355	0.90%	0.69%
200,000 - 299,999	1,565	380,583,958	162,713,891	281,144,225	3,206,943	2,127,330	-1,079,613	-690	0.84%	0.56%
300,000 - 499,999	1,219	465,521,268	180,673,060	353,301,394	2,713,800	1,593,795	-1,120,005	-919	0.58%	0.34%
500,000 - 999,999	1,111	773,496,694	289,129,738	612,976,033	3,364,677	1,633,718	-1,730,959	-1,558	0.43%	0.21%
1,000,000 +	1,572	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	4,895,041	-5,664,529	-3,603	0.06%	0.03%
	50,046	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**37,582,056**	**-3,876,187**		0.21%	0.19%

Total	**359,905**	**36,105,846,558**	**28,762,274,940**	**25,999,710,743**	**548,994,288**	**547,504,411**	**-1,489,877**	**-4**
In-State	309,859	16,080,851,580	15,969,149,057	10,513,945,526	507,536,045	509,922,355	2,386,310	8
Out-of-State	50,046	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	37,582,056	-3,876,187	-77

Model 2: Revenue neutral flat tax on federal Adjusted Gross Income with no deductions or exemptions. Rate is 3.4 percent.

Scenario 3: Piggyback Tax on Federal Tax--30% Rate (In-State 100% Filers)						
AGI Income Class	Returns	Federal Tax	VT Tax	30% Piggyback Tax	Change	Avg Change
Negative	3,612	15,612	13,851	4,685	-9,166	-3
None/Missing	1,828	8,618	27,220	2,586	-24,634	-13
.01 - 4,999	28,647	298,033	138,043	89,475	-48,568	-2
5,000 - 9,999	26,070	1,817,634	682,534	545,162	-137,372	-5
10,000 - 14,999	21,676	5,771,926	2,085,901	1,730,673	-355,228	-16
15,000 - 19,999	20,940	12,505,047	4,285,552	3,751,275	-534,277	-26
20,000 - 24,999	20,344	22,869,213	7,129,401	6,860,900	-268,501	-13
25,000 - 29,999	19,111	32,530,487	9,687,128	9,759,278	72,150	4
30,000 - 34,999	16,850	37,632,707	10,931,410	11,289,910	358,500	21
35,000 - 39,999	14,817	40,812,308	11,771,149	12,243,963	472,814	32
40,000 - 44,999	12,677	42,166,913	12,083,160	12,650,361	567,201	45
45,000 - 49,999	11,238	44,178,046	12,622,374	13,253,651	631,277	56
50,000 - 59,999	19,545	94,316,124	26,681,366	28,295,331	1,613,965	83
60,000 - 74,999	23,726	149,879,224	41,678,571	44,964,370	3,285,799	138
75,000 - 99,999	26,116	229,378,925	67,318,575	68,814,250	1,495,675	57
100,000 - 124,999	12,841	167,207,877	50,176,373	50,162,714	-13,659	-1
125,000 - 149,999	6,176	110,610,589	33,079,707	33,183,430	103,723	17
150,000 - 199,999	5,775	141,718,148	42,849,620	42,515,745	-333,875	-58
200,000 - 299,999	3,871	150,341,136	46,219,617	45,102,548	-1,117,069	-289
300,000 - 499,999	2,046	145,859,059	44,532,967	43,757,839	-775,128	-379
500,000 - 999,999	982	133,097,220	41,514,395	39,929,211	-1,585,184	-1,614
1,000,000 +	483	281,076,447	89,441,355	84,322,963	-5,118,392	-10,597
	299,371	**1,844,091,293**	**554,950,269**	**553,230,320**	**-1,719,949**	

Scenario 3: Piggyback Tax on Federal Tax--30% Rate (Nonresident 100% Filers)						
AGI Income Class	Returns	Federal Tax	VT Tax	30% Piggyback Tax	Change	Avg Change
Negative	318	291	688	87	-601	-2
None/Missing	94	299	2,422	90	-2,332	-25
.01 - 4,999	1,197	4,931	7,102	1,477	-5,625	-5
5,000 - 9,999	1,236	82,226	48,851	24,662	-24,189	-20
10,000 - 14,999	520	156,140	58,116	46,806	-11,310	-22
15,000 - 19,999	510	333,456	109,408	100,028	-9,380	-18
20,000 - 24,999	486	571,392	173,559	171,415	-2,144	-4
25,000 - 29,999	453	738,388	215,240	221,517	6,277	14
30,000 - 34,999	422	988,822	273,789	296,656	22,867	54
35,000 - 39,999	292	817,823	225,423	245,343	19,920	68
40,000 - 44,999	215	741,799	197,900	222,541	24,641	115
45,000 - 49,999	166	684,664	186,838	205,403	18,565	112
50,000 - 59,999	273	1,361,323	361,637	408,397	46,760	171
60,000 - 74,999	251	1,639,871	417,696	491,970	74,274	296
75,000 - 99,999	246	2,279,120	548,788	683,749	134,961	549
100,000 - 124,999	118	1,613,819	400,318	484,153	83,835	710
125,000 - 149,999	64	1,178,486	265,335	353,546	88,211	1,378
150,000 - 199,999	68	1,533,495	327,839	460,053	132,214	1,944
200,000 - 299,999	49	1,757,808	437,133	527,341	90,208	1,841
300,000 - 499,999	31	1,978,174	487,198	593,453	106,255	3,428
500,000 - 999,999	31	4,134,926	1,130,926	1,240,480	109,554	3,534
1,000,000 +	5	1,344,717	400,502	403,415	2,913	583
	7,045	**23,941,970**	**6,276,708**	**7,182,582**	**905,874**	

Total	**306,416**	**1,868,033,263**	**561,226,977**	**560,412,902**	**-814,075**	**-3**
In-State	299,371	1,844,091,293	554,950,269	553,230,320	-1,719,949	-6
Out-of-State	7,045	23,941,970	6,276,708	7,182,582	905,874	129

NOTE: Calculated on 2007 federal tax data matched with VT returns with 100% apportionment

Model 3: Revenue neutral federal piggyback similar to Vermont's previous tax regime. Rate is 30.04 percent of federal tax liability.

Scenario 4: Tax on AGI with VT Income Adjustments (In-State Filers)

Income Class	Returns	TY08 No Tax	Alternate TY08 No Tax	Total AGI	Computed Tax TY08	Alternate Tax TY08	Difference from Baseline	Average Tax Difference	Percent Tax Difference	Current Effective Rate	Model Effective Rate
Negative	4,462	4,240	4,297	-177,635,303	356,270	219,367	-136,903	-31	-38.4%	-0.20%	-0.12%
None/Missing	194	186	186	0	1,434	1,508	74	0	5.2%		
.01 - 4,999	28,573	26,342	956	73,960,735	110,730	1,685,344	1,574,614	55	1422.0%	0.15%	2.28%
5,000 - 9,999	26,665	17,765	138	197,254,560	545,293	4,489,659	3,944,366	148	723.3%	0.28%	2.28%
10,000 - 14,999	23,056	8,060	128	287,369,187	1,968,743	6,340,019	4,371,276	190	222.0%	0.69%	2.21%
15,000 - 19,999	21,647	5,474	190	378,681,506	4,037,451	8,254,156	4,216,705	195	104.4%	1.07%	2.18%
20,000 - 24,999	21,127	2,210	160	474,994,871	6,847,698	10,384,501	3,536,803	167	51.6%	1.44%	2.19%
25,000 - 29,999	19,914	983	226	546,617,221	9,428,512	12,140,321	2,711,809	136	28.8%	1.72%	2.22%
30,000 - 34,999	17,811	518	163	577,774,800	11,040,074	13,002,434	1,962,360	110	17.8%	1.91%	2.25%
35,000 - 39,999	15,362	311	141	575,042,811	11,622,950	13,379,538	1,756,588	114	15.1%	2.02%	2.33%
40,000 - 44,999	13,235	245	108	561,350,152	11,856,459	13,666,469	1,810,010	137	15.3%	2.11%	2.43%
45,000 - 49,999	11,650	171	99	552,785,590	12,467,003	13,452,502	985,499	85	7.9%	2.26%	2.43%
50,000 - 59,999	20,581	244	158	1,129,024,415	26,985,383	27,794,140	808,757	39	3.0%	2.39%	2.46%
60,000 - 74,999	24,217	224	169	1,626,700,601	40,583,037	42,485,820	1,902,783	79	4.7%	2.49%	2.61%
75,000 - 99,999	27,831	196	205	2,400,194,670	67,638,350	68,242,481	604,131	22	0.9%	2.82%	2.84%
100,000 - 124,999	13,877	103	143	1,536,949,824	51,623,324	47,562,607	-4,060,717	-293	-7.9%	3.36%	3.09%
125,000 - 149,999	6,663	51	85	908,403,851	33,739,775	29,064,057	-4,675,718	-702	-13.9%	3.71%	3.20%
150,000 - 199,999	6,127	44	76	1,048,379,202	42,493,266	37,687,546	-4,805,720	-784	-11.3%	4.05%	3.59%
200,000 - 299,999	3,861	36	68	926,769,873	43,187,104	37,287,161	-5,899,943	-1,528	-13.7%	4.66%	4.02%
300,000 - 499,999	1,811	16	48	678,854,945	35,584,727	30,691,553	-4,893,174	-2,702	-13.8%	5.24%	4.52%
500,000 - 999,999	795	11	23	529,161,175	30,866,722	26,703,927	-4,162,795	-5,236	-13.5%	5.83%	5.05%
1,000,000 +	400	8	22	1,248,216,895	64,551,740	60,847,282	-3,704,458	-9,261	-5.7%	5.17%	4.87%
Total In-state	**309,859**	**67,438**	**7,789**	**16,080,851,580**	**507,536,045**	**505,382,392**	**-2,153,653**	-7	-0.4%	3.16%	3.14%

Scenario 4: Tax on AGI with VT Income Adjustments (Nonresident Filers)

Income Class	Returns	TY08 No Tax	Alternate TY08 No Tax	Total AGI	Computed Tax TY08	Alternate Tax TY08	Difference from Baseline	Average Tax Difference	Percent Tax Difference		
Negative	810	787	788	-1,472,509,116	7,535	29,395	21,860	27	290.1%	0.00%	0.00%
None/Missing	35	35	35	0	0	0	0	0			
.01 - 4,999	4,161	3,668	231	12,354,762	11,733	207,087	195,354	47	1665.0%	0.09%	1.68%
5,000 - 9,999	4,660	2,389	163	33,701,920	105,742	491,487	385,745	83	364.8%	0.31%	1.46%
10,000 - 14,999	3,070	757	145	38,110,465	213,577	491,252	277,675	90	130.0%	0.56%	1.29%
15,000 - 19,999	2,925	553	151	51,193,577	388,045	630,606	242,561	83	62.5%	0.76%	1.23%
20,000 - 24,999	2,745	369	161	61,586,555	599,739	795,181	195,442	71	32.6%	0.97%	1.29%
25,000 - 29,999	2,490	224	143	68,321,385	762,798	897,038	134,240	54	17.6%	1.12%	1.31%
30,000 - 34,999	2,219	194	152	72,037,148	847,420	939,793	92,373	42	10.9%	1.18%	1.30%
35,000 - 39,999	1,964	167	149	73,599,120	858,641	956,076	97,435	50	11.3%	1.17%	1.30%
40,000 - 44,999	1,697	129	108	72,087,328	839,221	920,665	81,444	48	9.7%	1.16%	1.28%
45,000 - 49,999	1,560	159	142	74,100,456	839,942	877,135	37,193	24	4.4%	1.13%	1.18%
50,000 - 59,999	2,722	255	231	149,469,599	1,714,956	1,750,541	35,585	13	2.1%	1.15%	1.17%
60,000 - 74,999	3,558	358	330	239,429,439	2,646,791	2,707,549	60,758	17	2.3%	1.11%	1.13%
75,000 - 99,999	4,230	462	437	366,621,965	3,894,512	3,899,510	4,998	1	0.1%	1.06%	1.06%
100,000 - 124,999	2,577	365	346	286,988,884	3,160,911	2,884,097	-276,814	-107	-8.8%	1.10%	1.00%
125,000 - 149,999	1,499	234	230	204,028,628	2,156,234	1,872,193	-284,041	-189	-13.2%	1.06%	0.92%
150,000 - 199,999	1,657	386	383	285,453,615	2,565,456	2,262,950	-302,506	-183	-11.8%	0.90%	0.79%
200,000 - 299,999	1,565	408	400	380,583,958	3,206,943	2,832,413	-374,530	-239	-11.7%	0.84%	0.74%
300,000 - 499,999	1,219	348	339	465,521,268	2,713,800	2,481,739	-232,061	-190	-8.6%	0.58%	0.53%
500,000 - 999,999	1,111	357	345	773,496,694	3,364,677	2,936,313	-428,364	-386	-12.7%	0.43%	0.38%
1,000,000 +	1,572	545	532	17,788,817,328	10,559,570	9,852,198	-707,372	-450	-6.7%	0.06%	0.06%
Total Out-of-state	**50,046**	**13,149**	**5,941**	**20,024,994,978**	**41,458,243**	**40,715,218**	**-743,025**	-15	-1.8%	0.21%	0.20%

Total	**359,905**	**80,587**	**13,730**	**36,105,846,558**	**548,994,288**	**546,097,610**	**-2,896,678**	**-8**
In-State	309,859	67,438	7,789	16,080,851,580	507,536,045	505,382,392	-2,153,653	-7
Out-of-State	50,046	13,149	5,941	20,024,994,978	41,458,243	40,715,218	-743,025	-15

Model 4: Commission modeled an Adjusted Gross Income tax base with no deductions or exemptions. All enhanced revenue used to reduce rates. The rate table is below.

Joint Filer	Income	Model Marginal Rate	Current Marginal Rates	Marginal Rate Change
0	54,400	2.25%	3.55%	-1.30%
54,400	131,500	4.00%	6.8%	-2.80%
131,500	200,300	5.50%	7.8%	-2.30%
200,300	357,700	6.50%	8.80%	-2.30%
357,700	> $357,000	7.00%	8.95%	-1.95%

Scenario 5: Tax on AGI with VT Income Adjustments and $15K Deduction (In-State Filers)

Income Class	Returns	TY08 No Tax	Alternate TY08 No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Computed Tax TY08	Alternate Tax	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	4,462	4,240	4,354	-177,635,303	0	4,248,980	356,270	239,156	-117,114	-26		
None/Missing	194	186	191	0	0	32,383	1,434	784	-650	-3		
.01 - 4,999	28,573	26,342	28,385	73,960,735	73,586,542	2,787,225	110,730	40,969	-69,761	-2	0.15%	0.06%
5,000 - 9,999	26,665	17,765	26,353	197,254,560	195,115,268	15,288,091	545,293	156,235	-389,058	-15	0.28%	0.08%
10,000 - 14,999	23,056	8,060	22,520	287,369,187	282,608,143	56,481,182	1,968,743	102,697	-1,866,046	-81	0.69%	0.04%
15,000 - 19,999	21,647	5,474	936	378,681,506	371,835,632	117,208,745	4,037,451	1,597,631	-2,439,820	-113	1.07%	0.43%
20,000 - 24,999	21,127	2,210	394	474,994,871	466,044,555	198,049,226	6,847,698	4,634,250	-2,213,448	-105	1.44%	0.99%
25,000 - 29,999	19,914	983	329	546,617,221	537,794,416	271,573,194	9,428,512	7,448,475	-1,980,037	-99	1.72%	1.39%
30,000 - 34,999	17,811	518	232	577,774,800	568,649,044	317,309,186	11,040,074	9,318,421	-1,721,653	-97	1.91%	1.64%
35,000 - 39,999	15,362	311	203	575,042,811	566,289,297	333,076,175	11,622,950	10,139,545	-1,483,405	-97	2.02%	1.79%
40,000 - 44,999	13,235	245	177	561,350,152	553,013,224	336,303,480	11,856,459	10,891,976	-964,483	-73	2.11%	1.97%
45,000 - 49,999	11,650	171	146	552,785,590	545,119,870	338,723,098	12,467,003	11,102,382	-1,364,621	-117	2.26%	2.04%
50,000 - 59,999	20,581	244	213	1,129,024,415	1,114,677,820	712,367,001	26,985,383	25,046,892	-1,938,491	-94	2.39%	2.25%
60,000 - 74,999	24,217	224	212	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	39,733,704	-849,333	-35	2.49%	2.48%
75,000 - 99,999	27,831	196	188	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	71,423,839	3,785,489	136	2.82%	3.02%
100,000 - 124,999	13,877	103	94	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	54,678,878	3,055,554	220	3.36%	3.61%
125,000 - 149,999	6,663	51	52	908,403,851	888,337,574	667,859,958	33,739,775	34,654,476	914,701	137	3.71%	3.90%
150,000 - 199,999	6,127	44	32	1,048,379,202	1,019,866,301	781,606,592	42,493,266	44,996,277	2,503,011	409	4.05%	4.41%
200,000 - 299,999	3,861	36	30	926,769,873	901,779,529	705,883,737	43,187,104	44,243,676	1,056,572	274	4.66%	4.91%
300,000 - 499,999	1,811	16	22	678,854,945	659,605,289	528,404,263	35,584,727	36,061,889	477,162	263	5.24%	5.47%
500,000 - 999,999	795	11	18	529,161,175	515,661,722	416,765,067	30,866,722	31,115,108	248,386	312	5.83%	6.03%
1,000,000 +	400	8	10	1,248,216,895	1,226,040,474	864,662,490	64,551,740	71,041,926	6,490,186	16,225	5.17%	5.79%
	309,859	**67,438**	**85,091**	**16,080,851,580**	**15,969,149,057**	**10,513,945,526**	**507,536,045**	**508,669,186**	**1,133,141**	4	3.16%	3.19%

Scenario 5: Tax on AGI with VT Income Adjustments and $15K Deduction (Nonresident Filers)

Income Class	Returns	TY08 No Tax	Alternate TY08 No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Computed Tax TY08	Tax on 3.4% of AGI	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	810	787	793	-1,472,509,116	0	394,366	7,535	32,564	25,029	31		0.0%
None/Missing	35	35	35	0	0	0	0	0	0	0		
.01 - 4,999	4,161	3,668	4,142	12,354,762	9,670,086	514,950	11,733	241	-11,492	-3	0.12%	0.0%
5,000 - 9,999	4,660	2,389	4,625	33,701,920	23,073,681	4,631,043	105,742	511	-105,231	-23	0.46%	0.0%
10,000 - 14,999	3,070	757	3,003	38,110,465	23,676,204	10,422,859	213,577	2,013	-211,564	-69	0.90%	0.0%
15,000 - 19,999	2,925	553	282	51,193,577	30,689,215	19,851,947	388,045	120,686	-267,359	-91	1.26%	0.2%
20,000 - 24,999	2,745	369	181	61,586,555	38,869,512	28,647,594	599,739	352,773	-246,966	-90	1.54%	0.6%
25,000 - 29,999	2,490	224	149	68,321,385	43,617,363	35,711,298	762,798	541,146	-221,652	-89	1.75%	0.8%
30,000 - 34,999	2,219	194	157	72,037,148	46,031,834	40,235,697	847,420	661,056	-186,364	-84	1.84%	0.9%
35,000 - 39,999	1,964	167	154	73,599,120	45,099,602	42,489,683	858,641	719,064	-139,577	-71	1.90%	1.0%
40,000 - 44,999	1,697	129	111	72,087,328	41,353,272	43,312,338	839,221	719,056	-120,165	-71	2.03%	1.0%
45,000 - 49,999	1,560	159	142	74,100,456	40,774,365	54,202,887	839,942	716,509	-123,433	-79	2.06%	1.0%
50,000 - 59,999	2,722	255	235	149,469,599	80,419,039	92,747,439	1,714,956	1,569,781	-145,175	-53	2.13%	1.1%
60,000 - 74,999	3,558	358	331	239,429,439	119,969,754	155,003,241	2,646,791	2,548,142	-98,649	-28	2.21%	1.1%
75,000 - 99,999	4,230	462	435	366,621,965	167,723,872	248,935,475	3,894,512	4,078,794	184,282	44	2.32%	1.1%
100,000 - 124,999	2,577	365	346	286,988,884	127,170,909	201,599,136	3,160,911	3,292,259	131,348	51	2.49%	1.1%
125,000 - 149,999	1,499	234	224	204,028,628	84,001,724	148,197,412	2,156,234	2,209,009	52,775	35	2.57%	1.1%
150,000 - 199,999	1,657	386	381	285,453,615	126,460,206	206,064,761	2,565,456	2,675,459	110,003	66	2.03%	0.9%
200,000 - 299,999	1,565	408	399	380,583,958	162,713,891	281,144,225	3,206,943	3,326,660	119,717	77	1.97%	0.9%
300,000 - 499,999	1,219	348	338	465,521,268	180,673,060	353,301,394	2,713,800	2,895,521	181,721	149	1.50%	0.6%
500,000 - 999,999	1,111	357	345	773,496,694	289,129,738	612,976,033	3,364,677	3,391,103	26,426	24	1.16%	0.4%
1,000,000 +	1,572	545	531	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	11,362,153	802,583	511	0.10%	0.1%
	50,046	**13,149**	**17,339**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**41,214,500**	**-243,743**	-5	0.32%	0.2%

Total	**359,905**	**80,587**	**102,430**	**36,105,846,558**	**28,762,274,940**	**25,999,710,743**	**548,994,288**	**549,883,686**	**889,398**	**2**
In-State	309,859	67,438	85,091	16,080,851,580	15,969,149,057	10,513,945,526	507,536,045	508,669,186	1,133,141	4
Out-of-State	50,046	13,149	17,339	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	41,214,500	-243,743	-5

Model 5: Commission modeled a standard $15,000 deduction on Adjusted Gross Income of all tax filers and used enhanced revenue to reduce marginal rates. The rate table is below.

Joint Filer	Income	Model Marginal Rate	Current Marginal Rates	Marginal Rate Change
0	54,400	3.00%	3.55%	-0.55%
54,400	131,500	5.75%	6.8%	-1.05%
131,500	200,300	6.80%	7.8%	-1.00%
200,300	357,700	7.50%	8.80%	-1.30%
357,700	> $357,000	8.00%	8.95%	-0.95%

Scenario 6: AGI Base with Flat $15,000 Deduction (In-State Filers)												
Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Scenario Tax	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	4,462	4,240	4,354	-177,635,303	0	4,248,980	356,270	242,865	-113,405	-25		
None/Missing	194	186	191	0	0	32,383	1,434	794	-640	-3		
.01 - 4,999	28,573	26,342	28,387	73,960,735	73,586,542	2,787,225	110,730	22,296	-88,434	-3	0.15%	0.03%
5,000 - 9,999	26,665	17,765	26,356	197,254,560	195,115,268	15,288,091	545,293	36,253	-509,040	-19	0.28%	0.02%
10,000 - 14,999	23,056	8,060	22,522	287,369,187	282,608,143	56,481,182	1,968,743	98,572	-1,870,171	-81	0.70%	0.03%
15,000 - 19,999	21,647	5,474	909	378,681,506	371,835,632	117,208,745	4,037,451	1,642,446	-2,395,005	-111	1.09%	0.43%
20,000 - 24,999	21,127	2,210	358	474,994,871	466,044,555	198,049,226	6,847,698	4,718,212	-2,129,486	-101	1.47%	0.99%
25,000 - 29,999	19,914	983	290	546,617,221	537,794,416	271,573,194	9,428,512	7,451,678	-1,976,834	-99	1.75%	1.36%
30,000 - 34,999	17,811	518	207	577,774,800	568,649,044	317,309,186	11,040,074	9,290,618	-1,749,456	-98	1.94%	1.61%
35,000 - 39,999	15,362	311	171	575,042,811	566,289,297	333,076,175	11,622,950	10,340,210	-1,282,740	-84	2.05%	1.80%
40,000 - 44,999	13,235	245	165	561,350,152	553,013,224	336,303,480	11,856,459	10,860,850	-995,609	-75	2.14%	1.93%
45,000 - 49,999	11,650	171	133	552,785,590	545,119,870	338,723,098	12,467,003	11,443,385	-1,023,618	-88	2.29%	2.07%
50,000 - 59,999	20,581	244	182	1,129,024,415	1,114,677,820	712,367,001	26,985,383	25,824,963	-1,160,420	-56	2.42%	2.29%
60,000 - 74,999	24,217	224	186	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	40,857,107	274,070	11	2.53%	2.51%
75,000 - 99,999	27,831	196	163	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	72,753,492	5,115,142	184	2.86%	3.03%
100,000 - 124,999	13,877	103	83	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	54,367,049	2,743,725	198	3.41%	3.54%
125,000 - 149,999	6,663	51	49	908,403,851	888,337,574	667,859,958	33,739,775	35,002,134	1,262,359	189	3.80%	3.85%
150,000 - 199,999	6,127	44	29	1,048,379,202	1,019,866,301	781,606,592	42,493,266	44,442,071	1,948,805	318	4.17%	4.24%
200,000 - 299,999	3,861	36	26	926,769,873	901,779,529	705,883,737	43,187,104	44,468,119	1,281,015	332	4.79%	4.80%
300,000 - 499,999	1,811	16	20	678,854,945	659,605,289	528,404,263	35,584,727	36,282,588	697,861	385	5.39%	5.34%
500,000 - 999,999	795	11	17	529,161,175	515,661,722	416,765,067	30,866,722	31,665,588	798,866	1,005	5.99%	5.98%
1,000,000 +	399	8	8	1,103,875,054	1,081,698,633	836,368,100	61,926,366	63,060,222	1,133,856	2,842	5.72%	5.71%
	309,858	**67,438**	**84,806**	**15,936,509,739**	**15,824,807,216**	**10,485,651,136**	**504,910,671**	**504,871,512**	**-39,159**		3.19%	3.17%

Scenario 6: AGI Base with Flat $15,000 Deduction (Nonresident Filers)												
Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Scenario Tax	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	810	787	793	-1,472,509,116	0	394,366	7,535	32,770	25,235	31		
None/Missing	35	35	35	0	0	0	0	0	0	0		
.01 - 4,999	4,161	3,668	4,143	12,354,762	9,670,086	514,950	11,733	228	-11,505	-3	0.09%	0.00%
5,000 - 9,999	4,660	2,389	4,625	33,701,920	23,073,681	4,631,043	105,742	513	-105,229	-23	0.31%	0.00%
10,000 - 14,999	3,070	757	3,003	38,110,465	23,676,204	10,422,859	213,577	2,035	-211,542	-69	0.56%	0.01%
15,000 - 19,999	2,925	553	275	51,193,577	30,689,215	19,851,947	388,045	124,962	-263,083	-90	0.76%	0.41%
20,000 - 24,999	2,745	369	176	61,586,555	38,869,512	28,647,594	599,739	365,558	-234,181	-85	0.97%	0.94%
25,000 - 29,999	2,490	224	145	68,321,385	43,617,363	35,711,298	762,798	560,449	-202,349	-81	1.12%	1.28%
30,000 - 34,999	2,219	194	152	72,037,148	46,031,834	40,235,697	847,420	685,771	-161,649	-73	1.18%	1.49%
35,000 - 39,999	1,964	167	147	73,599,120	45,099,602	42,489,683	858,641	746,273	-112,368	-57	1.17%	1.65%
40,000 - 44,999	1,697	129	111	72,087,328	41,353,272	43,312,338	839,221	742,731	-96,490	-57	1.16%	1.80%
45,000 - 49,999	1,560	159	141	74,100,456	40,774,365	54,202,887	839,942	740,433	-99,509	-64	1.13%	1.82%
50,000 - 59,999	2,722	255	232	149,469,599	80,419,039	92,747,439	1,714,956	1,619,627	-95,329	-35	1.15%	2.01%
60,000 - 74,999	3,558	358	330	239,429,439	119,969,754	155,003,241	2,646,791	2,616,493	-30,298	-9	1.11%	2.18%
75,000 - 99,999	4,230	462	435	366,621,965	167,723,872	248,935,475	3,894,512	4,154,366	259,854	61	1.06%	2.48%
100,000 - 124,999	2,577	365	346	286,988,884	127,170,909	201,599,136	3,160,911	3,332,714	171,803	67	1.10%	2.62%
125,000 - 149,999	1,499	234	224	204,028,628	84,001,724	148,197,412	2,156,234	2,229,647	73,413	49	1.06%	2.65%
150,000 - 199,999	1,657	386	381	285,453,615	126,460,206	206,064,761	2,565,456	2,693,578	128,122	77	0.90%	2.13%
200,000 - 299,999	1,565	408	399	380,583,958	162,713,891	281,144,225	3,206,943	3,341,758	134,815	86	0.84%	2.05%
300,000 - 499,999	1,219	348	338	465,521,268	180,673,060	353,301,394	2,713,800	2,911,920	198,120	163	0.58%	1.61%
500,000 - 999,999	1,111	357	345	773,496,694	289,129,738	612,976,033	3,364,677	3,449,597	84,920	76	0.43%	1.19%
1,000,000 +	1,572	545	531	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	11,700,038	1,140,468	725	0.06%	0.11%
	50,046	**13,149**	**17,307**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**42,051,461**	**593,218**		0.21%	0.33%
Total	**359,904**	**80,587**	**102,113**	**35,961,504,717**	**28,617,933,099**	**25,971,416,353**	**546,368,914**	**546,922,973**	**554,059**	**2**		
In-State	309,858	67,438	84,806	15,936,509,739	15,824,807,216	10,485,651,136	504,910,671	504,871,512	-39,159	0		
Out-Of-State	50,046	13,149	17,307	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	42,051,461	593,218	12		

Model 6: Commission modeled a standard $15,000 deduction on Adjusted Gross Income of all tax filers and used enhanced revenue to reduce marginal rates. The rate table is below. Key difference between model 5 and model 6 is selected rate structure.

Joint Filer	Income	Model Marginal Rate	Current Marginal Rates	Marginal Rate Change
0	54,400	3.10%	3.55%	-0.45%
54,400	131,500	5.75%	6.8%	-1.05%
131,500	200,300	6.80%	7.8%	-1.00%
200,300	357,700	7.50%	8.80%	-1.30%
357,700	> $357,000	8.25%	8.95%	-0.70%

Scenario 7: AGI Base with Deduction on Family Size (In-State Filers)												
Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Scenario Tax	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	4,462	4,240	4,344	-177,635,303	0	4,248,980	356,270	242,944	-113,326	-25		
None/Missing	194	186	189	0	0	32,383	1,434	1,206	-228	-1		
.01 - 4,999	28,573	26,342	15,504	73,960,735	73,586,542	2,787,225	110,730	1,102,989	992,259	35	0.15%	1.49%
5,000 - 9,999	26,665	17,765	18,670	197,254,560	195,115,268	15,288,091	545,293	1,786,367	1,241,074	47	0.28%	0.91%
10,000 - 14,999	23,056	8,060	8,084	287,369,187	282,608,143	56,481,182	1,968,743	1,054,518	-914,225	-40	0.69%	0.37%
15,000 - 19,999	21,647	5,474	2,276	378,681,506	371,835,632	117,208,745	4,037,451	3,487,627	-549,824	-25	1.07%	0.92%
20,000 - 24,999	21,127	2,210	842	474,994,871	466,044,555	198,049,226	6,847,698	6,377,002	-470,696	-22	1.44%	1.34%
25,000 - 29,999	19,914	983	385	546,617,221	537,794,416	271,573,194	9,428,512	9,066,829	-361,683	-18	1.72%	1.66%
30,000 - 34,999	17,811	518	225	577,774,800	568,649,044	317,309,186	11,040,074	10,756,863	-283,211	-16	1.91%	1.86%
35,000 - 39,999	15,362	311	184	575,042,811	566,289,297	333,076,175	11,622,950	11,282,283	-340,667	-22	2.02%	1.96%
40,000 - 44,999	13,235	245	145	561,350,152	553,013,224	336,303,480	11,856,459	11,891,865	35,406	3	2.11%	2.12%
45,000 - 49,999	11,650	171	115	552,785,590	545,119,870	338,723,098	12,467,003	12,280,782	-186,221	-16	2.26%	2.22%
50,000 - 59,999	20,581	244	177	1,129,024,415	1,114,677,820	712,367,001	26,985,383	26,802,071	-183,312	-9	2.39%	2.37%
60,000 - 74,999	24,217	224	179	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	40,885,028	301,991	12	2.49%	2.51%
75,000 - 99,999	27,831	196	182	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	70,736,299	3,097,949	111	2.82%	2.95%
100,000 - 124,999	13,877	103	97	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	54,059,841	2,436,517	176	3.36%	3.52%
125,000 - 149,999	6,663	51	51	908,403,851	888,337,574	667,859,958	33,739,775	34,284,672	544,897	82	3.71%	3.77%
150,000 - 199,999	6,127	44	34	1,048,379,202	1,019,866,301	781,606,592	42,493,266	44,544,418	2,051,152	335	4.05%	4.25%
200,000 - 299,999	3,861	36	29	926,769,873	901,779,529	705,883,737	43,187,104	43,916,806	729,702	189	4.66%	4.74%
300,000 - 499,999	1,811	16	21	678,854,945	659,605,289	528,404,263	35,584,727	35,956,026	371,299	205	5.24%	5.30%
500,000 - 999,999	795	11	17	529,161,175	515,661,722	416,765,067	30,866,722	31,536,065	669,343	842	5.83%	5.96%
1,000,000 +	399	8	8	1,103,875,054	1,081,698,633	836,368,100	61,926,366	63,001,505	1,075,139	2,695	5.61%	5.71%
	309,858	**67,438**	**51,758**	**15,936,509,739**	**15,824,807,216**	**10,485,651,136**	**504,910,671**	**515,054,006**	**10,143,335**		3.17%	3.23%

Scenario 7: AGI Base with Deduction on Family Size (Nonresident Filers)												
Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Scenario Tax	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	810	787	791	-1,472,509,116	0	394,366	7,535	32,098	24,563	30		
None/Missing	35	35	35	0	0	0	0	0	0	0		
.01 - 4,999	4,161	3,668	1,831	12,354,762	9,670,086	514,950	11,733	148,561	136,828	33	0.09%	1.54%
5,000 - 9,999	4,660	2,389	2,708	33,701,920	23,073,681	4,631,043	105,742	252,937	147,195	32	0.31%	1.10%
10,000 - 14,999	3,070	757	938	38,110,465	23,676,204	10,422,859	213,577	86,685	-126,892	-41	0.56%	0.37%
15,000 - 19,999	2,925	553	349	51,193,577	30,689,215	19,851,947	388,045	290,968	-97,077	-33	0.76%	0.95%
20,000 - 24,999	2,745	369	236	61,586,555	38,869,512	28,647,594	599,739	501,567	-98,172	-36	0.97%	1.29%
25,000 - 29,999	2,490	224	157	68,321,385	43,617,363	35,711,298	762,798	676,210	-86,588	-35	1.12%	1.55%
30,000 - 34,999	2,219	194	161	72,037,148	46,031,834	40,235,697	847,420	771,271	-76,149	-34	1.18%	1.68%
35,000 - 39,999	1,964	167	152	73,599,120	45,099,602	42,489,683	858,641	799,417	-59,224	-30	1.17%	1.77%
40,000 - 44,999	1,697	129	109	72,087,328	41,353,272	43,312,338	839,221	786,101	-53,120	-31	1.16%	1.90%
45,000 - 49,999	1,560	159	143	74,100,456	40,774,365	54,202,887	839,942	801,397	-38,545	-25	1.13%	1.97%
50,000 - 59,999	2,722	255	236	149,469,599	80,419,039	92,747,439	1,714,956	1,684,333	-30,623	-11	1.15%	2.09%
60,000 - 74,999	3,558	358	332	239,429,439	119,969,754	155,003,241	2,646,791	2,635,818	-10,973	-3	1.11%	2.20%
75,000 - 99,999	4,230	462	435	366,621,965	167,723,872	248,935,475	3,894,512	4,053,122	158,610	38	1.06%	2.42%
100,000 - 124,999	2,577	365	346	286,988,884	127,170,909	201,599,136	3,160,911	3,264,303	103,392	40	1.10%	2.57%
125,000 - 149,999	1,499	234	228	204,028,628	84,001,724	148,197,412	2,156,234	2,196,540	40,306	27	1.06%	2.61%
150,000 - 199,999	1,657	386	381	285,453,615	126,460,206	206,064,761	2,565,456	2,658,990	93,534	56	0.90%	2.10%
200,000 - 299,999	1,565	408	399	380,583,958	162,713,891	281,144,225	3,206,943	3,313,848	106,905	68	0.84%	2.04%
300,000 - 499,999	1,219	348	338	465,521,268	180,673,060	353,301,394	2,713,800	2,898,979	185,179	152	0.58%	1.60%
500,000 - 999,999	1,111	357	345	773,496,694	289,129,738	612,976,033	3,364,677	3,439,102	74,425	67	0.43%	1.19%
1,000,000 +	1,572	545	531	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	11,693,420	1,133,850	721	0.06%	0.11%
	50,046	**13,149**	**11,181**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**42,985,667**	**1,527,424**		0.21%	0.34%
Total	**359,904**	**80,587**	**62,939**	**35,961,504,717**	**28,617,933,099**	**25,971,416,353**	**546,368,914**	**558,039,673**	**11,670,759**	**32**		
In-State	309,858	67,438	51,758	15,936,509,739	15,824,807,216	10,485,651,136	504,910,671	515,054,006	10,143,335	33		
Out-Of-State	50,046	13,149	11,181	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	42,985,667	1,527,424	31		

Model 7: Commission modeled Adjusted Gross Income base with family size deduction based on federal poverty level. ($10,400 per filer and $3,600 per exemption.) Eliminated itemized deductions. The rate table is below.

Joint Filer	Income	Model Marginal Rate	Current Marginal Rates	Marginal Rate Change
0	54,400	3.10%	3.55%	-0.45%
54,400	131,500	5.75%	6.8%	-1.05%
131,500	200,300	6.80%	7.8%	-1.00%
200,300	357,700	7.50%	8.80%	-1.30%
357,700	> $357,000	8.25%	8.95%	-0.70%

Scenario 8: AGI Base with Deduction on Family Size / 25K Limited Itemized Deduction (In-State Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Scenario Tax	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	4,462	4,240	4,344	-177,635,303	0	4,248,980	356,270	231,657	-124,613	-28		
None/Missing	194	186	189	0	0	32,383	1,434	1,206	-228	-1		
.01 - 4,999	28,573	26,342	15,504	73,960,735	73,586,542	2,787,225	110,730	1,100,896	990,166	35	0.15%	1.49%
5,000 - 9,999	26,665	17,765	18,683	197,254,560	195,115,268	15,288,091	545,293	1,780,824	1,235,531	46	0.28%	0.90%
10,000 - 14,999	23,056	8,060	8,463	287,369,187	282,608,143	56,481,182	1,968,743	1,019,562	-949,181	-41	0.69%	0.35%
15,000 - 19,999	21,647	5,474	2,698	378,681,506	371,835,632	117,208,745	4,037,451	3,376,005	-661,446	-31	1.07%	0.89%
20,000 - 24,999	21,127	2,210	1,055	474,994,871	466,044,555	198,049,226	6,847,698	6,218,363	-629,335	-30	1.44%	1.31%
25,000 - 29,999	19,914	983	530	546,617,221	537,794,416	271,573,194	9,428,512	8,861,947	-566,565	-28	1.72%	1.62%
30,000 - 34,999	17,811	518	319	577,774,800	568,649,044	317,309,186	11,040,074	10,498,655	-541,419	-30	1.91%	1.82%
35,000 - 39,999	15,362	311	225	575,042,811	566,289,297	333,076,175	11,622,950	10,987,864	-635,086	-41	2.02%	1.91%
40,000 - 44,999	13,235	245	162	561,350,152	553,013,224	336,303,480	11,856,459	11,522,473	-333,986	-25	2.11%	2.05%
45,000 - 49,999	11,650	171	123	552,785,590	545,119,870	338,723,098	12,467,003	11,776,675	-690,328	-59	2.26%	2.13%
50,000 - 59,999	20,581	244	201	1,129,024,415	1,114,677,820	712,367,001	26,985,383	25,656,812	-1,328,571	-65	2.39%	2.27%
60,000 - 74,999	24,217	224	221	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	39,016,345	-1,566,692	-65	2.49%	2.40%
75,000 - 99,999	27,831	196	226	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	66,746,396	-891,954	-32	2.82%	2.78%
100,000 - 124,999	13,877	103	122	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	50,489,464	-1,133,860	-82	3.36%	3.29%
125,000 - 149,999	6,663	51	76	908,403,851	888,337,574	667,859,958	33,739,775	31,573,379	-2,166,396	-325	3.71%	3.48%
150,000 - 199,999	6,127	44	66	1,048,379,202	1,019,866,301	781,606,592	42,493,266	40,433,800	-2,059,466	-336	4.05%	3.86%
200,000 - 299,999	3,861	36	48	926,769,873	901,779,529	705,883,737	43,187,104	39,939,130	-3,247,974	-841	4.66%	4.31%
300,000 - 499,999	1,811	16	32	678,854,945	659,605,289	528,404,263	35,584,727	33,366,047	-2,218,680	-1,225	5.24%	4.92%
500,000 - 999,999	795	11	19	529,161,175	515,661,722	416,765,067	30,866,722	30,313,996	-552,726	-695	5.83%	5.73%
1,000,000 +	399	8	9	1,103,875,054	1,081,698,633	836,368,100	61,926,366	62,448,321	521,955	1,308	5.61%	5.66%
	309,858	**67,438**	**53,315**	**15,936,509,739**	**15,824,807,216**	**10,485,651,136**	**504,910,671**	**487,359,817**	**-17,550,854**		3.17%	3.06%

Scenario 8: AGI Base with Deduction on Family Size /25K Limited Itemized Deduction (Nonresident Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Scenario Tax	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	810	787	791	-1,472,509,116	0	394,366	7,535	29,448	21,913	27		
None/Missing	35	35	35	0	0	0	0	0	0	0		
.01 - 4,999	4,161	3,668	1,831	12,354,762	9,670,086	514,950	11,733	148,556	136,823	33	0.09%	1.20%
5,000 - 9,999	4,660	2,389	2,708	33,701,920	23,073,681	4,631,043	105,742	252,937	147,195	32	0.31%	0.75%
10,000 - 14,999	3,070	757	967	38,110,465	23,676,204	10,422,859	213,577	85,184	-128,393	-42	0.56%	0.22%
15,000 - 19,999	2,925	553	374	51,193,577	30,689,215	19,851,947	388,045	286,290	-101,755	-35	0.76%	0.56%
20,000 - 24,999	2,745	369	256	61,586,555	38,869,512	28,647,594	599,739	493,804	-105,935	-39	0.97%	0.80%
25,000 - 29,999	2,490	224	170	68,321,385	43,617,363	35,711,298	762,798	667,996	-94,802	-38	1.12%	0.98%
30,000 - 34,999	2,219	194	170	72,037,148	46,031,834	40,235,697	847,420	757,407	-90,013	-41	1.18%	1.05%
35,000 - 39,999	1,964	167	154	73,599,120	45,099,602	42,489,683	858,641	786,188	-72,453	-37	1.17%	1.07%
40,000 - 44,999	1,697	129	110	72,087,328	41,353,272	43,312,338	839,221	764,205	-75,016	-44	1.16%	1.06%
45,000 - 49,999	1,560	159	143	74,100,456	40,774,365	54,202,887	839,942	775,192	-64,750	-42	1.13%	1.05%
50,000 - 59,999	2,722	255	237	149,469,599	80,419,039	92,747,439	1,714,956	1,620,414	-94,542	-35	1.15%	1.08%
60,000 - 74,999	3,558	358	333	239,429,439	119,969,754	155,003,241	2,646,791	2,530,679	-116,112	-33	1.11%	1.06%
75,000 - 99,999	4,230	462	437	366,621,965	167,723,872	248,935,475	3,894,512	3,846,073	-48,439	-11	1.06%	1.05%
100,000 - 124,999	2,577	365	346	286,988,884	127,170,909	201,599,136	3,160,911	3,075,232	-85,679	-33	1.10%	1.07%
125,000 - 149,999	1,499	234	229	204,028,628	84,001,724	148,197,412	2,156,234	2,044,638	-111,596	-74	1.06%	1.00%
150,000 - 199,999	1,657	386	381	285,453,615	126,460,206	206,064,761	2,565,456	2,429,743	-135,713	-82	0.90%	0.85%
200,000 - 299,999	1,565	408	399	380,583,958	162,713,891	281,144,225	3,206,943	3,043,829	-163,114	-104	0.84%	0.80%
300,000 - 499,999	1,219	348	338	465,521,268	180,673,060	353,301,394	2,713,800	2,715,995	2,195	2	0.58%	0.58%
500,000 - 999,999	1,111	357	345	773,496,694	289,129,738	612,976,033	3,364,677	3,315,953	-48,724	-44	0.43%	0.43%
1,000,000 +	1,572	545	531	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	11,616,247	1,056,677	672	0.06%	0.07%
	50,046	**13,149**	**11,285**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**41,286,010**	**-172,233**		0.21%	0.21%
Total	**359,904**	**80,587**	**64,600**	**35,961,504,717**	**28,617,933,099**	**25,971,416,353**	**546,368,914**	**528,645,827**	**-17,723,087**	**-49**		
In-State	309,858	67,438	53,315	15,936,509,739	15,824,807,216	10,485,651,136	504,910,671	487,359,817	-17,550,854	-57		
Out-Of-State	50,046	13,149	11,285	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	41,286,010	-172,233	-3		

Model 8: Commission modeled Adjusted Gross Income base with family size deduction based on federal poverty level. ($10,400 per filer and $3,600 per exemption.) Itemized deductions limited to $25,000. The rate table is below.

Joint Filer	Income	Model Marginal Rate	Current Marginal Rates	Marginal Rate Change
0	54,400	3.10%	3.55%	-0.45%
54,400	131,500	5.75%	6.8%	-1.05%
131,500	200,300	6.80%	7.8%	-1.00%
200,300	357,700	7.50%	8.80%	-1.30%
357,700	> $357,000	8.25%	8.95%	-0.70%

Scenario 9: AGI Base with Deduction on Family Size / Up to 30% of AGI Limited Itemized Deduction (In-State Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Scenario Tax	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	4,462	4,240	4,341	-177,635,303	0	4,248,980	356,270	274,638	-81,632	-18		
None/Missing	194	186	189	0	0	32,383	1,434	1,206	-228	-1		
.01 - 4,999	28,573	26,342	15,504	73,960,735	73,586,542	2,787,225	110,730	1,102,871	992,141	35	0.15%	1.49%
5,000 - 9,999	26,665	17,765	18,677	197,254,560	195,115,268	15,288,091	545,293	1,785,113	1,239,820	47	0.28%	0.90%
10,000 - 14,999	23,056	8,060	8,442	287,369,187	282,608,143	56,481,182	1,968,743	1,022,036	-946,707	-41	0.69%	0.36%
15,000 - 19,999	21,647	5,474	2,498	378,681,506	371,835,632	117,208,745	4,037,451	3,391,405	-646,046	-30	1.07%	0.90%
20,000 - 24,999	21,127	2,210	873	474,994,871	466,044,555	198,049,226	6,847,698	6,246,392	-601,306	-28	1.44%	1.32%
25,000 - 29,999	19,914	983	402	546,617,221	537,794,416	271,573,194	9,428,512	8,901,558	-526,954	-26	1.72%	1.63%
30,000 - 34,999	17,811	518	233	577,774,800	568,649,044	317,309,186	11,040,074	10,548,402	-491,672	-28	1.91%	1.83%
35,000 - 39,999	15,362	311	189	575,042,811	566,289,297	333,076,175	11,622,950	11,039,099	-583,851	-38	2.02%	1.92%
40,000 - 44,999	13,235	245	155	561,350,152	553,013,224	336,303,480	11,856,459	11,577,803	-278,656	-21	2.11%	2.06%
45,000 - 49,999	11,650	171	119	552,785,590	545,119,870	338,723,098	12,467,003	11,828,893	-638,110	-55	2.26%	2.14%
50,000 - 59,999	20,581	244	198	1,129,024,415	1,114,677,820	712,367,001	26,985,383	25,734,995	-1,250,388	-61	2.39%	2.28%
60,000 - 74,999	24,217	224	217	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	39,089,158	-1,493,879	-62	2.49%	2.40%
75,000 - 99,999	27,831	196	226	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	66,728,105	-910,245	-33	2.82%	2.78%
100,000 - 124,999	13,877	103	123	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	50,298,866	-1,324,458	-95	3.36%	3.27%
125,000 - 149,999	6,663	51	78	908,403,851	888,337,574	667,859,958	33,739,775	31,273,876	-2,465,899	-370	3.71%	3.44%
150,000 - 199,999	6,127	44	77	1,048,379,202	1,019,866,301	781,606,592	42,493,266	39,622,705	-2,870,561	-469	4.05%	3.78%
200,000 - 299,999	3,861	36	59	926,769,873	901,779,529	705,883,737	43,187,104	38,208,754	-4,978,350	-1,289	4.66%	4.12%
300,000 - 499,999	1,811	16	52	678,854,945	659,605,289	528,404,263	35,584,727	30,836,029	-4,748,698	-2,622	5.24%	4.54%
500,000 - 999,999	795	11	25	529,161,175	515,661,722	416,765,067	30,866,722	27,285,099	-3,581,623	-4,505	5.83%	5.16%
1,000,000 +	399	8	19	1,103,875,054	1,081,698,633	836,368,100	61,926,366	55,166,950	-6,759,416	-16,941	5.61%	5.00%
	309,858	**67,438**	**52,696**	**15,936,509,739**	**15,824,807,216**	**10,485,651,136**	**504,910,671**	**471,963,953**	**-32,946,718**		3.17%	2.96%

Scenario 9: AGI Base with Deduction on Family Size /Up to 30% of AGI Limited Itemized Deduction (Nonresident Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Scenario Tax	Difference from Baseline	Average Tax Difference	Current Effective Rate	Model Effective Rate
Negative	810	787	791	-1,472,509,116	0	394,366	7,535	37,437	29,902	37		
None/Missing	35	35	35	0	0	0	0	0	0	0		
.01 - 4,999	4,161	3,668	1,831	12,354,762	9,670,086	514,950	11,733	148,561	136,828	33	0.12%	1.20%
5,000 - 9,999	4,660	2,389	2,708	33,701,920	23,073,681	4,631,043	105,742	252,937	147,195	32	0.46%	0.75%
10,000 - 14,999	3,070	757	966	38,110,465	23,676,204	10,422,859	213,577	85,185	-128,392	-42	0.90%	0.22%
15,000 - 19,999	2,925	553	364	51,193,577	30,689,215	19,851,947	388,045	286,895	-101,150	-35	1.26%	0.56%
20,000 - 24,999	2,745	369	243	61,586,555	38,869,512	28,647,594	599,739	495,111	-104,628	-38	1.54%	0.80%
25,000 - 29,999	2,490	224	157	68,321,385	43,617,363	35,711,298	762,798	669,552	-93,246	-37	1.75%	0.98%
30,000 - 34,999	2,219	194	161	72,037,148	46,031,834	40,235,697	847,420	760,346	-87,074	-39	1.84%	1.06%
35,000 - 39,999	1,964	167	153	73,599,120	45,099,602	42,489,683	858,641	788,402	-70,239	-36	1.90%	1.07%
40,000 - 44,999	1,697	129	109	72,087,328	41,353,272	43,312,338	839,221	769,307	-69,914	-41	2.03%	1.07%
45,000 - 49,999	1,560	159	143	74,100,456	40,774,365	54,202,887	839,942	777,942	-62,000	-40	2.06%	1.05%
50,000 - 59,999	2,722	255	236	149,469,599	80,419,039	92,747,439	1,714,956	1,627,321	-87,635	-32	2.13%	1.09%
60,000 - 74,999	3,558	358	333	239,429,439	119,969,754	155,003,241	2,646,791	2,537,655	-109,136	-31	2.21%	1.06%
75,000 - 99,999	4,230	462	437	366,621,965	167,723,872	248,935,475	3,894,512	3,845,400	-49,112	-12	2.32%	1.05%
100,000 - 124,999	2,577	365	346	286,988,884	127,170,909	201,599,136	3,160,911	3,060,953	-99,958	-39	2.49%	1.07%
125,000 - 149,999	1,499	234	229	204,028,628	84,001,724	148,197,412	2,156,234	2,023,548	-132,686	-89	2.57%	0.99%
150,000 - 199,999	1,657	386	381	285,453,615	126,460,206	206,064,761	2,565,456	2,371,526	-193,930	-117	2.03%	0.83%
200,000 - 299,999	1,565	408	399	380,583,958	162,713,891	281,144,225	3,206,943	2,902,427	-304,516	-195	1.97%	0.76%
300,000 - 499,999	1,219	348	338	465,521,268	180,673,060	353,301,394	2,713,800	2,511,882	-201,918	-166	1.50%	0.54%
500,000 - 999,999	1,111	357	345	773,496,694	289,129,738	612,976,033	3,364,677	3,005,646	-359,031	-323	1.16%	0.39%
1,000,000 +	1,572	545	531	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	10,299,387	-260,183	-166	0.10%	0.06%
	50,046	**13,149**	**11,236**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**39,257,420**	**-2,200,823**		0.32%	0.20%
Total	**359,904**	**80,587**	**63,932**	**35,961,504,717**	**28,617,933,099**	**25,971,416,353**	**546,368,914**	**511,221,373**	**-35,147,541**	**-98**		
In-State	309,858	67,438	52,696	15,936,509,739	15,824,807,216	10,485,651,136	504,910,671	471,963,953	-32,946,718	-106		
Out-Of-State	50,046	13,149	11,236	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	39,257,420	-2,200,823	-44		

Model 9: Commission modeled Adjusted Gross Income base with family size standard deduction based on federal poverty level. ($10,400 per filer and $3,600 per exemption.) Itemized deductions limited to 30 percent of Adjusted Gross Income. The rate table is below.

Joint Filer	Income	Model Marginal Rate	Current Marginal Rates	Marginal Rate Change
0	54,400	3.10%	3.55%	-0.45%
54,400	131,500	5.75%	6.8%	-1.05%
131,500	200,300	6.80%	7.8%	-1.00%
200,300	357,700	7.50%	8.80%	-1.30%
357,700	> $357,000	8.25%	8.95%	-0.75%

Model 10: AGI Base with No Deductions or Exemptions and Zero-Percent Bracket (In-State Filers)												
Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Current Effective Rates	Model Effective Rates
Negative	4,462	4,240	4,342	-177,635,303	0	4,248,980	356,270	228,257	-128,013	-29		
None/Missing	194	186	191	0	0	32,383	1,434	1,216	-218	-1		
.01 - 4,999	28,573	26,342	28,326	73,960,735	73,586,542	2,787,225	110,730	28,766	-81,964	-3	0.15%	0.04%
5,000 - 9,999	26,665	17,765	6,614	197,254,560	195,115,268	15,288,091	545,293	1,079,911	534,618	20	0.28%	0.55%
10,000 - 14,999	23,056	8,060	867	287,369,187	282,608,143	56,481,182	1,968,743	3,320,908	1,352,165	59	0.69%	1.16%
15,000 - 19,999	21,647	5,474	237	378,681,506	371,835,632	117,208,745	4,037,451	5,542,157	1,504,706	70	1.07%	1.46%
20,000 - 24,999	21,127	2,210	222	474,994,871	466,044,555	198,049,226	6,847,698	7,920,893	1,073,195	51	1.44%	1.67%
25,000 - 29,999	19,914	983	229	546,617,221	537,794,416	271,573,194	9,428,512	9,869,599	441,087	22	1.72%	1.81%
30,000 - 34,999	17,811	518	161	577,774,800	568,649,044	317,309,186	11,040,074	11,050,407	10,333	1	1.91%	1.91%
35,000 - 39,999	15,362	311	144	575,042,811	566,289,297	333,076,175	11,622,950	12,177,145	554,195	36	2.02%	2.12%
40,000 - 44,999	13,235	245	105	561,350,152	553,013,224	336,303,480	11,856,459	12,664,019	807,560	61	2.11%	2.26%
45,000 - 49,999	11,650	171	100	552,785,590	545,119,870	338,723,098	12,467,003	13,061,229	594,226	51	2.26%	2.36%
50,000 - 59,999	20,581	244	144	1,129,024,415	1,114,677,820	712,367,001	26,985,383	27,612,703	627,320	30	2.39%	2.45%
60,000 - 74,999	24,217	224	129	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	44,016,842	3,433,805	142	2.49%	2.71%
75,000 - 99,999	27,831	196	142	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	74,253,075	6,614,725	238	2.82%	3.09%
100,000 - 124,999	13,877	103	85	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	52,798,645	1,175,321	85	3.36%	3.44%
125,000 - 149,999	6,663	51	57	908,403,851	888,337,574	667,859,958	33,739,775	33,602,309	-137,466	-21	3.71%	3.70%
150,000 - 199,999	6,127	44	39	1,048,379,202	1,019,866,301	781,606,592	42,493,266	43,048,453	555,187	91	4.05%	4.11%
200,000 - 299,999	3,861	36	34	926,769,873	901,779,529	705,883,737	43,187,104	42,878,569	-308,535	-80	4.66%	4.63%
300,000 - 499,999	1,811	16	27	678,854,945	659,605,289	528,404,263	35,584,727	34,282,437	-1,302,290	-719	5.24%	5.05%
500,000 - 999,999	795	11	20	529,161,175	515,661,722	416,765,067	30,866,722	28,836,471	-2,030,251	-2,554	5.83%	5.45%
1,000,000 +	399	8	15	1,103,875,054	1,081,698,633	836,368,100	61,926,366	54,849,996	-7,076,370	-17,735	5.61%	4.97%
	309,858	**67,438**	**42,230**	**15,936,509,739**	**15,824,807,216**	**10,485,651,136**	**504,910,671**	**513,124,007**	**8,213,336**		3.17%	3.22%

Model 10: AGI Base with No Deductions or Exemptions and Zero-Percent Bracket (Nonresident Filers)												
Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Current Effective Rates	Model Effective Rates
Negative	810	787	793	-1,472,509,116	0	394,366	7,535	31,892	24,357	30		
None/Missing	35	35	35	0	0	0	0	0	0	0		
.01 - 4,999	4,161	3,668	4,138	12,354,762	9,670,086	514,950	11,733	368	-11,365	-3	0.09%	0.00%
5,000 - 9,999	4,660	2,389	1,048	33,701,920	23,073,681	4,631,043	105,742	120,902	15,160	3	0.31%	0.36%
10,000 - 14,999	3,070	757	210	38,110,465	23,676,204	10,422,859	213,577	276,364	62,787	20	0.56%	0.73%
15,000 - 19,999	2,925	553	155	51,193,577	30,689,215	19,851,947	388,045	446,579	58,534	20	0.76%	0.87%
20,000 - 24,999	2,745	369	164	61,586,555	38,869,512	28,647,594	599,739	629,176	29,437	11	0.97%	1.02%
25,000 - 29,999	2,490	224	139	68,321,385	43,617,363	35,711,298	762,798	756,744	-6,054	-2	1.12%	1.11%
30,000 - 34,999	2,219	194	149	72,037,148	46,031,834	40,235,697	847,420	833,463	-13,957	-6	1.18%	1.16%
35,000 - 39,999	1,964	167	145	73,599,120	45,099,602	42,489,683	858,641	892,787	34,146	17	1.17%	1.21%
40,000 - 44,999	1,697	129	108	72,087,328	41,353,272	43,312,338	839,221	888,407	49,186	29	1.16%	1.23%
45,000 - 49,999	1,560	159	140	74,100,456	40,774,365	54,202,887	839,942	867,887	27,945	18	1.13%	1.17%
50,000 - 59,999	2,722	255	229	149,469,599	80,419,039	92,747,439	1,714,956	1,764,712	49,756	18	1.15%	1.18%
60,000 - 74,999	3,558	358	330	239,429,439	119,969,754	155,003,241	2,646,791	2,841,736	194,945	55	1.11%	1.19%
75,000 - 99,999	4,230	462	435	366,621,965	167,723,872	248,935,475	3,894,512	4,261,212	366,700	87	1.06%	1.16%
100,000 - 124,999	2,577	365	346	286,988,884	127,170,909	201,599,136	3,160,911	3,261,461	100,550	39	1.10%	1.14%
125,000 - 149,999	1,499	234	227	204,028,628	84,001,724	148,197,412	2,156,234	2,151,609	-4,625	-3	1.06%	1.05%
150,000 - 199,999	1,657	386	381	285,453,615	126,460,206	206,064,761	2,565,456	2,622,098	56,642	34	0.90%	0.92%
200,000 - 299,999	1,565	408	399	380,583,958	162,713,891	281,144,225	3,206,943	3,230,725	23,782	15	0.84%	0.85%
300,000 - 499,999	1,219	348	338	465,521,268	180,673,060	353,301,394	2,713,800	2,759,381	45,581	37	0.58%	0.59%
500,000 - 999,999	1,111	357	345	773,496,694	289,129,738	612,976,033	3,364,677	3,154,521	-210,156	-189	0.43%	0.41%
1,000,000 +	1,572	545	531	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	10,304,150	-255,420	-162	0.06%	0.06%
	50,046	**13,149**	**10,785**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**42,096,174**	**637,931**		0.21%	0.21%
Total	**359,904**	**80,587**	**53,015**	**35,961,504,717**	**28,617,933,099**	**25,971,416,353**	**546,368,914**	**555,220,181**	**8,851,267**	**25**		
In-State	309,858	67,438	42,230	15,936,509,739	15,824,807,216	10,485,651,136	504,910,671	513,124,007	8,213,336	27		
Out-Of-State	50,046	13,149	10,785	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	42,096,174	637,931	13		

Model 10: Adjusted Gross Income base with no deductions or exemptions. Zero percent bracket inserted in lieu of deductions. The rate table is below.

Joint Filer

over	But not over	Model Marginal Rates	Current Marginal Rates	Marginal Rate Change
0	10,900	0.00%	3.55%	-3.55%
10,900	54,400	2.50%	3.55%	-1.05%
54,400	131,450	5.00%	6.8%	-1.80%
131,450	200,300	6.25%	7.8%	-1.55%
200,300	357,700	7.00%	8.80%	-1.80%
357,700	-	7.25%	8.95%	-1.70%

Model 11: AGI Base with Deduction on Family Size and Limited Itemized Deductions (In-State Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Current Effective Rates	Model Effective Rates
Negative	4,462	4,240	4,344	-177,635,303	0	4,248,980	356,270	261,996	-94,274	-21		
None/Missing	194	186	189	0	0	32,383	1,434	1,274	-160	-1		
.01 - 4,999	28,573	26,342	15,493	73,960,735	73,586,542	2,787,225	110,730	1,186,609	1,075,879	38	0.15%	1.60%
5,000 - 9,999	26,665	17,765	18,669	197,254,560	195,115,268	15,288,091	545,293	1,818,677	1,273,384	48	0.28%	0.92%
10,000 - 14,999	23,056	8,060	8,051	287,369,187	282,608,143	56,481,182	1,968,743	1,150,545	-818,198	-35	0.69%	0.40%
15,000 - 19,999	21,647	5,474	2,225	378,681,506	371,835,632	117,208,745	4,037,451	3,822,641	-214,810	-10	1.07%	1.01%
20,000 - 24,999	21,127	2,210	793	474,994,871	466,044,555	198,049,226	6,847,698	6,931,663	83,965	4	1.44%	1.46%
25,000 - 29,999	19,914	983	321	546,617,221	537,794,416	271,573,194	9,428,512	9,690,918	262,406	13	1.72%	1.77%
30,000 - 34,999	17,811	518	188	577,774,800	568,649,044	317,309,186	11,040,074	11,441,336	401,262	23	1.91%	1.98%
35,000 - 39,999	15,362	311	142	575,042,811	566,289,297	333,076,175	11,622,950	12,208,440	585,490	38	2.02%	2.12%
40,000 - 44,999	13,235	245	118	561,350,152	553,013,224	336,303,480	11,856,459	12,536,938	680,479	51	2.11%	2.23%
45,000 - 49,999	11,650	171	93	552,785,590	545,119,870	338,723,098	12,467,003	13,228,547	761,544	65	2.26%	2.39%
50,000 - 59,999	20,581	244	106	1,129,024,415	1,114,677,820	712,367,001	26,985,383	28,762,899	1,777,516	86	2.39%	2.55%
60,000 - 74,999	24,217	224	115	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	43,473,133	2,890,096	119	2.49%	2.67%
75,000 - 99,999	27,831	196	119	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	73,835,462	6,197,112	223	2.82%	3.08%
100,000 - 124,999	13,877	103	66	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	54,387,392	2,764,068	199	3.36%	3.54%
125,000 - 149,999	6,663	51	48	908,403,851	888,337,574	667,859,958	33,739,775	34,494,242	754,467	113	3.71%	3.80%
150,000 - 199,999	6,127	44	39	1,048,379,202	1,019,866,301	781,606,592	42,493,266	42,575,376	82,110	13	4.05%	4.06%
200,000 - 299,999	3,861	36	35	926,769,873	901,779,529	705,883,737	43,187,104	41,937,221	-1,249,883	-324	4.66%	4.53%
300,000 - 499,999	1,811	16	33	678,854,945	659,605,289	528,404,263	35,584,727	33,773,783	-1,810,944	-1,000	5.24%	4.98%
500,000 - 999,999	795	11	17	529,161,175	515,661,722	416,765,067	30,866,722	29,454,897	-1,411,825	-1,776	5.83%	5.57%
1,000,000 +	399	8	14	1,103,875,054	1,081,698,633	836,368,100	61,926,366	59,178,179	-2,748,187	-6,888	5.61%	5.36%
	309,858	**67,438**	**51,218**	**15,936,509,739**	**15,824,807,216**	**10,485,651,136**	**504,910,671**	**516,152,168**	**11,241,497**		3.17%	3.24%

Model 11: AGI Base with Deduction on Family Size and Limited Itemized Deductions (Nonresident Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Current Effective Rates	Model Effective Rates
Negative	810	787	791	-1,472,509,116	0	394,366	7,535	35,003	27,468	34		
None/Missing	35	35	35	0	0	0	0	0	0	0		
.01 - 4,999	4,161	3,668	1,829	12,354,762	9,670,086	514,950	11,733	162,533	150,800	36	1.32%	1.32%
5,000 - 9,999	4,660	2,389	2,706	33,701,920	23,073,681	4,631,043	105,742	273,245	167,503	36	0.81%	0.81%
10,000 - 14,999	3,070	757	934	38,110,465	23,676,204	10,422,859	213,577	95,111	-118,466	-39	0.25%	0.25%
15,000 - 19,999	2,925	553	341	51,193,577	30,689,215	19,851,947	388,045	320,702	-67,343	-23	0.63%	0.63%
20,000 - 24,999	2,745	369	229	61,586,555	38,869,512	28,647,594	599,739	553,185	-46,554	-17	0.90%	0.90%
25,000 - 29,999	2,490	224	153	68,321,385	43,617,363	35,711,298	762,798	744,225	-18,573	-7	1.09%	1.09%
30,000 - 34,999	2,219	194	155	72,037,148	46,031,834	40,235,697	847,420	850,466	3,046	1	1.18%	1.18%
35,000 - 39,999	1,964	167	147	73,599,120	45,099,602	42,489,683	858,641	880,158	21,517	11	1.20%	1.20%
40,000 - 44,999	1,697	129	109	72,087,328	41,353,272	43,312,338	839,221	856,512	17,291	10	1.19%	1.19%
45,000 - 49,999	1,560	159	140	74,100,456	40,774,365	54,202,887	839,942	864,237	24,295	16	1.17%	1.17%
50,000 - 59,999	2,722	255	231	149,469,599	80,419,039	92,747,439	1,714,956	1,805,896	90,940	33	1.21%	1.21%
60,000 - 74,999	3,558	358	330	239,429,439	119,969,754	155,003,241	2,646,791	2,796,158	149,367	42	1.17%	1.17%
75,000 - 99,999	4,230	462	434	366,621,965	167,723,872	248,935,475	3,894,512	4,213,462	318,950	75	1.15%	1.15%
100,000 - 124,999	2,577	365	346	286,988,884	127,170,909	201,599,136	3,160,911	3,338,832	177,921	69	1.16%	1.16%
125,000 - 149,999	1,499	234	227	204,028,628	84,001,724	148,197,412	2,156,234	2,201,030	44,796	30	1.08%	1.08%
150,000 - 199,999	1,657	386	381	285,453,615	126,460,206	206,064,761	2,565,456	2,583,291	17,835	11	0.90%	0.90%
200,000 - 299,999	1,565	408	399	380,583,958	162,713,891	281,144,225	3,206,943	3,164,053	-42,890	-27	0.83%	0.83%
300,000 - 499,999	1,219	348	339	465,521,268	180,673,060	353,301,394	2,713,800	2,702,646	-11,154	-9	0.58%	0.58%
500,000 - 999,999	1,111	357	345	773,496,694	289,129,738	612,976,033	3,364,677	3,244,930	-119,747	-108	0.42%	0.42%
1,000,000 +	1,572	545	530	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	10,752,747	193,177	123	0.06%	0.06%
	50,046	**13,149**	**11,131**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**42,438,422**	**980,179**		0.21%	0.21%

Total	**359,904**	**80,587**	**62,349**	**35,961,504,717**	**28,617,933,099**	**25,971,416,353**	**546,368,914**	**558,590,590**	**12,221,676**	**34**		
In-State	309,858	67,438	51,218	15,936,509,739	15,824,807,216	10,485,651,136	504,910,671	516,152,168	11,241,497	36		
Out-Of-State	50,046	13,149	11,131	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	42,438,422	980,179	20		

Model 11: Commission modeled Adjusted Gross Income base with family size standard deduction based on federal poverty level. ($10,400 per filer and $3,600 per exemption.) Itemized deductions limited to 30 percent of Adjusted Gross Income. The rate table is below.

Joint Filer	Income	Model Marginal Rate	Current Marginal Rates	Marginal Rate Change
0	54,400	3.45%	3.55%	-0.10%
54,400	131,500	6.3%	6.8%	-0.50%
131,500	200,300	7.5 %	7.8%	-0.30%
200,300	357,700	8.25%	8.80%	-0.55%
357,700	> $357,000	8.90%	8.95%	-0.05%

Model 12: AGI Base with Deduction on Family Size / Limited and Capped Itemized Deduction (In-State Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Current Effective Rates	Model Effective Rates
Negative	4,462	4,240	4,344	-177,635,303	0	4,248,980	356,270	255,086	-101,184	-23		
None/Missing	194	186	189	0	0	32,383	1,434	1,251	-183	-1		
.01 - 4,999	28,573	26,342	15,495	73,960,735	73,586,542	2,787,225	110,730	1,152,022	1,041,292	36	0.15%	1.56%
5,000 - 9,999	26,665	17,765	18,669	197,254,560	195,115,268	15,288,091	545,293	1,765,223	1,219,930	46	0.28%	0.89%
10,000 - 14,999	23,056	8,060	8,057	287,369,187	282,608,143	56,481,182	1,968,743	1,117,568	-851,175	-37	0.69%	0.39%
15,000 - 19,999	21,647	5,474	2,235	378,681,506	371,835,632	117,208,745	4,037,451	3,709,959	-327,492	-15	1.07%	0.98%
20,000 - 24,999	21,127	2,210	797	474,994,871	466,044,555	198,049,226	6,847,698	6,726,474	-121,224	-6	1.44%	1.42%
25,000 - 29,999	19,914	983	333	546,617,221	537,794,416	271,573,194	9,428,512	9,403,830	-24,682	-1	1.72%	1.72%
30,000 - 34,999	17,811	518	196	577,774,800	568,649,044	317,309,186	11,040,074	11,101,821	61,747	3	1.91%	1.92%
35,000 - 39,999	15,362	311	151	575,042,811	566,289,297	333,076,175	11,622,950	11,846,561	223,611	15	2.02%	2.06%
40,000 - 44,999	13,235	245	125	561,350,152	553,013,224	336,303,480	11,856,459	12,162,832	306,373	23	2.11%	2.17%
45,000 - 49,999	11,650	171	97	552,785,590	545,119,870	338,723,098	12,467,003	12,830,734	363,731	31	2.26%	2.32%
50,000 - 59,999	20,581	244	114	1,129,024,415	1,114,677,820	712,367,001	26,985,383	27,889,693	904,310	44	2.39%	2.47%
60,000 - 74,999	24,217	224	137	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	42,147,798	1,564,761	65	2.49%	2.59%
75,000 - 99,999	27,831	196	139	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	71,591,157	3,952,807	142	2.82%	2.98%
100,000 - 124,999	13,877	103	85	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	52,845,017	1,221,693	88	3.36%	3.44%
125,000 - 149,999	6,663	51	54	908,403,851	888,337,574	667,859,958	33,739,775	33,602,240	-137,535	-21	3.71%	3.70%
150,000 - 199,999	6,127	44	42	1,048,379,202	1,019,866,301	781,606,592	42,493,266	41,700,214	-793,052	-129	4.05%	3.98%
200,000 - 299,999	3,861	36	29	926,769,873	901,779,529	705,883,737	43,187,104	41,927,665	-1,259,439	-326	4.66%	4.52%
300,000 - 499,999	1,811	16	23	678,854,945	659,605,289	528,404,263	35,584,727	35,009,832	-574,895	-317	5.24%	5.16%
500,000 - 999,999	795	11	19	529,161,175	515,661,722	416,765,067	30,866,722	31,757,190	890,468	1,120	5.83%	6.00%
1,000,000 +	399	8	8	1,103,875,054	1,081,698,633	836,368,100	61,926,366	65,957,511	4,031,145	10,103	5.61%	5.98%
	309,858	**67,438**	**51,338**	**15,936,509,739**	**15,824,807,216**	**10,485,651,136**	**504,910,671**	**516,501,678**	**11,591,007**		3.17%	3.24%

Model 12: AGI Base with Deduction on Family Size / Limited and Capped Itemized Deduction (Nonresident Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Current Effective Rates	Model Effective Rates
Negative	810	787	791	-1,472,509,116	0	394,366	7,535	33,988	26,453	33		
None/Missing	35	35	35	0	0	0	0	0	0	0		
.01 - 4,999	4,161	3,668	1,830	12,354,762	9,670,086	514,950	11,733	157,759	146,026	35	0.09%	1.28%
5,000 - 9,999	4,660	2,389	2,706	33,701,920	23,073,681	4,631,043	105,742	265,208	159,466	34	0.31%	0.79%
10,000 - 14,999	3,070	757	934	38,110,465	23,676,204	10,422,859	213,577	92,383	-121,194	-39	0.56%	0.24%
15,000 - 19,999	2,925	553	343	51,193,577	30,689,215	19,851,947	388,045	311,256	-76,789	-26	0.76%	0.61%
20,000 - 24,999	2,745	369	230	61,586,555	38,869,512	28,647,594	599,739	536,828	-62,911	-23	0.97%	0.87%
25,000 - 29,999	2,490	224	153	68,321,385	43,617,363	35,711,298	762,798	722,270	-40,528	-16	1.12%	1.06%
30,000 - 34,999	2,219	194	155	72,037,148	46,031,834	40,235,697	847,420	825,419	-22,001	-10	1.18%	1.15%
35,000 - 39,999	1,964	167	147	73,599,120	45,099,602	42,489,683	858,641	854,191	-4,450	-2	1.17%	1.16%
40,000 - 44,999	1,697	129	109	72,087,328	41,353,272	43,312,338	839,221	831,202	-8,019	-5	1.16%	1.15%
45,000 - 49,999	1,560	159	141	74,100,456	40,774,365	54,202,887	839,942	838,449	-1,493	-1	1.13%	1.13%
50,000 - 59,999	2,722	255	232	149,469,599	80,419,039	92,747,439	1,714,956	1,751,654	36,698	13	1.15%	1.17%
60,000 - 74,999	3,558	358	330	239,429,439	119,969,754	155,003,241	2,646,791	2,711,880	65,089	18	1.11%	1.13%
75,000 - 99,999	4,230	462	435	366,621,965	167,723,872	248,935,475	3,894,512	4,088,195	193,683	46	1.06%	1.12%
100,000 - 124,999	2,577	365	346	286,988,884	127,170,909	201,599,136	3,160,911	3,254,130	93,219	36	1.10%	1.13%
125,000 - 149,999	1,499	234	228	204,028,628	84,001,724	148,197,412	2,156,234	2,155,466	-768	-1	1.06%	1.06%
150,000 - 199,999	1,657	386	381	285,453,615	126,460,206	206,064,761	2,565,456	2,546,703	-18,753	-11	0.90%	0.89%
200,000 - 299,999	1,565	408	399	380,583,958	162,713,891	281,144,225	3,206,943	3,191,806	-15,137	-10	0.84%	0.84%
300,000 - 499,999	1,219	348	338	465,521,268	180,673,060	353,301,394	2,713,800	2,842,981	129,181	106	0.58%	0.61%
500,000 - 999,999	1,111	357	345	773,496,694	289,129,738	612,976,033	3,364,677	3,465,616	100,939	91	0.43%	0.45%
1,000,000 +	1,572	545	531	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	12,180,279	1,620,709	1,031	0.06%	0.07%
	50,046	**13,149**	**11,139**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**43,657,663**	**2,199,420**		0.21%	0.22%
Total	**359,904**	**80,587**	**62,477**	**35,961,504,717**	**28,617,933,099**	**25,971,416,353**	**546,368,914**	**560,159,341**	**13,790,427**	**38**		
In-State	309,858	67,438	51,338	15,936,509,739	15,824,807,216	10,485,651,136	504,910,671	516,501,678	11,591,007	37		
Out-Of-State	50,046	13,149	11,139	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	43,657,663	2,199,420	44		

Model 12: Commission modeled Adjusted Gross Income base with family size standard deduction based on federal poverty level. ($10,400 per filer and $3,600 per exemption.) Itemized deductions limited to 30 percent of Adjusted Gross Income capped at $25,000 for single filers and $50,000 for joint filers.

Joint Filer	Income	Model Marginal Rate	Current Marginal Rates	Marginal Rate Change
0	54,400	3.45%	3.55%	-0.10%
54,400	131,500	6.3%	6.8%	-0.50%
131,500	200,300	7.5 %	7.8%	-0.30%
200,300	357,700	8.25%	8.80%	-0.65%
357,700	> $357,000	8.90%	8.95%	-0.05%

Model 13 Revision 2: AGI Base with No Deductions or Exemptions, Flattened Lower Rates, Tax Credit (In-State Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Model Effective Rate	Current Effective Rate	Model Burden	Current Burden
Negative	4,462	4,240	4,429	-177,635,303	0	4,248,980	356,270	201,239	-155,031	-35				
None/Missing	194	186	190	0	0	32,383	1,434	697	-737	-4				
.01 - 4,999	28,573	26,342	19,216	73,960,735	73,586,542	2,787,225	110,730	487,737	377,007	13	0.7%	0.2%	0.1%	0.0%
5,000 - 9,999	26,665	17,765	18,913	197,254,560	195,115,268	15,288,091	545,293	1,322,985	777,692	29	0.7%	0.3%	0.3%	0.1%
10,000 - 14,999	23,056	8,060	13,329	287,369,187	282,608,143	56,481,182	1,968,743	553,591	-1,415,152	-61	0.2%	0.7%	0.1%	0.4%
15,000 - 19,999	21,647	5,474	4,935	378,681,506	371,835,632	117,208,745	4,037,451	2,487,572	-1,549,879	-72	0.7%	1.1%	0.5%	0.8%
20,000 - 24,999	21,127	2,210	2,234	474,994,871	466,044,555	198,049,226	6,847,698	5,085,436	-1,762,262	-83	1.1%	1.5%	1.0%	1.4%
25,000 - 29,999	19,914	983	865	546,617,221	537,794,416	271,573,194	9,428,512	7,591,902	-1,836,610	-92	1.4%	1.8%	1.6%	1.9%
30,000 - 34,999	17,811	518	245	577,774,800	568,649,044	317,309,186	11,040,074	9,769,784	-1,270,290	-71	1.7%	1.9%	2.0%	2.2%
35,000 - 39,999	15,362	311	198	575,042,811	566,289,297	333,076,175	11,622,950	11,054,984	-567,966	-37	2.0%	2.1%	2.3%	2.3%
40,000 - 44,999	13,235	245	157	561,350,152	553,013,224	336,303,480	11,856,459	11,946,236	89,777	7	2.2%	2.1%	2.5%	2.3%
45,000 - 49,999	11,650	171	123	552,785,590	545,119,870	338,723,098	12,467,003	12,096,254	-370,749	-32	2.2%	2.3%	2.5%	2.5%
50,000 - 59,999	20,581	244	175	1,129,024,415	1,114,677,820	712,367,001	26,985,383	26,300,688	-684,695	-33	2.4%	2.4%	5.4%	5.3%
60,000 - 74,999	24,217	224	166	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	41,713,926	1,130,889	47	2.6%	2.5%	8.6%	8.0%
75,000 - 99,999	27,831	196	199	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	69,043,393	1,405,043	50	2.9%	2.9%	14.2%	13.4%
100,000 - 124,999	13,877	103	131	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	49,634,675	-1,988,649	-143	3.3%	3.4%	10.2%	10.2%
125,000 - 149,999	6,663	51	50	908,403,851	888,337,574	667,859,958	33,739,775	34,465,093	725,318	109	3.9%	3.8%	7.1%	6.7%
150,000 - 199,999	6,127	44	40	1,048,379,202	1,019,866,301	781,606,592	42,493,266	43,783,241	1,289,975	211	4.3%	4.2%	9.0%	8.4%
200,000 - 299,999	3,861	36	33	926,769,873	901,779,529	705,883,737	43,187,104	43,162,410	-24,694	-6	4.8%	4.8%	8.9%	8.6%
300,000 - 499,999	1,811	16	28	678,854,945	659,605,289	528,404,263	35,584,727	34,163,031	-1,421,696	-785	5.2%	5.4%	7.0%	7.0%
500,000 - 999,999	795	11	20	529,161,175	515,661,722	416,765,067	30,866,722	28,214,441	-2,652,281	-3,336	5.5%	6.0%	5.8%	6.1%
1,000,000 +	399	8	19	1,103,875,054	1,081,698,633	836,368,100	61,926,366	52,517,933	-9,408,433	-23,580	4.9%	5.7%	10.8%	12.3%
	309,858	**67,438**	**65,695**	**15,936,509,739**	**15,824,807,216**	**10,485,651,136**	**504,910,671**	**485,597,248**	**-19,313,423**	-62	3.1%	3.2%		

Model 13 Revision 2: AGI Base with No Deductions or Exemptions, Flattened Lower Rates, No Tax Credit (Non-Resident Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Model Effective Rate	Current Effective Rate	Model Burden	Current Burden
Negative	810	787	788	-1,472,509,116	0	394,366	7,535	33,388	25,853	32				
None/Missing	35	35	35	0	0	0	0	0	0	0				
.01 - 4,999	4,161	3,668	227	12,354,762	9,670,086	514,950	11,733	276,115	264,382	64	2.9%	0.1%	0.6%	0.0%
5,000 - 9,999	4,660	2,389	161	33,701,920	23,073,681	4,631,043	105,742	655,418	549,676	118	2.8%	0.5%	1.4%	0.3%
10,000 - 14,999	3,070	757	142	38,110,465	23,676,204	10,422,859	213,577	655,496	441,919	144	2.8%	0.9%	1.4%	0.5%
15,000 - 19,999	2,925	553	147	51,193,577	30,689,215	19,851,947	388,045	842,306	454,261	155	2.7%	1.3%	1.8%	0.9%
20,000 - 24,999	2,745	369	160	61,586,555	38,869,512	28,647,594	599,739	1,061,480	461,741	168	2.7%	1.5%	2.2%	1.4%
25,000 - 29,999	2,490	224	136	68,321,385	43,617,363	35,711,298	762,798	1,195,437	432,639	174	2.7%	1.7%	2.5%	1.8%
30,000 - 34,999	2,219	194	147	72,037,148	46,031,834	40,235,697	847,420	1,268,524	421,104	190	2.8%	1.8%	2.7%	2.0%
35,000 - 39,999	1,964	167	144	73,599,120	45,099,602	42,489,683	858,641	1,281,644	423,003	215	2.8%	1.9%	2.7%	2.1%
40,000 - 44,999	1,697	129	104	72,087,328	41,353,272	43,312,338	839,221	1,217,027	377,806	223	2.9%	2.0%	2.6%	2.0%
45,000 - 49,999	1,560	159	134	74,100,456	40,774,365	54,202,887	839,942	1,143,413	303,471	195	2.8%	2.1%	2.4%	2.0%
50,000 - 59,999	2,722	255	230	149,469,599	80,419,039	92,747,439	1,714,956	2,292,972	578,016	212	2.9%	2.1%	4.8%	4.1%
60,000 - 74,999	3,558	358	329	239,429,439	119,969,754	155,003,241	2,646,791	3,459,316	812,525	228	2.9%	2.2%	7.3%	6.4%
75,000 - 99,999	4,230	462	433	366,621,965	167,723,872	248,935,475	3,894,512	4,814,056	919,544	217	2.9%	2.3%	10.1%	9.4%
100,000 - 124,999	2,577	365	346	286,988,884	127,170,909	201,599,136	3,160,911	3,484,028	323,117	125	2.7%	2.5%	7.3%	7.6%
125,000 - 149,999	1,499	234	224	204,028,628	84,001,724	148,197,412	2,156,234	2,204,377	48,143	32	2.6%	2.6%	4.6%	5.2%
150,000 - 199,999	1,657	386	381	285,453,615	126,460,206	206,064,761	2,565,456	2,623,269	57,813	35	2.1%	2.0%	5.5%	6.2%
200,000 - 299,999	1,565	408	399	380,583,958	162,713,891	281,144,225	3,206,943	3,246,959	40,016	26	2.0%	2.0%	6.8%	7.7%
300,000 - 499,999	1,219	348	338	465,521,268	180,673,060	353,301,394	2,713,800	2,751,594	37,794	31	1.5%	1.5%	5.8%	6.5%
500,000 - 999,999	1,111	357	345	773,496,694	289,129,738	612,976,033	3,364,677	3,086,219	-278,458	-251	1.1%	1.2%	6.5%	8.1%
1,000,000 +	1,572	545	532	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	9,904,601	-654,969	-417	0.1%	0.1%	20.9%	25.5%
	50,046	**13,149**	**5,882**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**47,497,639**	**6,039,396**	121	0.4%	0.3%		

	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Model Effective Rate	Current Effective Rate
Total	**359,904**	**80,587**	**71,577**	**35,961,504,717**	**28,617,933,099**	**25,971,416,353**	**546,368,914**	**533,094,887**	**-13,274,027**	**-37**	1.9%	1.9%
In-State	309,858	67,438	65,695	15,936,509,739	15,824,807,216	10,485,651,136	504,910,671	485,597,248	-19,313,423	-62	3.1%	3.2%
Out-Of-State	50,046	13,149	5,882	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	47,497,639	6,039,396	121	0.4%	0.3%

Joint Filer	Income	Model Marginal Rate
0	49,999	3.00%
50,000	149,000	4.50%
150,000	> $150,000	6.95%

Model 13: Adjusted Gross Income base with no deductions or exemptions. Residential credit of $350 per filer with $150 per exemption capped at $800 of tax liability. Credit limited to Vermont residents with Adjusted Gross Income under $125,000. Rate table to left. **Majority recommendation**

Model 14: AGI Base with Deduction on Family Size and Limited Itemized Deductions (In-State Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Model Effective Rate	Current Effective Rate	Model Burden	Current Burden
Negative	4,462	4,240	4,344	-177,635,303	0	4,248,980	356,270	216,196	-140,074	-31				
None/Missing	194	186	189	0	0	32,383	1,434	1,182	-252	-1				
.01 - 4,999	28,573	26,342	15,497	73,960,735	73,586,542	2,787,225	110,730	1,046,534	935,804	33	1.4%	0.2%	0.2%	0.0%
5,000 - 9,999	26,665	17,765	18,671	197,254,560	195,115,268	15,288,091	545,293	1,604,416	1,059,123	40	0.8%	0.3%	0.4%	0.1%
10,000 - 14,999	23,056	8,060	8,086	287,369,187	282,608,143	56,481,182	1,968,743	1,016,281	-952,462	-41	0.4%	0.7%	0.2%	0.4%
15,000 - 19,999	21,647	5,474	2,262	378,681,506	371,835,632	117,208,745	4,037,451	3,372,195	-665,256	-31	0.9%	1.1%	0.8%	0.8%
20,000 - 24,999	21,127	2,210	829	474,994,871	466,044,555	198,049,226	6,847,698	6,111,105	-736,593	-35	1.3%	1.5%	1.4%	1.4%
25,000 - 29,999	19,914	983	360	546,617,221	537,794,416	271,573,194	9,428,512	8,539,363	-889,149	-45	1.6%	1.8%	2.0%	1.9%
30,000 - 34,999	17,811	518	212	577,774,800	568,649,044	317,309,186	11,040,074	10,082,816	-957,258	-54	1.8%	1.9%	2.4%	2.2%
35,000 - 39,999	15,362	311	169	575,042,811	566,289,297	333,076,175	11,622,950	10,756,239	-866,711	-56	1.9%	2.1%	2.6%	2.3%
40,000 - 44,999	13,235	245	155	561,350,152	553,013,224	336,303,480	11,856,459	11,128,310	-728,149	-55	2.0%	2.1%	2.6%	2.3%
45,000 - 49,999	11,650	171	128	552,785,590	545,119,870	338,723,098	12,467,003	11,662,501	-804,502	-69	2.1%	2.3%	2.8%	2.5%
50,000 - 59,999	20,581	244	188	1,129,024,415	1,114,677,820	712,367,001	26,985,383	25,012,364	-1,973,019	-96	2.2%	2.4%	5.9%	5.3%
60,000 - 74,999	24,217	224	233	1,626,700,601	1,602,839,328	1,070,753,266	40,583,037	37,719,260	-2,863,777	-118	2.4%	2.5%	8.9%	8.0%
75,000 - 99,999	27,831	196	257	2,400,194,670	2,367,156,796	1,666,186,660	67,638,350	62,033,203	-5,605,147	-201	2.6%	2.9%	14.7%	13.4%
100,000 - 124,999	13,877	103	174	1,536,949,824	1,513,128,235	1,108,375,527	51,623,324	43,442,991	-8,180,333	-589	2.9%	3.4%	10.3%	10.2%
125,000 - 149,999	6,663	51	115	908,403,851	888,337,574	667,859,958	33,739,775	26,922,027	-6,817,748	-1,023	3.0%	3.8%	6.4%	6.7%
150,000 - 199,999	6,127	44	135	1,048,379,202	1,019,866,301	781,606,592	42,493,266	32,477,741	-10,015,525	-1,635	3.2%	4.2%	7.7%	8.4%
200,000 - 299,999	3,861	36	99	926,769,873	901,779,529	705,883,737	43,187,104	33,195,712	-9,991,392	-2,588	3.7%	4.8%	7.9%	8.6%
300,000 - 499,999	1,811	16	74	678,854,945	659,605,289	528,404,263	35,584,727	27,319,770	-8,264,957	-4,564	4.1%	5.4%	6.5%	7.0%
500,000 - 999,999	795	11	37	529,161,175	515,661,722	416,765,067	30,866,722	23,376,935	-7,489,787	-9,421	4.5%	6.0%	5.5%	6.1%
1,000,000 +	399	8	32	1,103,875,054	1,081,698,633	836,368,100	61,926,366	44,726,702	-17,199,664	-43,107	4.1%	5.7%	10.6%	12.3%
	309,858	**67,438**	**52,246**	**15,936,509,739**	**15,824,807,216**	**10,485,651,136**	**504,910,671**	**421,763,843**	**-83,146,828**	-268	2.7%	3.2%		

Model 11 Sayre Revision: AGI Base with Deduction on Family Size and Limited Itemized Deductions (Nonresident Filers)

Income Class	Returns	Original No Tax	New No Tax	Total AGI	Total Vermont AGI	Total Vermont Taxable Income	Baseline Computed Tax TY08	Model Tax	Difference from Baseline	Average Tax Difference	Model Effective Rate	Current Effective Rate	Model Burden	Current Burden
Negative	810	787	791	-1,472,509,116	0	394,366	7,535	28,556	21,021	26				
None/Missing	35	35	35	0	0	0	0	0	0	0				
.01 - 4,999	4,161	3,668	1,830	12,354,762	9,670,086	514,950	11,733	143,449	131,716	32	1.5%	0.1%	0.4%	0.0%
5,000 - 9,999	4,660	2,389	2,707	33,701,920	23,073,681	4,631,043	105,742	241,051	135,309	29	1.0%	0.5%	0.7%	0.3%
10,000 - 14,999	3,070	757	939	38,110,465	23,676,204	10,422,859	213,577	84,022	-129,555	-42	0.4%	0.9%	0.2%	0.5%
15,000 - 19,999	2,925	553	345	51,193,577	30,689,215	19,851,947	388,045	282,933	-105,112	-36	0.9%	1.3%	0.8%	0.9%
20,000 - 24,999	2,745	369	231	61,586,555	38,869,512	28,647,594	599,739	488,009	-111,730	-41	1.3%	1.5%	1.4%	1.4%
25,000 - 29,999	2,490	224	153	68,321,385	43,617,363	35,711,298	762,798	656,103	-106,695	-43	1.5%	1.7%	1.9%	1.8%
30,000 - 34,999	2,219	194	157	72,037,148	46,031,834	40,235,697	847,420	750,425	-96,995	-44	1.6%	1.8%	2.2%	2.0%
35,000 - 39,999	1,964	167	149	73,599,120	45,099,602	42,489,683	858,641	774,809	-83,832	-43	1.7%	1.9%	2.2%	2.1%
40,000 - 44,999	1,697	129	110	72,087,328	41,353,272	43,312,338	839,221	757,923	-81,298	-48	1.8%	2.0%	2.2%	2.0%
45,000 - 49,999	1,560	159	143	74,100,456	40,774,365	54,202,887	839,942	758,657	-81,285	-52	1.9%	2.1%	2.2%	2.0%
50,000 - 59,999	2,722	255	233	149,469,599	80,419,039	92,747,439	1,714,956	1,565,831	-149,125	-55	1.9%	2.1%	4.5%	4.1%
60,000 - 74,999	3,558	358	332	239,429,439	119,969,754	155,003,241	2,646,791	2,405,606	-241,185	-68	2.0%	2.2%	7.0%	6.4%
75,000 - 99,999	4,230	462	438	366,621,965	167,723,872	248,935,475	3,894,512	3,530,470	-364,042	-86	2.1%	2.3%	10.2%	9.4%
100,000 - 124,999	2,577	365	347	286,988,884	127,170,909	201,599,136	3,160,911	2,670,343	-490,568	-190	2.1%	2.5%	7.7%	7.6%
125,000 - 149,999	1,499	234	230	204,028,628	84,001,724	148,197,412	2,156,234	1,729,253	-426,981	-285	2.1%	2.6%	5.0%	5.2%
150,000 - 199,999	1,657	386	383	285,453,615	126,460,206	206,064,761	2,565,456	1,996,166	-569,290	-344	1.6%	2.0%	5.8%	6.2%
200,000 - 299,999	1,565	408	400	380,583,958	162,713,891	281,144,225	3,206,943	2,528,455	-678,488	-434	1.6%	2.0%	7.3%	7.7%
300,000 - 499,999	1,219	348	340	465,521,268	180,673,060	353,301,394	2,713,800	2,200,469	-513,331	-421	1.2%	1.5%	6.4%	6.5%
500,000 - 999,999	1,111	357	345	773,496,694	289,129,738	612,976,033	3,364,677	2,599,534	-765,143	-689	0.9%	1.2%	7.5%	8.1%
1,000,000 +	1,572	545	534	17,788,817,328	11,112,008,556	12,905,381,440	10,559,570	8,370,350	-2,189,220	-1,393	0.1%	0.1%	24.2%	25.5%
	50,046	**13,149**	**11,172**	**20,024,994,978**	**12,793,125,883**	**15,485,765,217**	**41,458,243**	**34,562,414**	**-6,895,829**	-138	0.3%	0.3%		
Total	**359,904**	**80,587**	**63,418**	**35,961,504,717**	**28,617,933,099**	**25,971,416,353**	**546,368,914**	**456,326,257**	**-90,042,657**	**-250**	1.6%	1.9%		
In-State	309,858	67,438	52,246	15,936,509,739	15,824,807,216	10,485,651,136	504,910,671	421,763,843	-83,146,828	-268	2.7%	3.2%		
Out-Of-State	50,046	13,149	11,172	20,024,994,978	12,793,125,883	15,485,765,217	41,458,243	34,562,414	-6,895,829	-138	0.3%	0.3%		

Model 14: AGI base with family size standard deduction based on federal poverty level. ($10,400 per filer and $3,600 per exemption.) Itemized deductions limited to 30 percent of Adjusted Gross Income. Deficit filled conceptually by reducing property tax adjustment ($48 million revenue gain) and taxing employer provided benefits with imputed value of $42 million. Brackets same as majority recommendation set forth in Model 13. **Minority recommendation**.

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APPENDIX B: THE SALES TAX

The Commission modeled various scenarios to broaden the sales tax base. This work focused on developing a rules-based approach to the sales tax, including the taxation of goods and services. The Commission's modeling and proposals relied on estimated future sales tax expenditures and an analysis of the potential value of taxing services. All tax expenditure information derives from The Legislature's Tax Expenditure budget. The methodology for estimating the taxation of services is set forth below.

Methodology

The 2007 Economic Survey by the Census for Vermont was used as the base data for sales tax estimates. The data for each NAICS code was reviewed for services not currently taxed. Then the Bureau of Economic Analysis 2008 Input Output Table was used to estimate the percentage of sales that are for final uses for each industry. This was used to estimate the Business to Business transactions exemption. An estimate was made of the base for the sales tax and then adjusted for inflation to FY 2014 for the estimates. Estimates are set forth below.

FY14 Existing Sales Tax Expenditures		
Predominately Consumer Expenditures		1%
Medical Products (drugs and equipment)		8,150,000
Residential Energy Purchases		7,350,000
Newspapers		180,000
Funeral charges		50,000
Admission to muni, state and federal rec facilities		50,000
Mobile home & modular housing sales		30,000
Rentals of coin-operated washing facilities		200,000
Clothing & footwear		4,233,333
Food		12,000,000
	Subtotal	**31,675,000**

FY14 Sales Tax on Services		
Predominately Consumer Services		1% B2B Exempt
Personal & household goods repair and maintenance		106,703
Personal care services		456,343
Other personal services		157,083
Automotive repair & maintenance		2,143,065
Residential construction		1,898,667
Educational Services (subject to income tax)		887,782
Health Care Services (subject to income tax)		12,353,507
	Subtotal	**18,003,150**
Predominately Business Services		1% B2B Exempt
Transportation Services		958,902
Finance, Insurance & RE Services		2,481,246
Professional, Scientific & Technical		2,945,709
Administration & Support		1,034,168
	Subtotal	**7,420,025**

Summary of Proposal		
4.5% Sales Tax on Consumer Tax Expenditures (excluding food and RX)		54.4
4.5% Sales Tax Services w/ B2B Exempt (excluding health care)		58.8
	Total	**113.2**
FY 14 Sales & Use Tax Revenue		361.8
Revenue per 1%		60.3

Based on the available data, the Commission modeled changes to the sales tax base and used the enhanced revenue to reduce the sales tax rate. The chart below sets forth the rate reductions possible given specified tax base expansions.

Scenario	Sales Tax Rate
Current Law	**6%**
Tax All Consumer Goods Except Food and RX	**5%**
Tax All Consumer Goods	**4%**
Tax Predominantly Consumer Services and All Goods Except Food & RX	**4%**
Tax All Consumer Services and Goods excepting Food & RX	**3.75%**
Tax All Consumer Services and Goods	**3%**
Tax All Services and Goods	**1.8 %**

APPENDIX C: TAX EXPENDITURES

The Legislative Tax Expenditure Report is the source data for the Commission’s examination of tax expenditures. The data below is derived from the 2011 Biennial Report.

Vermont Individual Income Tax Expenditures

Item Number	Individual Income Tax Expenditure	FY 2008 actual	FY 2009 actual	FY 2012 projected
1.001	Vermont Municipal Bond Income	$4,503,400	$4,552,800	$5,000,000
1.002	Capital Gains Exclusion	$61,150,300	$31,047,600	$18,100,000
1.101	Credit for Child and Dependent Care	$1,675,200	$1,677,100	$1,685,000
1.102	Credit for Elderly or Disabled	$3,100	$2,800	$3,300
1.103	Investment Tax Credit	$31,800	$68,000	$400,000
1.104	Vermont Farm Income Averaging Credit	$99,300	$112,500	$100,000
1.105	Vermont Business Solar Energy Credit	N.A.	$183,000	$1,600,000
1.201	Military Pay Exemption	$1,121,500	$1,181,600	$1,160,000
1.202	Federal Employment Opportunity Income	$7,700	$10,700	$12,000
1.203	Americans with Disabilities Credit Exemption	$100	$300	$200
1.204	Qualified Bond Interest Income Exemption	$0	$300	$1,000
1.301	Charitable Housing Credit	$43,600	$43,400	$44,000
1.302	Affordable Housing Credit	$0	$0	$0
1.303	Qualified Sale of Mobile Home Park Credit	$0	$0	$0
1.304	Vermont Higher Education Investment Credit	$911,800	$985,600	$1,200,000
1.305	Entrepreneurs' Seed Capital Fund Credit	$0	$0	$0
1.306	Historic Rehabilitation Tax Credit	$24,700	$4,700	$10,000
1.307	Façade Improvement Tax Credit	$0	$0	$0
1.308	Code Improvement Tax Credit	$29,500	$55,300	$40,000
1.309	Research and Development Tax Credit	N.A.	N.A.	$1,500,000
1.310	EATI Tax Credits (carryforward only after 2010)	$592,100	$542,600	$350,000
1.311	Downtown Tax Credits (carry forward only)	$77,600	$181,100	$25,000
1.401	Low Income Child and Dependent Care Credit	$70,300	$51,700	$75,000
1.402	Earned Income Tax Credit	$20,381,300	$21,469,800	$28,000,000
	Total	**$90,723,300**	**$62,170,900**	**$59,305,500**

Federal Individual Income Tax Expenditures

Item Number	Individual Income Tax Expenditure	FY 2008 actual	FY 2009 actual	FY 2012 projected
1.601	Medical & Dental Expenses	$3,061,600	$3,137,400	$3,380,000
1.602	State & Local Income and Sales Taxes	$23,201,422	$24,647,390	$28,500,000
1.603	Real Estate Taxes	$13,272,100	$14,202,300	$16,400,000
1.604	Personal Property Taxes	$375,800	$309,800	$400,000
1.605	Home Mortgage Interest Deduction	$22,496,700	$23,001,500	$25,000,000
1.606	Investment Interest	$2,735,300	$1,556,500	$3,000,000
1.607	Charitable Contributions & Gifts	$11,543,500	$9,308,600	$13,000,000
1.608	Casualty or Theft Losses	$55,693	$55,400	$56,000
1.609	Job Expenses & Other Miscellaneous Deductions	$4,760,700	$4,346,200	$5,000,000
1.701	Standard Deduction	$102,673,500	$104,541,100	$110,000,000
1.702	Personal Exemption	$91,087,900	$88,594,600	$93,000,000
	Total	**$275,264,215**	**$273,700,790**	**$297,736,000**

Corporate Income Tax Expenditures

Item Number	Corporate Income Tax Expenditures	FY 2008 actual	FY 2009 actual	FY 2012 projected
2.001	Vermont Municipal Bond Income Exemption		Data unavailable	
2.101	Charitable Housing Credit	$0	$0	$0
2.102	Affordable Housing Credit	$0	$0	$0
2.103	Qualified Sale of Mobile Home Park Credit	$0	$0	$0
2.104	Wood Products Manufacture Tax Credit		$88,000	$225,000
2.105	Historic Rehabilitation Tax Credit	$0	$0	$0
2.106	Façade Improvement Tax Credit	$0	$0	$0
2.107	Code Improvement Tax Credit	$0	$0	$0
2.108	Business Solar Energy Tax Credit		$39,000	$200,000
2.109	Machinery and Equipment Tax Credit	N.A.	N.A.	$0
2.110	Research and Development Tax Credit	N.A.	N.A.	$2,000,000
2.111	EATI Tax Credits (carryforward only after 2010)	$635,000	$227,300	$100,000
	Total	**$635,000**	**$354,300**	**$2,525,000**

Sales Tax Expenditure Summary

Item Number	Sales Tax Expenditure	FY 2008 actual	FY 2009 actual	FY 2012 Projection
3.001	Prescription and non-prescription drugs and durable medical equipment	39,500,000	41,500,000	48,900,000
3.002	Agricultural inputs	12,700,000	12,700,000	13,600,000
3.003	Veterinary supplies	1,100,000	1,100,000	1,100,000
3.004	Non-business, casual sales	Not estimated	Not estimated	Not estimated
3.005	Fuels for railroads and ferries	Not estimated	Not estimated	Not estimated
3.006	Sales of food	73,500,000	73,700,000	78,900,000
3.007	Property that is part of the manufacturing process	328,800,000	308,200,000	320,100,000
3.008	Newspapers and property that is part of the manufacturing process of newspapers	1,100,000	1,100,000	1,100,000
3.009	Packaging and shipping materials used by a manufacturer or distributor	1,100,000	1,100,000	1,200,000
3.010	Rented furniture for residential use	100,000	100,000	100,000
3.011	Admissions to municipal, state and federal recreation facilities	300,000	300,000	300,000
3.012	Rentals of coin-operated washing facilities including car washes	1,200,000	1,200,000	1,200,000
3.013	Admission fees to nonprofit museums	600,000	600,000	600,000
3.014	Equipment, supplies and building materials sold to volunteer fire departments, ambulance companies and rescue squads	Not estimated	Not estimated	Not estimated
3.015	Funeral charges	300,000	300,000	300,000
3.016	Property used in commercial, industrial or agricultural research	Not estimated	Not estimated	Not estimated
3.017	Agricultural machinery and equipment	2,000,000	1,600,000	1,600,000
3.018	Electricity, oil, gas and other fuels for a residence	49,400,000	45,700,000	44,100,000
3.019	Electricity, oil, gas and other fuels for farming	3,400,000	3,200,000	3,200,000
3.020	Sales of films where admission is subject to amusement tax	700,000	800,000	800,000
3.021	Aircraft and depreciable parts for commercial use	Under 100,000	Under 100,000	Under 100,000
3.022	Railroad rolling stock and depreciable parts	Under 100,000	Under 100,000	Under 100,000
3.023	Ferryboats and depreciable parts	100,000	100,000	100,000
3.024	40% of receipts from sales of mobile homes and modular housing when sold as tangible personal property	200,000	200,000	200,000
3.025	U.S. flag sold to or by exempt veterans' organizations	Not estimated	Not estimated	Not estimated
3.026	Electricity, oil, gas and other fuels used in manufacturing tangible personal property for sale	15,900,000	13,700,000	12,100,000
3.027	Property transferred as part of personal service transaction or transfer of intangible property rights	Not estimated	Not estimated	Not estimated
3.028	Advertising materials transferred in conjunction with advertising services	Not estimated	Not estimated	Not estimated
3.029	Documents that record a professional service	Not estimated	Not estimated	Not estimated
3.030	Tracked vehicles	Not estimated	Not estimated	Not estimated
3.031	Sales of building materials	Under 100,000	Under 100,000	48,900,000
3.032	Wholesale transactions between telecommunications service providers	Not estimated	Not estimated	48,900,000
3.033	Scrap construction materials by a third party	Not estimated	Not estimated	48,900,000
3.034	Property incorporated in railroad line	Not estimated	Not estimated	48,900,000
3.035	Clothing and footwear (excluding athletic or protective clothing)	26,700,000	25,400,000	27,300,000
3.036	Property incorporated into a net metering system, an energy system on a premises not connected to the electric distribution system, or a solar hot water heating system	Not estimated	Not estimated	Not estimated
3.037	Sales to and some purchases from 501(c)(3) organizations	Not estimated	Not estimated	Not estimated
3.038	Building materials and supplies used in construction, repair of buildings by governmental bodies or 501(c)(3) organizations or development corporations	Not estimated	Not estimated	Not estimated
3.039	Amusement charges for 4 events a year for 501(c)(4)-(13) and (19) organizations and political organizations	Not estimated	Not estimated	Not estimated
3.040	Tax on telecommunications services is limited to $10,000 in any one calendar year	Under 100,000	Under 100,000	Under 100,000
3.041	Reallocation of receipts from tax imposed on sales of construction materials	Under 100,000	Under 100,000	Under 100,000
3.042	Sales to nonprofit hospital service corporations	Under 100,000	Under 100,000	Under 100,000
3.043	Sales to nonprofit medical service corporations	Under 100,000	Under 100,000	Under 100,000
3.044	Sales to credit unions	Under 100,000	Under 100,000	Under 100,000
	Total	**558,700,000**	**532,600,000**	**752,400,000**

Meals and Rooms Tax Expenditure Summary

Item Number	Meals & Rooms Tax Expenditures	FY 2008 actual	FY 2009 actual	FY 2012 Projection
Meals & Alcoholic Beverages Tax				
4.001	Grocery-type items furnished for take-out	5,400,000	5,700,000	6,100,000
4.002	Served on the premises of a non-profit	Not estimated	Not estimated	Not estimated
4.003	Served on the premises of a school	1,900,000	1,900,000	1,900,000
4.004	Served on the premises of a prison	200,000	200,000	200,000
4.005	Served in hospitals, convalescent and nursing homes	1,000,000	1,000,000	1,100,000
4.006	Carriers	Not estimated	Not estimated	Not estimated
4.007	Served while operating a summer camp for children	Under 100,000	Under 100,000	Under 100,000
4.008	Sold by nonprofits at fairs etc. but limited to 4 days	Not estimated	Not estimated	Not estimated
4.009	Furnished to an employee of a hotel or restaurant	Not estimated	Not estimated	Not estimated
4.010	Served to the elderly pursuant to the Older Americans Act	600,000	600,000	700,000
4.011	Purchased with food stamps	100,000	200,000	200,000
4.012	Served on the premises of a continuing care facility	Not estimated	Not estimated	
4.013	Provided for nonprofit hospital service corporations	Under 100,000	Under 100,000	Under 100,000
4.014	Provided for nonprofit medical service corporations	Under 100,000	Under 100,000	Under 100,000
4.015	Provided for credit unions	Under 100,000	Under 100,000	Under 100,000
Rooms Tax				
4.101	Time share rights	Not estimated	Not estimated	Not estimated
4.102	Student housing	Not estimated	Not estimated	Not estimated
4.103	Permanent residents (occupied a room in a hotel for at least 30 days)	Not estimated	Not estimated	Not estimated
4.104	Hotel or restaurant employee (as part of their renumeration)	Not estimated	Not estimated	Not estimated
4.105	Summer camps	200,000	200,000	200,000
4.106	Hospital, sanatorium, convalescent home, nursing home	Not estimated	Not estimated	Not estimated
4.107	State or US-operated establishment	Not estimated	Not estimated	Not estimated
4.108	Nonprofit establishments	Not estimated	Not estimated	Not estimated
4.109	Continuing care retirement communities	Not estimated	Not estimated	Not estimated
4.110	Rooms provided for nonprofit hospital service corporations	Under 100,000	Under 100,000	Under 100,000
4.111	Rooms provided for nonprofit medical service corporations	Under 100,000	Under 100,000	Under 100,000
4.112	Rooms provided for credit unions	Under 100,000	Under 100,000	Under 100,000
	Total	**9,400,000**	**9,800,000**	**10,400,000**

Property Tax Expenditures

Item Number	Property Tax Expenditure	FY 2008 actual	FY 2009 actual	FY 2012 estimates
5.001	Non-Profit Medical Service Corporations	$153,000	$120,100	$129,000
5.002	Local Development Corporations	$92,882	$79,800	$81,000
5.003	Vermont State Colleges	$898,000	$985,500	$990,000
5.004	University of Vermont	$7,860,000	$9,510,500	$10,025,000
5.005	Libraries	$840,000	$868,900	$869,000
5.006	Housing Authorities	$1,098,000	$1,173,400	$1,275,000
5.007	Federal and State Government Property	$14,801,110	$16,316,008	$17,712,000
5.008	Congressionally Chartered Organizations	$449,000	$471,800	$519,000
5.009	Personal estate property in another state		Data unavailable	
5.010	Public, pious and charitable property	$32,372,000	$41,856,200	$44,044,000
5.011	College fraternities and societies	$144,000	$151,700	$160,000
5.012	YMCA and YWCAs	$167,000	$160,300	$170,000
5.013	Cemeteries	$427,000	$465,900	$499,000
5.014	Furniture and equipment		Data unavailable	
5.015	Owned by agricultural societies	$564,000	$367,800	$383,000
5.016	$10,000 for veterans	$100,000	$100,100	$100,000
5.017	Water pollution abatement property		Data unavailable	
5.018	Humane societies	$62,000	$62,100	$72,000
5.019	FQHC and RHCs	$159,000	$176,600	$173,000
5.020	Ski lifts and snowmaking equipment	$1,507,000	$1,121,700	$1,691,000
5.021	Municipally owned	$10,957,000	$12,070,400	$13,418,000
5.022	Whey processing fixtures	$5,466	$39,800	$43,000
5.023	Municipalities hosting large power plants	$659,104	$664,612	$794,000
5.101	Use Value Appraisal Program	$29,801,938	$33,913,934	$37,383,000
5.102	Qualified Housing	$546,000	$582,300	$576,000
5.103	Tax Increment Financing Districts	$1,944,000	$2,023,800	$2,500,000
5.104	Property Tax Adjustments	$115,395,480	$135,850,961	$148,300,000
5.201	Holton Home	N/A	$7,100	$8,000
5.202	Skating Rinks	N/A	$18,300	N/A
5.203	Recreation Facilities	N/A	$24,900	N/A
	Totals	**$221,002,980**	**$259,184,515**	**$281,914,000**

Bank Franchise Tax Expenditure Summary

Item Number	Bank Franchise Tax	FY 2008	FY 2009	FY 2012
6.001	Credit Unions	$790,000	$903,000	$1,000,000
6.101	Affordable Housing Tax Credit	$822,000	$955,000	$1,400,000
6.102	Downtown and Village Center Program Tax Credits	$1,120,000	$296,000	$500,000
6.103	Entrepreneurs' Seed Capital Fund Credit	$0	$0	$0
6.104	Charitable Housing Credit	$0	$0	$0
	Total	**$2,732,000**	**$2,154,000**	**$2,900,000**

Insurance Premiums Tax Expenditure Summary

Item Number	Insurance Premiums Tax	FY 2008	FY 2009	FY 2012
7.001	Affordable Housing Tax Credit	$516,000	$364,000	$600,000
7.002	Downtown and Village Center Program Tax Credits	$0	$0	$0
7.003	Entrepreneurs' Seed Capital Fund Credit	$0	$0	$0
7.101	Annuity Considerations	$10,500,000	$10,300,000	$10,500,000
7.102	Fraternal Societies	Less than $100,000		<$100,000
7.103	Hospital and Medical Service Organizations	$10,807,000	$10,584,000	$10,700,000
	Total	**$21,823,000**	**$21,248,000**	**$21,800,000**

Gasoline and Diesel Fuel Tax Expenditures

Item Number	Expenditure	FY 2009 actual	FY 2010 actual	FY 2012 projected
8.001	Gasoline tax	$0	$0	$0
8.002	Diesel fuel	$9,700,000	$10,800,000	$10,900,000
	Totals	**$9,700,000**	**$10,800,000**	**$10,900,000**

Motor Vehicle Purchase & Use Tax Expenditures

Item Number	Expenditure	FY 2009 actual	FY 2010 actual	FY 2012 projected
9.001	Gifts	$2,660,000	$2,970,000	$3,070,000
9.002	Religious, charitable	$150,000	$135,000	$160,000
9.003	Veterans	$28,000	$34,000	$30,000
9.004	Handicap	$20,000	$20,000	$20,000
9.005	IRC Sec. 351	$13,000	$12,000	$10,000
9.006	Non-registered vehicles	No data	No data	No data
	Subtotal specific exemptions	$2,900,000	$3,200,000	$3,300,000
9.007	Trade-In allowance	$19,600,000	$20,700,000	$23,300,000
	Totals	**$22,500,000**	**$23,900,000**	**$26,600,000**

APPENDIX D: STATEWIDE EDUCATION PROPERTY TAX

The Commission developed various models to better understand the Statewide Education Property Tax. Specifically, the Commission's models can be grouped into three categories, focusing on an income tax, property tax, and hybrid system. Models are designed to be roughly revenue neutral for FY2011 unless otherwise noted. The rates depicted are to be contrasted to the current base rate and average rate.

- Base Rate: 1.8% on household income – $0.86 on homestead value.
- Average Rate: 2.62% on household income – $1.25 on homestead value.

The methodology for the models is set forth below.

Methodology

Because the main purpose of the exercise is to look at possible alternatives to current law taxation of homestead property, estimates of the homestead property tax for FY 11 are used as a baseline and, as much as possible, alternatives are modeled using the same data, the same years, the same system for setting rates based on the spending per pupil, and other current-law parameters, unless the alternative explicitly requires a change.

All alternatives hold the non-residential property tax revenue constant. All alternatives raise the same net revenue from the homestead tax (to the nearest penny on the property tax or 1/10 percent on the income tax).

The FY 11 database includes estimates of 2009 household income, based on 2008 data. It uses estimated 2009 property tax data for the adjustment, and estimated 2010 Grand List data for gross revenue. Rates are determined by estimated FY 11 per-pupil spending.

The property tax alternatives use the estimated revenue from homestead property in FY 11 (2010 property tax year). However, alternatives that include a "circuit breaker" base it on the prior year's tax bill, as in current law.

All alternatives that use household income, either for an adjustment or circuit breaker, use the model's database of household income used to estimate current law, FY 11. Because households with incomes greater than $97,000 do not receive any adjustment under current law, the database does not include the household income of higher-income households. For an alternative that relies on household income for all incomes, 2008 adjusted gross income reports were used to estimate missing household incomes.

Models

The first three models examine variations on the income tax.

	Income Tax instead of Homestead Property Tax		
	1	2	3
	AGI tax	AGI tax v2	Household Income
Income tax base (billions)	16,059.9	16,059.9	13,030.9
Base Rate	1.30%	1.39%	1.60%
Average Rate	1.89%	2.01%	2.33%
Gross Income Tax	303.2	324.2	303.2
Homestead - Housesite Tax base	31.6	31.6	31.6
Rate	1.35	1.35	1.35
Gross Homestead Property Tax	42.6	42.6	42.6
Adjustment	0.0	-21.2	0.0
Net homestead taxes	334.8	334.6	334.8
Adjustment	none	no tax after 500K	none
Notes	includes renters	includes renters	Homeowners only
Examples--with 2-acre housesite			
$46,000 income $200,000 house	$869	$925	$1,072
$100,000 income $300,000 house	$1,890	$2,010	$2,330

Model 1: Tax on AGI for all taxpayers.

Model 2: Tax on AGI for all taxpayers capped at first $500,000 of AGI.

Model 3: Tax on Household Income for all Household Income filers.

The next five models were variations on the property tax.

	Homestead Property Tax				
	4	5	6	7	8
	Homestead Exemption $83K	$45K Homestead Exemption + circuit breaker	Circuit breaker only	Circuit breaker up to $53,000	No adjustment
Homestead tax base	417.2	417.2	417.2	417.2	417.2
Base Rate	0.86	0.86	0.72	0.74	0.57
Average Rate	1.25	1.25	1.05	1.08	0.83
Gross homestead taxes	522.1	522.1	437.2	449.3	346.1
Adjustment	-176.0	-175.1	-88.8	-100.5	0.0
Net homestead taxes	346.1	347.0	348.4	348.8	346.1
Adjustment	Exemption on first $83,000 of Property	$45,000 exemption + current law Circuit Breaker	Current law Circuit Breaker	Circuit Breaker to higher income	none
Notes	Exemption for school tax only	Exemption for school tax only			

Model 4: Property tax with former property tax adjustment used to create tax exemption on first $83,000 of property value.

Model 5: Property tax with Income Sensitivity eliminated. Additional revenue is used to create tax exemption on first $45,000 of property value. Circuit Breaker retained.

Model 6: Property tax with Income Sensitivity eliminated. Additional revenue is used to lower property tax rates. Circuit Breaker retained.

Model 7: Property tax with Income Sensitivity eliminated. Circuit Breaker expanded to higher income, $53,000. Additional revenue is used to lower property tax rates.

Model 8: Property tax with no adjustments. Former property tax adjustment used to reduce rates.

The next four models explored further variations; however, several models left revenue unassigned in order to use them to reduce income tax rates. This would change Vermont's tax portfolio and require an ad hoc adjustment to the balance between the General Fund and Education Fund.

	Homestead Property Tax			
	9	**10**	**11**	**12**
	Circuit Breaker to $29,140 reduce income tax	Circuit Breaker to $29,140 reduce HS rate	Prebate slope begins at $75,000	Current Law Circuit Breaker Only
Homestead tax base	417.2	417.2	417.2	417.2
Base Rate	0.86	0.65	0.84	0.86
Average Rate	1.25	0.95	1.22	1.25
Gross homestead taxes	522.2	394.6	509.9	522.2
Adjustment	-62.8	-48.1	-159.5	-109.9
Net homestead taxes	345.4	346.5	350.4	344.2
Amount to reduce income tax	114.0			68.1
Adjustment	$114 million to be used to reduce income tax rates	Reduced Circuit Breaker	Reduced Income Sensitivity and Current Circuit Breaker	Cuircuit Breaker

Model 9: Reduced Circuit Breaker based on 2X federal poverty level with Enhanced revenue to reduce income tax rates.

Model 10: Reduced Circuit Breaker based on 2X federal poverty level with enhanced revenue to reduce property tax rates.

Model 11: Reduction in Income Sensitivity eligibility with enhanced revenue to reduce property tax rates.

Model 12: Elimination of Income Sensitivity with enhanced revenue used to reduce income tax rates.

APPENDIX E: CORPORATE INCOME TAX

The Commission constructed a four part framework to consider changes to the Corporate Income Tax.

- Tax Base: Unitary Combined Reporting or Other
- If Unitary Combined Reporting; how to apportion income?
- Are the rates appropriate? Specifically, a progressive tax or flat tax.
- Is corporate income tax reform a priority?

It is important to note that the Commission's corporate income tax deliberations included two roundtable discussions convened to invite Vermont's five major business trade groups and their members to engage in an informal conversation about the tax structure generally, and the corporate income tax specifically.

Tax Base

The Commission faced a fundamental dilemma when considering the corporate income tax reform, particularly whether to retain Unitary Combined Reporting as the tax base. Vermont adopted Unitary Combined Reporting in 2004. This was a bipartisan effort proposed by the Douglas Administration and passed by the Legislature. Furthermore, the majority of states that levy a corporate income tax utilize Unitary Combined Reporting, and this seems to be the national trend.

The previous tax base faced challenges, including the ability of multi-state corporations to shield income, an attendant rise in the share of the tax paid by Vermont based businesses, and high rates. Also, the majority of states that levy a corporate income tax have adopted Unitary Combined Reporting and the trend appears to be continuing in this direction. Therefore, reform of the corporate income tax base would be against this rising tide.

These facts, elicited through testimony and a review of Vermont's recent corporate income tax reform, militated toward not recommending reform of the corporate income tax base.

Apportionment Formula

The Commission heard testimony regarding Vermont's double weighted sales factor apportionment formula. It was not clear to the entire Commission whether unanimity existed within the business community regarding changing this formula. Rather, it seemed that changing the formula would benefit some industries and businesses and disadvantage others. The majority of the Commission declined to consider a change to the formula absent a principled reason to change the formula and incidence of the tax beyond a particular business sector's desire to change the formula.

Tax Rate

The entire Commission considered corporate income tax rate reform at length. Vermont's corporate income tax has a progressive rate structure with three tax brackets.

- $ 0 – 10,000, 6.00%
- $ 10,001 – 25,000, 7.00%
- $ 25,001 – and more, 8.50%

Vermont's top marginal rate (8.5%) is tied for the 12th highest in America; however, it is tied with New Hampshire for the second lowest top rate in New England. Only Connecticut (7.5%) has a lower top marginal rate in New England. The Commission reviewed Vermont's effective tax rates as well to get a clearer view of economic competitiveness in this regard.

Vermont's two lowest CIT rates are levied on very little corporate income. Therefore, Vermont's effective tax rate skews toward the top rate of 8.5%. Specifically, the marginal tax rate is 8.025% on the first $100k of corporate income and 8.453% on the first $1 million of corporate income. These effective rates are the 13th highest in America; however, they are the second lowest effective corporate income tax rates in New England.

The chart below compares Vermont's top marginal rate and effective rate against the average and median top and effective rates for New England/New York and the United States.

	Average Top Rate	**Median Top Rate**	**Effective Rate, First $1 Million of Corporate Income, Average: Median**
Vermont	8.50%	8.5%	8.45%: 8.45%
NE + NY	8.33%	8.8%	8.28%: /8.5%
U.S.	6.53%	7%	5.77%: 6.75%

The chart tells two stories. First, Vermont's corporate income tax rates are already competitive in New England. Second, the corporate income tax rates would need to drop to 6.5% or below for Vermont to be lower than the national average and median. The Commission considered three options to reform Vermont corporate income tax reform.

Rate Reform Options

The Commission considered a flat tax on corporate income. A flat corporate tax is a mainstream position. Currently, Vermont is one of only 15 states to utilize a progressive corporate income tax. The rationale for a progressive tax structure is less persuasive regarding corporate taxation. Furthermore, the current bracket structure means that corporations benefit only slightly from the system's progressivity. Accordingly, the Commission agreed that rate models should be flat rather than progressive. Two corporate income tax flat taxes were examined.

Set Flat Tax Rate at 6.5%

- The rate would be the lowest in New England.
- The top rate would be ranked 21th lowest nationally.
    - The flat tax at 6.5% would reduce revenue by $14.1 million.
    - The 6.5% rate makes it possible for businesses subject to the tax but with between $1 and $10,000, the corporations now in the lowest marginal rate bracket only, would see a tax increase under this system. The maximum tax increase for these businesses would be $50.

Set Flat Tax Rate at 5.99%

- The rate would be the lowest in New England.
- The top rate would be ranked 11th lowest nationally.
    - The flat tax at 5.99% would reduce revenue by $18.1 million.

Conclusion

The majority of the Commission declined to endorse corporate income tax rate reform for two reasons. First, revenue neutral tax reform is a zero sum game. Therefore, a corporate income tax reduction would require a tax increase. It was not clear to the Commission what tax to raise to support a reduced corporate income tax. Second, testimony elicited by the Commission led some commission members to conclude that other opportunities for reform were of more pressing concern to Vermont's business community. Specifically, the competitiveness of Vermont's personal income tax, recent changes to the treatment of capital gains, regulatory requirements, the property tax, and health care costs all seemed to rise above the corporate income tax in terms of importance. This informed the Commission's effort to reduce personal income tax rates that will result in the reduction of tax levied on capital gains as well.

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APPENDIX F: THE COMMISSION'S WORK ON TAX TRANSITIONS

Government deploys tax transition policy whenever it enacts tax reforms. Policymakers must decide whether to offer taxpayers relief from these effects or let the losses fall where they may. If relief is offered, policymakers must make complex and costly choices regarding how best to use transition policy to traverse the gap between current policy and reform. The Blue Ribbon Tax Structure Commission published a white paper examining the challenge to effective reform presented by tax transition effects and tax transition policy. The paper, presented here as Appendix G, provides the Legislature with a ready guide to consider the particular challenges of tax transitions.

Photo by Márcio Cabral de Moura

Mind the Gap:
Transitioning to Tax Reform
Vermont’s Blue Ribbon Tax Structure Commission

Mind the Gap:
Transitioning to Tax Reform

A White Paper Produced by
Vermont's Blue Ribbon Tax Structure Commission

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Tax reform creates winners and losers by disrupting current economic relationships.[34] Tax reform disrupts economic relationships by departing fundamentally from the current system, altering and/or eliminating rates, deductions, exclusions, and credits to which individuals and businesses have grown accustomed.[35] These disruptions, and their administrative counterparts, can be labeled transition losses and range from simple to complex.[36] The questions of whether, and how, to offer relief to mitigate transition losses is the domain of tax transition policy.

Government deploys tax transition policy whenever it enacts tax reforms.[37] Policymakers must decide whether to offer taxpayers relief from these effects or let the losses fall where they may. If relief is offered, policymakers must make complex and costly choices regarding how best to use transition policy to traverse the gap between current policy and reform.[38] The Blue Ribbon Tax Structure Commission will utilize this white paper to examine the challenge to effective reform presented by tax transition effects and tax transition policy.

The Commission examined tax transitions in Vermont and other jurisdictions and found that the personal income tax changes enacted by the Legislature in 2009 illuminate many of the complexities of tax transition.[39] The 2009 personal income tax changes provide a compelling example of the policies, resources, and complexity deployed to fill the gap that arises between

[34] U.S. Congress, House Committee on the Budget, "Tax Reform: Prospects and Possibilities," Testimony of C. Eugene Steuerle. 108th Congress, 2nd sess. 4 October 2004. Available from: Tax Policy Center http://www.taxpolicycenter.org/UploadedPDF/900749_Steuerle_100604.pdf. Dr. Steuerle asserts that "the only way to create no losers in tax and budget policy is to maintain current law."

[35] Richard D. Hobbet, "Transitional Mechanisms to Facilitate Tax Reform," *Law and Contemporary Problems* 34:4, Tax Simplification and Reform (Autumn 1969) 818; Louis Kaplow, "An Economic Analysis of Legal Transitions," *Harvard Law Review* 99:3 (January 1986) 512; Kyle Logue, "Tax Transitions, Opportunistic Retroactivity, and the Benefits of Government Precommitment," *Michigan Law Review* 94:5 (March 1996) 1130.

[36] Michael Doran, "Legislative Compromise and Tax transition Policy," *University of Chicago Law Review* 74:2 (Spring 2007) 546.

[37] Kaplow, 511.

[38] The U.S. Department of the Treasury, *Report to the President: Tax Reform for Fairness, Simplicity, and Economic Growth* (Washington, DC: GPO, 1984) for the proposition that "tax reform has often – and long – been held hostage by failure to deal with transitional issues," and the possibility of deploying transition policies to ease transition losses. Quoted by Gordon Bale, "The Treasury's Proposals for Tax Reform: A Canadian Perspective," *Law and Contemporary Problems* 48:4 (Autumn 1985) 170.

[39] Staff examined several major tax reforms within and outside Vermont to analyze transition losses and transition policies. These included Act 60, Act 68, and Unitary Combined Reporting within Vermont, and the federal Tax Reform Act of 1986, Ohio's 2005 Commercial Activity Tax, and the 2007 Texas Franchise Margin Tax.

current policy and reform.[40] The Commission will focus on this reform as it examines tax transition policy.

This white paper proceeds in four parts. First, the paper will discuss the potentially disruptive transition effects of tax reform. Second, the paper will present possible tax transition policies. Third, the Commission will examine the Legislature's enactment of personal income tax changes in 2009 as a case study of tax transition policy. Fourth, the Commission will make preliminary findings regarding tax transition policy.

THE TRANSITION EFFECTS OF COMPREHENSIVE TAX REFORM

Comprehensive tax reform has the potential to create many disruptive transition effects, including uncertainty and complexity for individuals, businesses, tax professionals, and the government.[41] These effects include, but are not limited to, the following:

- A change in the value and tax treatment of investments
- Disruption in current economic relationships
- Administrative complexity for the government, taxpayers, tax preparers, and vendors
- Short-term volatility in revenue collection and revenue forecasting
- Other unintended consequences

The Commission will examine the tax transition policy responses available to policymakers considering comprehensive tax reform.

TAX TRANSITION POLICIES

Tax transition policies take many forms, but they fall into six broad categories.[42]

- No transition relief offered

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[40] 2009 Act No. 2, sec. 16a, 16b, 17, 18, 19, 20, and 21 – Special Session H442. All references to the income tax changes of 2009 throughout this paper are to this act.
[41] See note 2.
[42] Kaplow, 582-592. See also, Michael Graetz, "Legal Transitions: The Case for Retroactivity in Income Tax Revision," *University of Pennsylvania Law Review* 126:1 (November 1977) 47-87.

- Delayed implementation
- Phased-in implementation
- Partial implementation
- Complete grandfathering
- Full compensation

Each potential transition policy has strengths and weaknesses. The Commission will address each briefly.

No Transition Relief

The threshold question in tax transition policy is whether to offer taxpayers relief from transition losses. The current view among some economists is that the government should not offer transition relief when changing tax laws.[43] Transition relief disrupts the market's ability to properly price risk by encouraging investors to invest with disregard to the possibility of government policy changes.[44] In this way, transition policies may increase moral hazard and transaction costs.[45] Additionally, a legislative decision not to offer transition relief limits behavioral responses to tax reform that may blunt reform's effectiveness. Instead, scholars "generally favor a transition policy of nominally prospective implementation of changes in government policy with no transitional relief."[46] In short, policymakers should avoid retroactivity but, otherwise, not offer transition relief.

Delayed Implementation

Delayed implementation provides taxpayers relief by allowing time to reposition in response to reform.[47] Also, delayed implementation gives the government time to prepare for

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[43] Daniel Shaviro, *When Rules Change: An Economic and Political Analysis of Transition Relief and Retroactivity* (Chicago, Illinois: University of Chicago Press, 2000), 3; Logue, 1131; Doran, 546.
[44] Kaplow, 513.
[45] Kaplow, 536-537.
[46] Kaplow 551.
[47] Kaplow, 590-591.

implementation. The cost of this transition relief is an extension of the status quo's costs and a deferral and reduction of reform's presumed benefits.[48]

Phased-in Implementation

Phased-in implementation is a transition strategy that reforms the status quo in incremental steps over time.[49] Phased-in implementation provides taxpayers with an adjustment period to reposition themselves.[50] Additionally, phased-in implementation may reduce volatility in revenue collection by withdrawing the old system and implementing the new system gradually.

Phased-in implementation has several drawbacks. Just as with delayed and partial implementation, the cost of this transition relief is an extension of the status quo's costs and a deferral and reduction of reform's presumed benefits.[51] Additionally, taxpayers and the government may face additional complexity in administering and complying with shifting, and perhaps multiple, tax regimes over several years.[52] Last, but certainly not least, reform is susceptible to constant political pressure over the course of the phased-in period.[53]

Partial Implementation

Partial implementation is a transition strategy that implements reform immediately but reduces that reform substantively. Essentially, partial implementation can be described as reform watered down significantly by exceptions to the reform rules. By favoring the status quo for certain taxpayers, partial implementation reduces both reform's losses and benefits.[54] Therefore, partial implementation may have the advantage of easing the transition but the

[48] Kaplow, 590-591.
[49] Kaplow, 592.
[50] Kaplow, 587-592.
[51] Kaplow, 592.
[52] Hobbet, 836. Logue, 1175.
[53] Ohio provides an example of this pressure. Ohio enacted a comprehensive tax reform that phased in incrementally over five years. Governor Strickland stopped implementation of the final year of the tax reform to address current budget issues. Jim Siegel, "Strickland Signs New State Budget; Tax Cuts Delayed," *Columbus Dispatch*, December 22, 2009, (http://www.dispatch.com/live/content/local_news/stories/2009/12/22/strickland-signs-budget.html) *For more information about Ohio's phased-in implementation of comprehensive tax reform, see* http://tax.ohio.gov/divisions/communications/news_releases/documents/Tax_reform_fact_sheet.pdf
[54] Doran, 584. Kaplow, 588.

burden of continuing part of the status quo and increased administrative complexity. Unlike a phased-in or delayed implementation, these burdens accumulate indefinitely.

Grandfathering

Grandfathering "exempts pre-reform investments from newly enacted regulation."[55] The benefit of this transition strategy is to reduce the transition losses and opposition of taxpayers holding affected investments.[56] Grandfathering has numerous drawbacks.

Economists consider complete grandfathering inefficient.[57] First, grandfathering exempts investors from the cost of reform but does not address any underlying change in the value of an investment.[58] Second, grandfathering reduces the potential benefits of reform by reducing revenue.[59] Third, grandfathering creates complex administrative issues by creating separate tax treatment of similar assets. Fourth, grandfathering divides taxpayers arbitrarily by date. This special treatment, in which the same income or asset is taxed differently based on date, is difficult to explain and defend.

Full compensation

Full compensation by the government is considered rare outside eminent domain and government contracts.[60] Employing this transition strategy in tax reform would be highly unusual.[61] Furthermore, full compensation for tax losses would be quite costly, blunting reform entirely.

Every tax reform includes these six transition policy options to some degree as policymakers must choose whether and how to offer relief. While these transition policies seem straightforward in the abstract, real world examples abound with complex trade-offs and thorny policy problems. Vermont's 2009 personal income tax reform was no exception.

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[55] Kaplow, 584.
[56] J. Mark Ramseyer & Minoru Nakazato, "Tax Transitions and the Protection Racket: a Reply to Professors Graetz and Kaplow," *Virginia Law Review* 75:6 (September, 1989) 1155-1175.
[57] Kaplow, 585; Graetz, 47, 53; Ramseyer and Nakazato, 1155.
[58] Kaplow, 584.
[59] Kaplow, 585.
[60] Kaplow, 584.
[61] For a contrary view, *see* Logue.

TRANSITION POLICIES IN ACTION: VERMONT'S 2009 PERSONAL INCOME TAX CHANGE

Personal income tax changes enacted by the Legislature in 2009 provide a provocative example of the complexities of tax transition policy.[62] The Commission believes it is important to acknowledge at the outset that the Legislature enacted this reform at the nadir of the Great Recession.[63] The recession is subsiding slowly, but the pressure of that time may make the example instructive for comprehensive tax reform.

There is debate regarding whether capital gains income should be taxed at the same rate as earned income or at a preferential rate. That debate is beyond the scope of this white paper; however, the Legislature's policy choice in 2009 was to treat capital gains more like ordinary income. The tax transition effects of ending the preferential treatment of capital gains created many winners, but it created increased tax liability for a small but significant group of taxpayers.[64] The Legislature, perhaps anticipating the response to these transition effects, offered multiple forms of transition relief to bridge the gap between the status quo and the proposed reform.

The personal income tax change enacted by the Legislature in 2009 ended the highly preferential treatment of capital gains by eliminating the exclusion of 40 percent of all capital gains from taxable income. Instead, beginning on July 1, 2009, the 40 percent exclusion of capital gains income was converted to a flat exclusion. For tax years 2009 and 2010, the exclusion amount is $2,500; then it goes to $5,000. Simultaneously, the law reduced personal income tax rates. The phased-in rate reductions are illustrated in the chart below.

[62] 2009 Act No. 2 secs. 16a, 16b, 17, 18, 19, 20, and 21 – Special Session H442. All references to the income tax changes of 2009 throughout this paper are to this act. For more information about this change, see the Tax Department's website.
http://www.state.vt.us/tax/pdf.word.excel/legal/legislation/Highlights%20of%202009%20Legislation.pdf

[63] State of Vermont Emergency Board, *2010 Economic Review and Revenue Forecast Update* (Montpelier, VT, January 13, 2010) for the proposition that May 2009 was likely the bottom of the Great Recession for Vermont.

[64] Analysis by the Legislative Joint Fiscal Office indicates that taxpayers with less than $12,500 of capital gains income will benefit from the new policy. This includes the majority of Vermonters with capital gains.
http://www.leg.state.vt.us/JFO/Tax%20Commission/Summary%20of%202009%20PIT%20Changes%20JFO.pdf

Vermont Personal Income Tax Rates

2008 Marginal Rates	Phase I - 2009 Marginal Rates	Phase II - 2010 Marginal Rates
3.6%	3.55%	3.55%
7.2%	7.00%	6.80%
8.5%	8.25%	7.80%
9.0%	8.90%	8.80%
9.5%	9.40%	8.95%

Furthermore, the Legislature grandfathered sales of farms and timber and carved out a time-limited exceptions for individuals aged 70 or older. Taxpayers over 70 could choose the 40-percent exclusion or the flat exclusion until that relief phases out on January 1, 2011. Through these exceptions, the Legislature deployed all five traditional transition policies within the 2009 personal income tax changes; phased-in implementation, delayed implementation, partial implementation, grandfathering, and no transition relief.

Phased-In Implementation

Phased-in implementation was the most visible transition policy utilized by the 2009 personal income tax reform. Phased-in implementation provided transition relief by reducing marginal personal income tax rates incrementally as capital gains taxation rose. Structurally, the 2009 personal income tax changes broadened the personal income tax base while reducing the rate. Generally, this is considered sound public policy; however, this phased-in implementation created significant complexity as a transition strategy.

The 2009 personal income tax changes created four separate personal income tax regimes during tax years 2009, 2010, and 2011. Taxpayers saw three different personal income tax rates between 2008 through 2010. Tax treatment of capital gains changed substantially from the first half of 2009 (which replicated the 40 percent treatment) to the second half of 2009, 2010, and 2011. The shifting tax system runs contrary to the virtue of simplicity in administration and compliance espoused by most taxing authorities. Moreover, the shifting tax systems created implementation concerns, including public confusion, tax preparer frustration, and technical difficulties for the government in administering state tax collection.

Delayed Implementation

The Legislature utilized delayed implementation as a transition strategy within the capital gains tax reform. In tax year 2009, the Legislature carved out an 18-month exception that permitted taxpayers aged 70 and above to choose either the previous 40 percent exclusion for all

long-term capital gains or a $2,500 flat exclusion. This delay added cost and complexity.

It is estimated that this delayed implementation for seniors added $6.2 million to the estimated $15 million cost in foregone revenue created by the legislation's tax transition policies.[65] Beyond economic cost and complexity, the transition policy confuses the tax landscape. The Legislature allowed a specific group, seniors, to retrench when faced with a shifting tax landscape. This dispensation may affect taxpayer morale as other taxpayers make claims to similar relief.

Partial Implementation

The personal income tax law can be read to endorse the rule that capital gains are similar to ordinary income. Yet, the Legislature allowed taxpayers to shield specific amounts of capital gains from taxation. For tax years 2009 and 2010, the exclusion amount is $2,500; then it goes to $5,000. This exception to the rule that capital gains are ordinary income is an example of partial implementation as a transition strategy. The policy choice waters down the rule and will cost Vermont's taxpayers $6 million this year and millions of dollars in the future.[66]

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[65] Based on analysis by the Tax Department and Legislative Joint Fiscal Office. It is worth noting that the Joint Fiscal Office and Tax Department had difficulty untangling the layered effects of multiple, shifting transition policies. This difficulty demonstrates the complexity and volatility of transition policies.
[66] Based on analysis by the Tax Department and Legislative Joint Fiscal Office.

Grandfathering

The 2009 personal income tax changes grandfathered two industries, farming and logging.[67] The capital gains of farmers and loggers will be taxed under the old regime with a 40 percent capital gains exclusion. These taxpayers benefit potentially from the lower marginal rates and are shielded from the effects of reform; however, these carve-outs cost taxpayers $3 million.[68] This cost will accrue indefinitely. Perhaps more striking, grandfather policies embolden others to seek similar relief. Currently, the Legislature is considering changes to the treatment of capital gains for other small groups of taxpayers and industries with sympathetic claims.[69] These potential future carve-outs would reduce revenue, add complexity, and empower more groups to demand exceptions to the current policy.

No Transition Relief

A curious feature of the tax reform, inserted due to the need for revenue generation, is an instance where the Legislature did not offer transition relief. Typically, tax reforms are designed to begin at the advent of a new tax year.[70] The law, passed in May 2009, taxed capital gains under two different regimes during tax year 2009. Capital gains income received on June 30 was taxed differently from capital gains received on July 1 of that same year. The decision not to provide transition relief on the implementation date caused serious administrative complexity as taxpayers, the Department of Taxes, and state vendors struggled to respond effectively to those changes. Several specific examples illustrate the scope of the issues found under the banner of complexity.

Compliance became much more difficult in the wake of these changes.[71] The best visual representation of the change is in the forms required to calculate the capital gains exclusion. Taxpayers determined their 2008 capital gains exclusion using one small worksheet from

[67] The Commission understands that Vermont, as every state, has a vested interest in using its laws to promote certain behaviors and protect certain industries. The competing virtues embedded within tax reform generally, and tax transition policy specifically, make this process highly complex and difficult.
[68] Based on analysis by the Tax Department and the Legislative Joint Fiscal Office.
[69] Hobbet, 831. Professor Hobbet notes that part of the difficulty in enacting tax reform is both the quantity of parties seeking special relief and the quality of their claims.
[70] Kaplow, 551; Logue, 1134.
[71] The discussion of 2009 personal income tax change implementation issues is based on Tax Department testimony taken by the Blue Ribbon Tax Structure Commission.

Vermont's 2008 personal income tax booklet. For tax year 2009, taxpayers were required to use a new five-page capital gains form and an accompanying four-page technical bulletin to determine the amount of their exclusion. Tax department staff spent significant time and effort developing and testing these forms, and vendors struggled to patch software to facilitate online filing. Staff will need to adjust these forms and bulletins again as the rules change due to the phased-in implementation of the legislation.

Compliance issues birthed auditing issues. The new rules and forms likely led to taxpayer and preparer confusion, more errors, and questions, which slow down processing and erode compliance. The state would need to devote new, and costly, resources to determine whether compliance issues occurred. For example, the split year treatment of capital gains increases the likelihood that taxpayers, either through confusion, inattention, or evasion, claim that gains and losses occurred during the first half of the year when capital gains taxation was taxed at a more preferential rate. While the state can hire workers to check this compliance through intrusive audits, simplicity and voluntary compliance is more timely and cost-effective.

The 2009 personal income tax changes were a complex tax reform undertaken by the Legislature during an extraordinarily difficult time. The transition policies deployed, and their consequences, demonstrated the complex and costly trade-offs of tax transition policy. The Commission draws three fundamental lessons from the 2009 personal income tax reform and other examples of tax transition policy.

Tax Transition Polices Generally Add Complexity

Transition policies add complexity by functioning as exceptions to the general rules of a tax system. Complexity is not an abstraction but has real consequences for taxpayers and administrators alike. Here, the simplest potential rule from a tax structure standpoint would have been a reduction of marginal personal income tax rates and an end to the preferential treatment of capital gains, beginning at the start of the next tax year. Instead, the Legislature created exceptions regarding who would be affected, when people would be affected, and at what rates. Accordingly, the government, public, and practitioners contended with four tax regimes in three years and special carve-outs extended indefinitely. This additional complexity created serious administrative issues, reduced taxpayer morale, and made the legislation susceptible to continued political pressure. Given the costs of complexity, an effort ought to be made to determine whether the trade-offs are worth the complexity in tax transition policy.

Transition Policies Can Be Expensive

Tax transition policies generally function as tax expenditures. Similar to tax expenditures, transition policies mean that Vermont will forgo revenue due to the use of exclusions, exemptions, deductions, credits, deferrals, and preferential rates in the tax code. The tax transition policies embedded within the 2009 personal income tax change are estimated to have cost taxpayers $15 million during tax year 2009. These costs are not trivial and will continue at some level in the future.

Transition Policies may not Receive the Proper Level of Scrutiny

The Legislature has not precommitted to any particular transition policy. Accordingly, the Legislature may address the transition effects of each tax change with some combination of six different policy responses. While this preserves maximum flexibility for the Legislature, the ad hoc deployment of tax transitions has serious implications for the policymaking process.

Assessing tax transitions ad hoc, if at all, reduces the Legislature's ability to determine the complexity and cost of transition policy options. Moreover, the Commission's examination of tax transitions in Vermont and other jurisdictions indicates that transition policy is frequently inserted into legislation late in the process as a political palliative.[72] Tax transition policy may seem an incidental way to overcome obstacles, but its complexity and cost mean that transition policies deserve the same level of scrutiny as the underlying bill.

The Commission will use this examination of tax transition policy to set forth its finding and best practices for addressing tax transitions in the future. These findings include a process-based commitment and a policy-based finding.

[72] Alan Murray, *Showdown at Gucci Gulch* (New York, NY: Random House, 1987) 146-147, 241-243. The book is a fascinating account of the federal Tax Reform Act of 1986. Chairman Rostenkowski used transition relief to secure support for the bill in committee. He made clear to the committee members that he had budgeted $4 billion for transition relief, and supporters of the bill would be able to provide relief to constituents for special projects under the banner of mitigating transition losses.

TAX TRANSITIONS: COMMISSION FINDINGS AND BEST PRACTICES

1. Making Tax Transition Effects and Policies Explicit

The Commission's goal, set by the Governor and Legislature, is to recommend a long-term vision for the revenue and tax system that provides sustainability, appropriateness, and equity.[73] At the outset, the Commission acknowledged that this type of tax reform will create winners and losers, given reform's economic disruptions. Tax transition losses will create a difficult gap between the status quo and reform. Tax transition policy may be a useful, although complex and costly, way to address transition losses. The Commission will seek to be formally mindful of this gap given the complex trade-offs and long-term costs of transition policies.

The Commission will identify, and make explicit, the tax transition effects and tax transition policy implications of its proposals. Each proposal will articulate a general rule and identify the transition effects of that reform. Furthermore, the Commission will recommend a tax transition policy, or policies, and, to the extent possible, determine the potential complexity and cost of each transition policy. While this process-based requirement will not end the complexity or cost of transition policy, it will make the policymaking deliberate and transparent. The goal would be to use this deliberation and transparency to craft better policies that gain public acceptance and are not unnecessarily complex. The Commission recommends that the Legislature consider making specific findings regarding tax transition effects and policy when it considers changes to the tax policy.

2. Choosing Among Transition Policies

The previous section stated the Commission's commitment to a deliberate and transparent tax transition review process. This section provides the Commission's findings regarding specific tax transition policies.

The Commission views itself as a constituency for simplicity. Simplicity is an enumerated principle of a high quality revenue system and the foundation of taxpayer morale. Both taxpayers and the government would benefit from a system that favors simplicity by uniformly applying

[73] 2009 Act No. 1, Sec. H.56 – Special Session

straightforward tax rules. The Commission's preference toward simplicity would indicate a potential preference for offering no transition relief; however, the Commission's potential preference for no transition relief is tempered by the likely far-reaching transition effects of comprehensive tax reform.

Taxpayers make legitimate plans based on the current tax regime. Policymakers considering fundamental reform ought to acknowledge those plans and provide some ability for taxpayers to reposition themselves. Accordingly, the Commission would likely favor some measure of transition relief within comprehensive reform.

If the Commission is going to recommend some form of tax transition policy relief, it must choose between delayed implementation, phased-in implementation, partial implementation, and grandfathering. Again, the Commission favors simplicity by preferring a delayed or phased-in tax transition policy to a partial or grandfathered implementation policy. Delayed implementation and phased-in implementation give every taxpayer the same transition relief; time to make rationale choices about their future financial plans. While both implementation strategies offer the same relief, the strategies have different drawbacks.

Phased-in implementation creates considerable complexity, but these complexities resolve after a set amount of time. Delayed implementation reduces administrative complexity but significantly extends the status quo and makes reform susceptible to political changes prior to implementation. Overall, the Commission favors delayed implementation slightly, given the simplicity of telling Vermonters that the rules will change substantially once, and only once, and every taxpayer has the same amount of time to address this comprehensive change.

Partial implementation and grandfathering are disfavored on simplicity grounds. Both transition policies set up exceptions whereby some taxpayers will bear the burden of reform while others will be exempted from it. The separate treatment of equal assets adds complexity and taxpayer dissatisfaction. Furthermore, the exceptional treatment of one group provides a podium for others to make claims for the same relief, increasing the potential that the integrity of the tax system is compromised. Furthermore, these exceptions carry costs indefinitely into the future, costs borne by other taxpayers without access to this special type of relief.

The Commission's overriding goal in addressing tax transition policy is simplicity. No transition relief is the best transition strategy in ordinary changes to the tax system; however, comprehensive reform likely requires some opportunity for taxpayers to reposition themselves, given changed circumstances. Accordingly, the Commission will avoid giving an advantage to one group of taxpayers over another in any given tax transition. Instead, the Commission, absent a compelling reason to the contrary, will use delayed implementation or phased-in implementation to provide Vermonters with the same resource to adapt to change. That resource is the time to adjust intelligently to change.

CONCLUSION

The Commission reviewed tax transitions generally and Vermont's 2009 personal income tax changes specifically. These examples demonstrated that tax transition policies add complexity, require scarce resources, and may implicate-process based notions of transparency and good governance. Yet, policymakers may feel compelled to offer transition relief. Tax reform creates a difficult gap between the status quo and reform, and relief may be deployed to honor the legitimate concerns of a taxpayer's prior plans, allow time for adjustment to comprehensive reform, and smooth the administrative and political transition to a new regime.

Whether tax policy transitions are unnecessarily complex, too expensive, or less scrutinized than desirable are questions that cannot be answered in the abstract, given the extraordinary complexity of tax reform. Instead, policymakers are encouraged to engage in a deliberate examination of tax transition policies to understand fully the complex costs and trade-offs. If the decision is made to offer transition relief, the Commission recommends that policymakers strive for simplicity and avoid transition policies that create exceptions to tax reform's rules. These exceptions erode the tax system's integrity and taxpayer morale. Rather, the Commission recommends deploying transition policies that provide taxpayers with equal relief to fill the gap between the current regime and tax reform. Most likely, this relief will be the time necessary for taxpayers to reposition themselves and their investments.

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APPENDIX G: DRAFT LEGISLATION

Commission's research and testimony indicated that tax reform efforts are strengthened by the inclusion of draft legislation. Therefore, the Commission offers draft legislation designed to implement the majority's recommendations for reform to the personal income tax, sales tax, and tax expenditures.

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Introduced by

Referred to Committee on

Date:
Subject: Taxation; Vermont Blue Ribbon Tax Structure Commission

Statement of purpose: This draft bill proposes to begin the tax reform process recommended by the Vermont Blue Ribbon Tax Structure Commission for creating transparency in Vermont's tax system by providing for a high level of ongoing scrutiny of the multiple exemptions embedded in Vermont's major tax structures. This process would be implemented by an initial, prospective, sunset of nearly all tax incentives in the personal income tax, sales tax, meals and rooms tax, and property tax. It is not the intent of the commission to actually repeal all of the tax incentives set out in this bill, but by these prospective repeals, to ensure that the legislature does scrutinize each of these incentives and make an active decision as to whether to continue each incentive. This draft bill also proposes to implement the commission's recommendation to extend the sales tax to services provided at the retail level.

An act relating to tax reform recommendations of the Vermont Blue Ribbon Tax Structure Commission

It is hereby enacted by the General Assembly of the State of Vermont:

* * * Income Tax * * *

Sec. 1. 32 V.S.A. § 5811(21) is amended to read:

(21) "Taxable income" means federal ~~taxable income determined without regard to Section 168(k) of the Internal Revenue Code~~ adjusted gross income and:

(A) Increased by the following items of income (to the extent such income is excluded from federal adjusted gross income):

(i) interest income from non-Vermont state and local obligations;

(ii) dividends or other distributions from any fund to the extent they are attributable to non-Vermont state or local obligations; and

(iii) ~~the amount in excess of $5,000.00 of state and local income taxes deducted from federal adjusted gross income for the taxable year, but in no case in an amount that will reduce total itemized deductions below the standard deduction allowable to the taxpayer; and~~

(B) Decreased by the following items of income (to the extent such income is included in federal adjusted gross income):

(i) income from United States government obligations;

(ii) with respect to adjusted net capital gain income as defined in Section 1(h) of the Internal Revenue Code: either the first $5,000.00 of adjusted net capital gain income; or 40 percent of adjusted net capital gain income from the sale of assets held by the taxpayer for more than three years, except not adjusted net capital gain income from:

(I) the sale of any real estate or portion of real estate used by the taxpayer as a primary or nonprimary residence; or

(II) the sale of depreciable personal property other than farm property and standing timber; or stocks or bonds publicly traded or traded on an exchange, or any other financial instruments; regardless of whether sold by an individual or business; and provided that the total amount of decrease under this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable income; and

(iii) recapture of state and local income tax deductions not taken against Vermont income tax.

Sec. 2. 32 V.S.A. § 5811(21) is amended to read:

(21) “Taxable income” means federal adjusted gross income and:

(A) Increased by the following items of income (to the extent such income is excluded from federal adjusted gross income):

(i) interest income from ~~non-Vermont~~ state and local obligations;

(ii) dividends or other distributions from any fund to the extent they are attributable to ~~non-Vermont~~ state or local obligations; and

(iii) [Repealed.]

(B) Decreased by ~~the following items of income (to the extent such income is included in federal adjusted gross income):~~

~~(i)~~ income from United States government obligations~~;~~

~~(ii) with respect to adjusted net capital gain income as defined in Section 1(h) of the Internal Revenue Code: either the first $5,000.00 of adjusted net capital gain income; or 40 percent of adjusted net capital gain income from the sale of assets held by the taxpayer for more than three years, except not adjusted net capital gain income from:~~

~~(I) the sale of any real estate or portion of real estate used by the taxpayer as a primary or nonprimary residence; or~~

~~(II) the sale of depreciable personal property other than farm property and standing timber; or stocks or bonds publicly traded or traded on an exchange, or any other financial instruments; regardless of whether sold by an individual or business;~~

~~and provided that the total amount of decrease under this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable income; and~~

~~(iii) recapture of state and local income tax deductions not taken against Vermont income tax~~.

Sec. 3. 32 V.S.A. § 5822 is amended to read:

§ 5822. TAX ON INCOME OF INDIVIDUALS, ESTATES, AND TRUSTS

(a) A tax is imposed for each taxable year upon the taxable income earned or received in that year by every individual, estate, and trust, subject to income taxation under the laws of the United States, in an amount determined by the following tables, and adjusted as required under this section:

(1) ~~Married~~ Joint returns (married individuals filing joint returns ~~and surviving spouses~~):

If taxable income is:	The tax is:
Not over ~~$56,700.00~~ $49,999.00	~~3.55%~~ 3.0% of taxable income
Over ~~$56,700.00~~ $50,000.00 but not over ~~$137,050.00~~ $149,999.00	~~$2,013.00~~ $1,499.97 plus ~~7.0%~~ 4.5% of the amount of taxable income over ~~$56,700.00~~ $50,000.00
~~Over $137,050.00 but not over $208,850.00~~	~~$7,637.00 plus 8.25% of the amount of taxable income over $137,050.00~~
~~Over $208,850.00 but not over $372,950.00~~	~~$13,561.00 plus 8.9% of the amount of taxable income over $208,850.00~~
Over ~~$372,950.00~~ $150,000.00	~~$28,166.00~~ $5,999.93 plus ~~9.40%~~ 6.95% of the amount of taxable income over ~~$372,950.00~~ $150,000.00

(2) ~~Heads of households~~ Single returns (married filing separately, head of household, unmarried individuals):

If taxable income is:	The tax is:
Not over ~~$45,500.00~~ $29,999.00	~~3.55%~~ 3% of taxable income
Over ~~$45,500.00~~ $30,000.00 but not over ~~$117,450.00~~ $89,999.00	~~$1,615.00~~ $899.97 plus ~~7.0%~~ 4.5% of the amount of taxable income over ~~$45,500.00~~ $89,999.00
~~Over $117,450.00 but not over $190,200.00~~	~~$6,652.00 plus 8.25% of the amount of taxable income over $117,450.00~~
~~Over $190,200.00 but not over $372,950.00~~	~~$12,654.00 plus 8.90% of the amount of taxable income over $190,200.00~~
Over ~~$372,950.00~~ $90,000.00	~~$28,918.00~~ $3,599.93 plus ~~9.40%~~ 6.95% of the amount of taxable income over ~~$372,950.00~~ $90,000.00

(3) ~~Unmarried individuals (other than surviving spouse or head of household):~~

~~If taxable income is:~~	~~The tax is:~~
~~Not over $33,950.00~~	~~3.55% of taxable income~~
~~Over $33,950.00 but not over $82,250.00~~	~~$1,205.00 plus 7.0% of the amount of taxable income over $33,950.00~~
~~Over $82,250.00 but not over $171,550.00~~	~~$4,586.00 plus 8.25% of the amount of taxable income over $82,250.00~~
~~Over $171,550.00 but not over $372,950.00~~	~~$11,953.00 plus 8.90% of the amount of taxable income over $171,550.00~~
~~Over $372,950.00~~	~~$29,878.00 plus 9.40% of the amount of taxable income over $372,950.00~~

(4) ~~Married individuals filing separate returns:~~

~~If taxable income is:~~	~~The tax is:~~
~~Not over $28,350.00~~	~~3.55% of taxable income~~
~~Over $28,350.00 but not over $68,525.00~~	~~$1,006.00 plus 7.0% of the amount of taxable income over $28,350.00~~
~~Over $68,525.00 but not over $104,425.00~~	~~$3,819.00 plus 8.25% of the amount of taxable income over $68,525.00~~
~~Over $104,425.00 but not over $186,475.00~~	~~$6,780.00 plus 8.90% of the amount of taxable income over $104,425.00~~
~~Over $186,475.00~~	~~$14,083.00 plus 9.40% of the amount of taxable income over $186,475.00~~

(5) Estates and trusts:

If taxable income is:	The tax is:

$2,300.00 or less	3.55% of taxable income
Over $2,300.00 but not over $5,350.00	$82.00 plus 7.0% of the amount of taxable income over $2,300.00
Over $5,350.00 but not over $8,200.00	$295.00 plus 8.25% of the amount of taxable income over $5,350.00
Over $8,200.00 but not over $11,150.00	$530.00 plus 8.90% of the amount of taxable income over $8,200.00
Over $11,150.00	$793.00 plus 9.40% of the amount of taxable income over $11,150.00

* * *

Sec. 4. 32 V.S.A. § 5822 is amended to read:

§ 5822. TAX ON INCOME OF INDIVIDUALS, ESTATES, AND TRUSTS

* * *

(c) The amount of tax determined under subsection (a) of this section shall be:

(1) increased by 24 percent of the taxpayer’s federal tax liability for the taxable year for the following:

(A) additional taxes on qualified retirement plans, including individual retirement accounts and medical savings accounts and other tax-favored accounts;

(B) recapture of federal investment tax credit and increased by 76 percent of the Vermont-property portion of the business solar energy investment tax credit component of the federal investment tax credit recapture for the taxable year;

(C) tax on qualified lump-sum distributions of pension income not included in federal taxable income; and

(2) ~~decreased by 24 percent of the reduction in the taxpayer’s federal tax liability due to farm income averaging.~~

(d)~~(1) A taxpayer shall be entitled to a credit against the tax imposed under this section of 24 percent of each of the credits allowed against the taxpayer’s federal income tax for the taxable year as follows: elderly and permanently totally disabled credit, investment tax credit attributable to the Vermont-property portion of the investment, and child care and dependent care credits.~~

(2) Any unused business solar energy investment tax credit under this section may be carried forward for no more than five years following the first year in which the credit is claimed.

* * *

Sec. 5. 32 V.S.A. § 5823 is amended to read:

§ 5823. VERMONT INCOME OF INDIVIDUALS, ESTATES, AND TRUSTS

(a) For any taxable year, the Vermont income of a resident individual is the adjusted gross income of the individual for that taxable year, and the Vermont income of a resident estate or trust is its gross income for the taxable year, less:

(1) Income exempted from state taxation under the laws of the United States and not subtracted under subdivision 5811(21)(B)(i) of this chapter.

(2) ~~Military pay for full-time active duty with the armed services earned outside the state; and the first $2,000.00 of military pay for unit training in the state to National Guard and United States Reserve personnel for whom the adjutant general or reserve component commander certifies that the taxpayer completed all unit training of his or her unit during the calendar year, and who has a federal adjusted gross income of less than $50,000.00.~~ Any credit claimed under section 5830e of this title.

~~(3) Funds received through the federal armed forces educational loan repayment program under 10 U.S.C. chapters 109 and 1609, to the extent the funds are included in adjusted gross income of the taxpayer for the taxable year.~~

~~(4) [Repealed.]~~

~~(5) That portion of wages which is required to be included as adjusted gross income as provided in Section 280C of the United States Income Tax Code which relates to federal tax credit incentive work programs and that portion of expenses which is required to be included as adjusted gross income as provided in Section 44 of the United States Tax Code which relates to federal disabled access credit.~~

~~(6) The amount paid by the state to a family for the support of an eligible person with a developmental disability as defined in 18 V.S.A. § 8722(2), to the extent that such amount is included in federal adjusted gross income.~~

~~(7) [Repealed.]~~

(b) For any taxable year, the Vermont income of a nonresident individual, estate or trust is the sum of the following items of income to the extent they are required to be included in the adjusted gross income of the individual or the gross income of an estate or trust for that taxable year:

(1) Rents and royalties derived from the ownership of property located within this state.

(2) Gains from the sale or exchange of property located within this state.

(3) Wages, salaries, commissions, or other income ~~(excluding military pay for full-time active duty with the armed services and also excluding funds received through the federal armed forces educational loan repayment program under 10 U.S.C. chapters 109 and 1609; and also excluding the first $2,000.00 of military pay for unit training in the state to National Guard and United States Reserve personnel for whom the adjutant general or reserve component commander certifies that the taxpayer completed all unit training of his or her unit during the calendar year, and who has a federal adjusted gross income of less than $50,000.00)~~ received with respect to services performed within this state.

* * *

Sec. 5a. REPEAL

18 V.S.A. § 8729 (family support payments; income tax exemption) is repealed for taxable years beginning on or after January 1, 2012.

Sec. 6. 32 V.S.A. § 5825a is amended to read:

§ 5825a. CREDIT FOR VERMONT HIGHER EDUCATION INVESTMENT PLAN CONTRIBUTIONS

* * *

(c) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 7. 32 V.S.A. § 5828 is amended to read:

§ 5828. MOBILE HOME PARK SALE; CAPITAL GAIN CREDIT

(a) A taxpayer of this state shall receive a credit against the tax imposed under section 5822 or 5832 of this title for a qualified sale of a mobile home park. The credit shall be in the amount of seven percent of the taxpayer's gain subject to federal income tax for the taxable year. Credit in excess of the taxpayer's tax liability for the taxable year may be carried forward for credit in the next succeeding three taxable years. "Qualified sale of a mobile home park" means the land comprising a mobile home park that is transferred in a single purchase to a group composed of a majority of the mobile home park leaseholders as defined in 10 V.S.A. § 6242(a), or to a nonprofit organization that represents such a group.

(b) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 8. 32 V.S.A. § 5828b is amended to read:

§ 5828b. EARNED INCOME TAX CREDIT

* * *

(c) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 9. 32 V.S.A. § 5828c is amended to read:

§ 5828c. LOW-INCOME CHILD AND DEPENDENT CARE CREDIT

(a) A resident of this state with federal adjusted gross income less than $30,000.00 (or $40,000.00 for married, filing jointly) shall be eligible for a refundable credit against the tax imposed under section 5822 of this title. The credit shall be equal to 50 percent of the federal child and dependent care credit allowed to the taxpayer for the taxable year for child or dependent care services provided in this state in a registered home or licensed facility certified by the agency of human services as meeting national accreditation or national credential standards endorsed by the agency. A credit under this section shall be in lieu of any child and dependent care credit available under subsection 5822(d) of this title.

(b) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 10. 32 V.S.A. § 5830b is amended to read:

§ 5830b. TAX CREDITS; ENTREPRENEURS' SEED CAPITAL FUND

* * *

(c) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 11. 32 V.S.A. § 5830c is amended to read:

§ 5830c. TAX CREDITS; CHARITABLE INVESTMENTS IN HOUSING

* * *

(g) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 12. 32 V.S.A. § 5830d is amended to read:

§ 5830d. DEFERRAL OF INCOME TAXATION; COMBAT ZONE DUTY

* * *

(3) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 13. 32 V.S.A. § 5830e is added to read:

§ 5830e.

There is allowed a nonrefundable credit against the tax imposed by section 5822 of this title in the amount of $350.00 for each personal exemption allowed on the taxpayer's federal income tax return for the taxable year; and $150.00 for each exemption for a dependent claimed on that taxpayer's federal income tax return for the taxable year. The total amount of the credit under this section may not exceed $800.00; and the credit shall be reduced by a percentage equal to the portion of adjusted gross income which is not Vermont income. This credit is not available to taxpayers whose federal adjusted gross income exceeds $125,000.00.

Sec. 14. 32 V.S.A. § 5922 is amended to read:

§ 5922. FINANCIAL SERVICES DEVELOPMENT TAX CREDIT

* * *

(g) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 15. 32 V.S.A. § 5930a is amended to read:

§ 5930a. VERMONT ECONOMIC PROGRESS COUNCIL

* * *

(n) Tax expenditure sunset. This section is repealed on January 1, 2015.

Sec. 16. 32 V.S.A. § 5930b is amended to read:

§ 5930b. VERMONT EMPLOYMENT GROWTH INCENTIVE

* * *

(h) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 17. 32 V.S.A. § 5930c is amended to read:

§ 5930c. ECONOMIC ADVANCEMENT PAYROLL TAX CREDIT

* * *

(5) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 18. 32 V.S.A. § 5930d is amended to read:

§ 5930d. ECONOMIC ADVANCEMENT RESEARCH AND DEVELOPMENT TAX CREDIT

* * *

(c) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 18a. 32 V.S.A. § 5930e is amended to read:

§ 5930e. WORKFORCE DEVELOPMENT INCENTIVE TAX CREDIT

* * *

(d) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 19. 32 V.S.A. § 5930f is amended to read:

§ 5930f. VERMONT EXPORT TAX INCENTIVE

* * *

(3) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 20. 32 V.S.A. § 5930g is amended to read:

§ 5930g. CAPITAL INVESTMENT TAX CREDIT

* * *

(5) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 21. 32 V.S.A. § 5930k is amended to read:

§ 5930k. HIGH-TECH GROWTH INCENTIVES

* * *

(e) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 22. 32 V.S.A. § 5930u is amended to read:

§ 5930u. TAX CREDIT FOR AFFORDABLE HOUSING

§ 5930v.

* * *

(h) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 23. 32 V.S.A. § 5930w is amended to read:

§ 5930w. ECONOMIC ADVANCEMENT SUSTAINABLE TECHNOLOGY RESEARCH AND DEVELOPMENT TAX CREDIT

* * *

(d) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 24. 32 V.S.A. § 5930x is amended to read:

§ 5930x. ECONOMIC ADVANCEMENT SUSTAINABLE TECHNOLOGY

EXPORT TAX CREDIT

* * *

(d) Tax expenditure sunset. This section is repealed for taxable years beginning on or after January 1, 2015.

Sec. 25. 32 V.S.A. § 5930z is amended to read:

§ 5930z. SOLAR ENERGY TAX CREDIT

* * *

(h) Tax expenditure sunset. This section is repealed on January 1, 2015.

Sec. 26. TAX EXPENDITURE SUNSET; REPEAL

In 32 V.S.A. chapter 151:

(1) Subchapter 11J (downtown and village center tax credit) is repealed for taxable years beginning on or after January 1, 2015.

(2) Subchapter 11L (research and development tax credit) is repealed for taxable years beginning on or after January 1, 2015.

(3) Subchapter 11M (machinery and equipment tax credit) is repealed for taxable years beginning on or after January 1, 2015.

* * * Sales and Use Tax * * *

Sec. 27. 32 V.S.A. § 9701 is amended to read:

§ 9701. DEFINITIONS

Unless the context in which they occur requires otherwise, the following terms when used in this chapter mean:

* * *

(12)(A) “Casual sale”: means an isolated or occasional sale of an item of tangible personal property or a service by a person who is not regularly engaged in the business of making sales of that general type of property or service at retail where the property or service was obtained by the person making the sale, through purchase or otherwise, for his or her own use.

* * *

(13) ~~Use:~~ “Use” means the exercise of any right or power over tangible personal property by the purchaser thereof and includes, but is not limited to, the receiving, storage or any keeping or retention for any length of time, withdrawal from storage, any installation, any affixation to real or personal property, or any consumption of that property. “Use” also means deriving a benefit, either directly or indirectly, of any service paid for by the consumer.

* * *

(15) ~~Property~~ “Property and services the use of which is subject to ~~tax:~~ tax” means ~~include all~~ any property or service sold to a person within the state, ~~whether or not the sale is made within the state,~~ and any property or service the use of which ~~property~~ is subject to tax under

section 9773 of this title or will become subject to tax when ~~such~~ the property or benefit of the service is received by or comes into the possession or control of such person within the state.

* * *

(48) "Consumer" means an individual who purchases or otherwise obtains tangible property or services for consumption by himself or herself, or for his or her direct or indirect benefit. "Consumer" does not include any legally recognized business or organizational entity, such as a sole proprietorship, partnership, corporation, nonprofit, association, estate, trustee, or receiver.

(49) "Service" means all activities engaged in for other persons for a fee, retainer, commission, or other monetary charge, which activities involve predominantly the performance of a service as distinguished from selling property. In determining what is a service, the intended use, principal objective, or ultimate objective of the contracting parties shall not be controlling. For the purposes of this chapter, services rendered by an employee for his or her employer are not taxable.

(50) "Dietary supplement" means any product, other than "tobacco," intended to supplement the diet that:

(A) contains one or more of the following dietary ingredients:

(i) a vitamin;

(ii) a mineral;

(iii) an herb or other botanical;

(iv) an amino acid;

(v) a dietary substance for use by humans to supplement the diet by increasing the total dietary intake; or

(vi) a concentrate, metabolite, constituent, extract, or combination of any ingredients described in this subdivision (50); and

(B) is intended for ingestion in tablet, capsule, powder, softgel, gelcap, or liquid form, or if not intended for ingestion in such a form, is not represented as conventional food and is not represented for use as a sole item of a meal or of the diet; and

(C) is required to be labeled as a dietary supplement, identifiable by the "Supplemental Facts" box found on the label and as required pursuant to 21 C.F.R. § 101.36.

(51) "Health care services" means professional services that are delivered by licensed health care professionals such as physicians, registered nurses, and therapists, or by personal care aides under the supervision of health care professionals, for the diagnosis, prevention, treatment, cure, or relief of a health condition, illness, injury, or disease.

(52) "Educational services" means services provided by an "educational institution" as the term is defined at 16 V.S.A. § 140a(1), or an employee, contractor, or agent of an "educational institution," as that term is defined at 16 V.S.A. § 140a(1).

Sec. 28. 32 V.S.A. § 9703(c) is amended to read:

(c) Such person shall have the same rights in collecting the tax from his or her purchaser or regarding nonpayment of the tax by the purchaser as if the tax were a part of the purchase price of the property, service, telecommunications service, or amusement charge, as the case may be, and payable at the same time; provided, however, if the person required to collect the tax has failed to remit any portion of the tax to the commissioner, that the commissioner shall be notified of any action or proceeding brought by such person to collect the tax and shall have the right to intervene in such action or proceeding.

Sec. 29. 32 V.S.A. § 9704 is amended to read:

§ 9704. PRINCIPAL AND AGENT; JOINT AND SEVERAL LIABILITY

When in the opinion of the commissioner it is necessary for the efficient administration of this chapter to treat any salesman, representative, peddler, or canvasser as the agent of the vendor, distributor, supervisor, or employer under whom he or she operates or from whom he or she obtains tangible personal property or services sold by him or her or for whom he or she solicits business, the commissioner may, in his or her discretion, treat such agent as the vendor jointly and severally responsible with the principal, distributor, supervisor or employer for the collection and payment of the tax.

Sec. 30. 32 V.S.A. § 9707(b) is amended to read:

(b) No later than one business day prior to an event at which taxable sales will be made by vendors who have no permanent place of business in the state, the promoter of the event shall provide to the commissioner a list of vendors who are authorized by the promoter to sell taxable property or services at the event and the vendors' current sales tax license numbers. No later than one week after the event the promoter shall notify the department in writing of any changes to the list of participating vendors and their sales tax license numbers. In this subsection, "event" means a specific time and location at which 25 or more vendors are authorized by the promoter to sell taxable items.

Sec. 31. 32 V.S.A. § 9741 is amended to read:

§ 9741. SALES NOT COVERED

Retail sales and use of the following shall be exempt from the tax on retail sales imposed under section 9771 of this title and the use tax imposed under section 9773 of this title.

* * *

(2) Drugs intended for human use, durable medical equipment, mobility enhancing equipment, and prosthetic devices and supplies, including blood, blood plasma, insulin, and medical oxygen, used in treatment intended to alleviate human suffering or to correct, in whole or in part, human physical disabilities. For a sale to be exempt under this section, the drug, piece of equipment, device, or supply item must be medically prescribed.

* * *

(13) Sales of food, food stamps, purchases made with food stamps, food products, and beverages sold for human consumption off the premises where sold, but not including dietary supplements.

* * *

(15) ~~Sales of newspapers and sales of tangible personal property which becomes an ingredient or component part of or is consumed or destroyed, or loses its identity in the manufacture of newspapers, whether sold or distributed without charge. A publication shall not be considered a newspaper unless, on an average for the taxable year, at least ten percent of its printed material consists of news of general or community interest, community notices, editorial comment, or articles by different authors.~~

* * *

(19) ~~Rentals of coin-operated washing facilities for individual, or personal use, including car washes and laundries.~~

(20) ~~Fees and charges for admission to nonprofit museums.~~

* * *

(22) ~~Funeral charges, including sales of tangible personal property such as caskets, vaults, boxes, clothing, crematory urns, and other such funeral furnishings as are necessary incidents of~~

~~the funeral, but excluding the sale of flowers and other items sold as an accommodation rather than as an integral part of the funeral service or preparation therefor.~~

* * *

(26) ~~Sales of electricity, oil, gas and other fuels used in a residence for all domestic use including heating. The commissioner shall by rule determine that portion of the sales attributable to domestic use where fuels are used for purposes in addition to domestic use.~~

* * *

(32) ~~Forty percent of the receipts from sales of mobile homes, as defined in section 2601 of Title 9 and modular housing, when they are sold as tangible personal property.~~

(33) ~~Sales of the flag of the United States to and by veterans' organizations exempt under Section 501(c)(19) of the Internal Revenue Code.~~

* * *

(35) ~~Charges made when tangible property is transferred as part of a personal services transaction or a transfer of intangible property rights, as long as the focus of the transaction is the provision of services or the transfer of intangible property rights and not the transfer of tangible personal property; no separate charge is made for the transfer of tangible personal property; and the value of the tangible personal property transferred, including the value of services added to the tangible personal property transferred, is less than 10 percent of the total charge for the transaction. When the focus of the transaction is the transfer of tangible personal property, all receipts from the sale are taxable, including receipts from separately stated charges for services to produce the property, unless the receipts are otherwise exempt under this chapter.~~

* * *

(37) ~~Charges for documents, the sole purpose of which is to record or memorialize professional services rendered, such as, but not limited to, charges for briefs, memoranda, agreements, and wills prepared by lawyers; charges for tax returns and reports produced by accountants; charges for drawings produced by architects; or charges for insurance policies.~~

(38) ~~Tax on the sale or use of a tracked vehicle shall not exceed $1,100.00 adjusted as follows: As of July 1 of each even-numbered year, the commissioner shall adjust the most recent unrounded cap amount by the cumulative inflation index for the prior two calendar years under the consumer price index for urban consumer all items, and round that amount to the nearest ten dollars, and shall publish this rounded amount as the new cap.~~

* * *

(43) ~~Sales of scrap materials generated in the course of construction or demolition and diverted from waste disposal at the construction or demolition job site; provided that the sale is not by the generator and is by a person who received the materials from the generator with no payment.~~

* * *

(45) ~~Clothing; but clothing shall not include clothing accessories or equipment, protective equipment, or sport or recreational equipment.~~

(46) ~~Tangible personal property to be incorporated into:~~

(A) ~~a net metering system as defined in 30 V.S.A. § 219a;~~

(B) ~~a home or business energy system on a premises not connected to the electric distribution system of a utility regulated under Title 30 and that otherwise meets the requirements of 30 V.S.A. § 219a(a)(3)(A), (C), (D), and (E); or~~

~~(C) a hot water heating system that converts solar energy into thermal energy used to heat water, but limited to that property directly necessary for and used to capture, convert, or store solar energy for this purpose.~~

* * *

(48) Health care services and educational services.

(49) Tax expenditure sunset. The following subdivisions of this section are repealed on January 1, 2016: (2), (3), (13), (14), (16), (17), (18), (21), (24), (25), (27)–(31), (34), (36), (39), (41), (44), (47), and (48).

Sec. 32. 32 V.S.A. § 9742 is amended to read:

§ 9742. TRANSACTIONS NOT COVERED

This chapter shall not cover the following transactions:

* * *

(8) ~~The sawing of lumber owned by the person requesting the sawing or his agent is not a "fabrication" within the meaning of subdivision 9771(3) of this title.~~

* * *

(11) Tax expenditure sunset. The following subdivisions of this section are repealed on January 1, 2016: (1)–(7), (9), and (10).

Sec. 33. 32 V.S.A. § 9743 is amended to read:

§ 9743. ORGANIZATIONS NOT COVERED

* * *

(8) Tax expenditure sunset. Subdivisions (2)–(8) of this section are repealed on January 1, 2016.

Sec. 34. 32 V.S.A. § 9771 is amended to read:

§ 9771. IMPOSITION OF SALES TAX

(a) Except as otherwise provided in this chapter, there is imposed a tax on retail sales in this state. The tax shall be paid at the rate of ~~six~~ four and one-half percent of the sales price charged for but in no case shall any one transaction be taxed under more than one of the following:

* * *

(9) Services sold to a consumer.

(b) For the purposes of subdivision (a)(9) of this section, the sale of a service is considered to be in the state if the service was performed wholly in the state, or the greater portion of the service was performed in the state based on the proportion of the cost of performance of the service to the consumer. Notwithstanding the foregoing, in determining whether a service took place within the state, it is presumed that a service directly related to real property takes place where the real property is located, and that a service represented by tangible personal property takes place where the tangible personal property is received by the purchaser.

Sec. 35. REPEAL

32 V.S.A. § 9771a (limitation on sales tax on telecommunications services) is repealed on January 1, 2012.

Sec. 36. 32 V.S.A. § 9773 is amended to read:

§ 9773. IMPOSITION OF COMPENSATING USE TAX

Unless property ~~has~~ or services have already been or will be subject to the sales tax under this chapter, there is imposed on every person a use tax at the rate of ~~six~~ four and one-half percent for the use within this state, except as otherwise exempted under this chapter:

(1) Of any tangible personal property purchased at retail;

(2) Of any tangible personal property manufactured, processed or assembled by the user, if items of the same kind of tangible personal property are offered for sale by him or her in the regular course of business, but the mere storage, keeping, retention or withdrawal from storage of tangible personal property or the use for demonstrational or instructional purposes of tangible personal property by the person who manufactured, processed or assembled such property shall not be deemed a taxable use by him or her; and for purposes of this section only, the sale of electrical power generated by the taxpayer shall not be considered a sale by him or her in the

regular course of business if at least 60 percent of the electrical power generated annually by the taxpayer is used by the taxpayer in his or her trade or business;

(3) Of any tangible personal property, however acquired, where not acquired for purposes of resale, upon which any taxable services described in subdivision 9771(3) of this title have been performed; ~~and~~

(4) ~~Specified~~ Of specified digital products transferred electronically to an end user; and

(5) Of services sold to a customer at retail.

Sec. 37. 32 V.S.A. § 9774 is amended to read:

§ 9774. RULES FOR COMPUTING COMPENSATING USE TAX

* * *

(e) If the sale of a service occurred outside the state because the greater proportion of the service was performed outside the state based on the costs of performance and the service was used inside the state, a tax is imposed under section 9773 of this title on the use of the service in the state.

Sec. 38. 32 V.S.A. § 9819 is amended to read:

§ 9819. REALLOCATION OF RECEIPTS

* * *

(e) Tax expenditure sunset. This section is repealed on January 1, 2016.

* * * Motor Vehicle Purchase and Use Tax * * *

Sec. 39. 32 V.S.A. § 8911 is amended to read:

§ 8911. EXCEPTIONS

* * *

(23) tax expenditure sunset. The provisions of subdivisions (3), (7), (8), (12), (14), (16), and (17) of this section are repealed on January 1, 2016.

* * * Rooms and Meals Tax * * *

Sec. 40. 32 V.S.A. § 9202 is amended to read:

§ 9202. DEFINITIONS

(a) The following words, terms, and phrases when used in this chapter shall have the meanings ascribed to them in this section unless the context clearly indicates a different meaning:

* * *

(3) "Hotel" means an establishment which holds itself out to the public by offering sleeping accommodations for a consideration, whether or not the major portion of its operating

receipts is derived therefrom and whether or not the sleeping accommodations are offered to the public by the owner or proprietor or lessee, sublessee, mortgagee, licensee, or any other person or the agent of any of the foregoing. The term includes ~~but is not limited to,~~ inns, motels, tourist homes and cabins, ski dormitories, ski lodges, lodging homes, rooming houses, furnished-room houses, boarding houses and private clubs, as well as any building or structure or part thereof to the extent to which any such building or structure or part thereof in fact is held out to the public by offering sleeping accommodations for a consideration. The term shall not include the following:

(A) ~~a hospital, licensed under chapter 43 of Title 18, or a sanatorium, convalescent home, nursing home, or a home for the aged;~~

(B) any establishment operated by any state or United States agency or institution, except the department of forests, parks and recreation of the state of Vermont;

(C) ~~an establishment operated by a nonprofit corporation or association organized and operated exclusively for religious, charitable or educational purposes, one or more, which, in furtherance of any of the purposes for which it was organized, operates a hotel as defined herein.~~

(D) ~~a continuing care retirement community certified under chapter 151 of Title 8.~~

* * *

(6) “Occupancy” means the use or possession, or the right to the use or possession, of any room or rooms in a “hotel” for any purpose, or the right to the use or possession of the furnishings or to the services and accommodations accompanying the use and possession of a room or rooms. ~~The term shall not include occupancy by a “permanent resident,” or by an employee of an operator when such occupancy is granted to the employee as remuneration for his or her employment, or any occupancy furnished in a summer camp for children.~~

* * *

(8) "Rent" means the consideration received for occupancy valued in money, whether received in money or otherwise, including all receipts, cash, credits and property or services of any kind or nature, and also any amount for which the occupant is liable for the occupancy without any deduction therefrom whatsoever; and any monies received in payment for time-share rights at the time of purchase, provided, however, that such money received shall not be considered rent and thus not taxable if a deeded interest is granted to the purchaser for the time-share rights. ~~The term "rent" shall not include rental charges for living quarters, sleeping or household accommodations to any student necessitated by attendance at a school as defined herein.~~

* * *

(b) Tax expenditure sunset. Subdivision (a)10(D) (meals tax exemption) of this section is repealed on January 1, 2016.

* * * Property Tax * * *

Sec. 41. 32 V.S.A. § 3802 is amended to read:

§ 3802. PROPERTY TAX

* * *

(17) Tax expenditure sunset. Subdivisions (3)–(16) of this section are repealed on January 1, 2017.

Sec. 42. REPEAL

32 V.S.A. §§ 3831 (property tax exemption for college, university, or fraternity property) and 3832 (exemptions for certain public, pious, and charitable uses) are repealed on January 1, 2017.

Sec. 43. 32 V.S.A. § 5401(10) is amended to read:

(10) "Nonresidential property" means all property except:

(A) Property which is exempt from the municipal property tax by law and not by vote of the municipality.

(B) Property which is subject to the tax on railroads imposed by subchapter 2 of chapter 211 of this title, the tax on steamboat, car and transportation companies imposed by subchapter 3 of chapter 211 of this title, the tax on telephone companies imposed by subchapter

6 of chapter 211 of this title, or the tax on electric generating plants imposed by chapter 213 of this title.

(C) Homesteads declared in accordance with section 5410 of this title.

(D) ~~Personal property, machinery, inventory and equipment, ski lifts and snow-making equipment for a ski area; provided, however, this subdivision shall not exclude from the definition of "nonresidential property" the following real or personal property:~~

~~(i) utility cables and lines, poles and fixtures (except those taxed under subchapter 6 of chapter 211 of this title); provided that utility cables, lines, poles and fixtures located on homestead property and owned by the person claiming the homestead shall be taxed as homestead property;~~

~~(ii) gas distribution lines (except aboveground meters, regulators and gauges, and leased water heaters are excluded personal property).~~

(E) ~~The excess valuation of property subject to tax increment financing in a tax increment financing district established under subchapter 5 of chapter 53 of Title 24 to the extent that the taxes generated on the excess property valuation are pledged and appropriated for interest and principal repayment on bonded debt or prefunding future tax increment financing district debt and to the extent approved for this purpose by the Vermont economic progress council upon application by the district under procedures established for approval of tax stabilization agreements under section 5404a of this title, and that any such action shall be included in the annual authorization limits provided in subdivision 5930a(d)(1) of this title.~~

(F) Property owned by a municipality which is located within that municipality and which is used for municipal purposes including the provision of utility services.

(G) ~~Machinery and equipment used directly in the processing of whey, whether or not such machinery or equipment is attached or affixed to real property.~~

(H) ~~Real property, excluding land, consisting of unoccupied new facilities, or unoccupied facilities under renovation or expansion, owned by a business that has obtained the approval of the Vermont economic progress council under section 5930a of this title that is less than 75 percent complete, not in use as of April 1 of the applicable tax year, and for a period not to exceed two years.~~

(I) ~~Real property consisting of the value of remediation expenditures incurred by a business that has obtained the approval of the Vermont economic progress council under section 5930a of this title for the construction of new, expanded or renovated facilities on contaminated property eligible under the redevelopment of contaminated properties program pursuant to 10 V.S.A. § 6615a(f), including supporting infrastructure, on sites eligible for the United States Environmental Protection Agency "Brownfield Program," for a period of ten years.~~

(J) ~~Buildings and fixtures of wind-powered electric generating facilities taxed under section 5402c of this title.~~

Sec. 44. 32 V.S.A. § 5402(d) is amended to read:

(d) ~~A municipality which has upon its grand list an operating electric generating plant subject to the tax under section 5402a of this chapter shall be subject to the nonresidential education property tax at three-quarters of the rate provided in subdivision (a)(1) of this section, as adjusted under section 5402b of this chapter; and shall be subject to the homestead education property tax at three-quarters of the base rate provided in subdivision (a)(2) of this section, as adjusted under section 5402b of this chapter, and multiplied by its district spending adjustment.~~

Sec. 45. 32 V.S.A. § 5404a is amended to read:

§ 5404a. TAX STABILIZATION AGREEMENTS; TAX INCREMENT

FINANCING DISTRICTS

* * *

(m) Tax expenditure sunset. This section is repealed on January 1, 2017.

Sec. 46. TAX EXPENDITURE SUNSET; REPEAL

The following are repealed on January 1, 2017:

(1) Chapter 154 (property tax income sensitivity adjustment) of Title 32.

(2) Chapter 124 (land use value program) of Title 32.

(3) 8 V.S.A. §§ 4518 (hospital service corporation tax exemption) and 4590 (medical service corporation tax exemption).

Sec. 47. 10 V.S.A. § 236 is amended to read:

§ 236. TAXES

* * *

(c) Tax expenditure sunset. This section is repealed on January 1, 2017.

Sec. 48. 16 V.S.A. § 2178 is amended to read:

§ 2178. TAX EXEMPTION

(a) All real and personal property owned by the corporation shall be exempt from taxation.

(b) Tax expenditure sunset. This section (property tax exemption for state college property used for educational purposes) is repealed on January 1, 2017.

Sec. 49. 16A V.S.A. § 1-15 is amended to read:

§ 1-15. TAX EXEMPTION

(a) Real and personal property now held or owned or hereafter acquired by the University of Vermont and State Agricultural College for educational purposes shall be exempt from taxation.

(b) Tax expenditure sunset. This section is repealed on January 1, 2017.

Sec. 50. 22 V.S.A. § 109 is amended to read:

§ 109. EXEMPTION FROM TAXATION

(a) When the instrument providing the endowment declares that the institution shall be a free public library, such library and other property of the corporation shall be forever exempt from taxation.

(b) Tax expenditure sunset. This section is repealed on January 1, 2017.

Sec. 51. 24 V.S.A. § 4020 is amended to read:

§ 4020. TAXATION

(a) The property of an authority is declared to be public property used for essential public and governmental purposes and such property and an authority shall be exempt from all taxes and special assessments of the state or any state public body thereof; provided however, that in lieu of such taxes or special assessments, the authority may agree to make payments to the state public body for improvements, services, and facilities furnished by such state public body for the benefit of the housing project, but in no event shall the payments exceed the estimated cost to such state public body of the improvements, services or facilities to be so furnished.

(b) Tax expenditure sunset. This section is repealed on December 15, 2015.

Sec. 52. 10 V.S.A. § 6306 is amended to read:

§ 6306. EXEMPTION FROM TAXATION

* * *

(e) Tax expenditure sunset. This section is repealed on January 1, 2017.

Sec. 53. TRANSITION RULE; EXISTING TAX INCENTIVES

Tax credits and other tax incentives which have been specifically granted to the taxpayer prior to the time of the repeal of the incentive under sections of this act shall remain effective as if the authorizing statute had not been repealed.

Sec. 54. EFFECTIVE DATES

This act shall take effect upon passage, and unless otherwise specifically provided, shall apply to taxable year 2012 and after, except as follows:

(1) Sec. 2 (removing tax expenditures for Vermont interest and dividend income and capital gains exclusion) and Sec. 4 (removing tax expenditures for farm income averaging, child and dependent care credit, elderly or disabled credit, investment tax credit, and solar tax credit) of this act shall apply to taxable years beginning on or after January 1, 2015.

(2) Sec. 41 (repeal of rooms tax exemptions) shall take effect on January 1, 2016.

(3) Secs. 43 (amending definition of nonresidential property) and 44 (amending tax expenditure for towns with electric generating plants) shall take effect January 1, 2017.

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