

1 H.680

2 Introduced by Representatives Olsen of Jamaica, Condon of Colchester and

3 Greshin of Warren

4 Referred to Committee on

5 Date:

6 Subject: Taxation; education taxes; income tax basis

7 Statement of purpose:

8 This bill proposes to alter how Vermonters pay education taxes by doing the  
9 following:

10 (1) The bill creates a simpler education finance system that offers greater  
11 accountability and transparency by transitioning to a tiered education tax that  
12 would vary based on income and per-pupil spending per town, along with a  
13 fixed statewide residential property tax that would be significantly lower than  
14 the current base residential rate. The income-based education tax would be  
15 administered through the current income tax system.

16 (2) The bill creates a simpler property tax system. Currently, Vermont  
17 education property taxes are applied to nonresidential and homestead property.  
18 The bill proposes to retain the current system for nonresidential property which  
19 is to have the towns collect a tax based on multiplying the equalized value of  
20 property by a flat statewide rate.

1       The bill would change the current system for taxing homestead property by  
2       making it more like the current nonresidential system. Instead of adjusting the  
3       homestead tax rate to reflect local spending, there would be a flat statewide tax  
4       rate for homestead property, just as there is for nonresidential property. The  
5       property tax rate would be set significantly lower than the current homestead  
6       base rate, so there would no longer be a need for an income sensitivity or  
7       property tax rebate program, which would be eliminated. Rental property  
8       would be taxed at the lower residential rate, which would allow for lower rents  
9       and the elimination of the rental rebate program.

10       (3) The bill would create a tiered education tax based on local spending and  
11       personal income. There would be three base rates, which would be adjusted by  
12       local per-pupil spending and applied to adjusted gross income. For each  
13       income tier, the education tax would be assessed based on the following  
14       formula: per-pupil spending divided by the state base spending amount,  
15       multiplied by a statewide base rate, multiplied by a person's federal adjusted  
16       gross income for the applicable tier. The base rates would be established at  
17       levels necessary to facilitate a smooth and equitable transition from the current  
18       tax system. This education income tax would be administered through the  
19       current income tax system. The education income tax would apply to income  
20       earned by Vermont residents only.

1           (4) The bill creates a framework for financial incentives to encourage more  
2 efficient use of resources to produce better outcomes for Vermont students.

3           An act relating to the simplification of the statewide education property tax  
4 by reducing the property component of the tax and adding an income-based  
5 education tax

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

7 Sec. 1. 32 V.S.A. § 5402 is amended to read:

8 § 5402. EDUCATION PROPERTY TAX LIABILITY

9           (a) A statewide education tax is imposed on all nonresidential and  
10 homestead property at the following rates:

11           (1) the tax rate for nonresidential property shall be \$1.59 per \$100.00 of  
12 equalized education property value as most recently determined under section  
13 5405 of this title; and

14           (2) the tax rate for homestead property shall be \$1.10 ~~multiplied by the~~  
15 ~~district spending adjustment for the municipality~~, per \$100.00, of equalized  
16 education property value as most recently determined under section 5405 of  
17 this title. ~~The homestead property tax rate for each municipality which is a~~  
18 ~~member of a union or unified union school district shall be calculated as~~  
19 ~~required under subsection (c) of this section.~~

1 (b) Calculation of education tax.

2 ~~(1) The commissioner of taxes shall determine for each municipality the~~  
3 ~~education tax rates under subsection (a) of this section, divided by the~~  
4 ~~municipality's most recent common level of appraisal. For each municipality,~~  
5 ~~the commissioner shall divide the education tax rates under subsection (a) of~~  
6 ~~this section by the most recent common level of appraisal. The legislative~~  
7 ~~body in each municipality shall then bill each property taxpayer at the~~  
8 ~~homestead or nonresidential rate determined by the commissioner under this~~  
9 ~~subdivision, multiplied by the education property tax grand list value of the~~  
10 ~~property, properly classified as homestead or nonresidential property and~~  
11 ~~without regard to any other tax classification of the property. Tax bills shall~~  
12 ~~show the tax due and the calculation of the rate determined under subsection~~  
13 ~~(a) of this section, divided by the municipality's most recent common level of~~  
14 ~~appraisal, multiplied by the current grand list value of the property to be taxed.~~

15 (2) Taxes assessed under this section shall be assessed and collected in  
16 the same manner as taxes assessed under chapter 133 of this title with no tax  
17 classification other than as homestead or nonresidential property.

18 ~~(3) If a district has not voted a budget by June 30, an interim homestead~~  
19 ~~education tax shall be imposed at the base rate determined under subdivision~~  
20 ~~(a)(2) of this section, divided by the municipality's most recent common level~~  
21 ~~of appraisal, but without regard to any district spending adjustment. Within 30~~

1 ~~days after a budget is adopted and the deadline for reconsideration has passed,~~  
2 ~~the commissioner shall determine the municipality's homestead tax rate as~~  
3 ~~required under subdivision (b)(1) of this subsection.~~

4 (c) The treasurer of each municipality shall by December 1 of the year in  
5 which the tax is levied and on June 1 of the following year pay to the state  
6 treasurer for deposit in the education fund ~~one-half~~ one-half of the  
7 municipality's statewide nonresidential tax and ~~one-half~~ one-half of the  
8 municipality's homestead education tax, as determined under subdivision  
9 (b)(1) of this section. The commissioner of education shall determine the  
10 municipality's net nonresidential education tax payment and its net homestead  
11 education tax payment to the state based on grand list information received by  
12 the commissioner no later than the March 15 prior to the June 1 net payment.  
13 Payment shall be accompanied by a return prescribed by the commissioner of  
14 education. The municipality may retain 0.225 of one percent of the total  
15 education tax collected, only upon timely remittance of net payment to the  
16 state treasurer. The municipality may also retain \$15.00 for each late property  
17 tax adjustment claim filed after April 15 and before September 2, as notified  
18 by the department, for the cost of issuing a new property tax bill.

19 (d) A municipality which has upon its grand list an operating electric  
20 generating plant subject to the tax under section 5402a of this chapter shall be  
21 subject to the nonresidential education property tax at three-quarters of the rate

1 provided in subdivision (a)(1) of this section, as adjusted under section 5402b  
2 of this chapter; and shall be subject to the homestead education property tax at  
3 three-quarters of the base rate provided in subdivision (a)(2) of this section, as  
4 adjusted under section 5402b of this chapter, ~~and multiplied by its district~~  
5 ~~spending adjustment.~~

6 ~~(e) The commissioner of taxes shall determine a homestead education tax~~  
7 ~~rate for each municipality which is a member of a union or unified union~~  
8 ~~school district as follows:~~

9 ~~(1) For a municipality which is a member of a unified union school~~  
10 ~~district, use the base rate determined under subdivision (a)(2) of this section~~  
11 ~~and a district spending adjustment based upon the education spending per~~  
12 ~~equalized pupil of the unified union.~~

13 ~~(2) For a municipality which is a member of a union school district:~~

14 ~~(A) determine the municipal district homestead tax rate using the~~  
15 ~~base rate determined under subdivision (a)(2) of this section and a district~~  
16 ~~spending adjustment based on the education spending per total equalized pupil~~  
17 ~~in the municipality who attends a school other than the union school;~~

18 ~~(B) determine the union district homestead tax rate using the base~~  
19 ~~rate determined under subdivision (a)(2) of this section and a district spending~~  
20 ~~adjustment based on the education spending per equalized pupil of the union~~  
21 ~~school district; and~~

1           ~~(C) determine a combined homestead tax rate by calculating the~~  
2 ~~weighted average of the rates determined under subdivisions (A) and (B) of~~  
3 ~~this subdivision (2), with weighting based upon the ratio of union school~~  
4 ~~equalized pupils from the member municipality to total equalized pupils of the~~  
5 ~~member municipality; and the ratio of equalized pupils attending a school other~~  
6 ~~than the union school to total equalized pupils of the member municipality.~~  
7 ~~Total equalized pupils of the member municipality is based on the number of~~  
8 ~~pupils who are legal residents of the municipality and attending school at~~  
9 ~~public expense. If necessary, the commissioner may adopt a rule to clarify and~~  
10 ~~facilitate implementation of this subsection.~~

11       Sec. 2. 32 V.S.A. § 5822a is added to read:

12       § 5822a. EDUCATION INCOME TAX

13       (a) Resident income taxpayers shall pay an education income tax calculated  
14 by dividing the per-equalized-pupil amount of the district's education  
15 spending, as defined in 16 V.S.A. § 4001(6), by the state base spending  
16 amount calculated under 16 V.S.A. § 4011, multiplied by the statewide  
17 education income tax base rate under subsection (b) of this section, and then  
18 multiplied by the taxpayer's federal adjusted gross income.

19       (b) The statewide base rate for the education income tax shall be set by the  
20 legislature based on the recommendation of the transition committee.

1        (c) The education income tax shall be assessed and administered in the  
2        same manner as the personal income tax imposed under section 5822 of this  
3        title. The education income tax shall be assessed against resident taxpayers  
4        based on their filing status under section 5822. Persons who are part-time  
5        residents of Vermont shall pay a proportion of the tax due under this section  
6        that equals the proportion of the taxpayer's Vermont income to his or her  
7        federal adjusted gross income.

8        Sec. 3. 32 V.S.A. § 6062(a) is amended to read:

9        ~~(a) In the case of a renter credit claim based solely on allocable rent, the~~  
10       ~~claimant shall have rented property during the entire taxable year; provided,~~  
11       ~~however, a claimant who owned a homestead which was sold in the taxable~~  
12       ~~year prior to April 1 may file a renter credit claim. If two or more individuals~~  
13       ~~of a household are able to meet the qualifications for a claimant hereunder,~~  
14       ~~they may determine among them who the claimant shall be. Any disagreement~~  
15       ~~under this subsection shall be referred to the commissioner and his or her~~  
16       ~~decision shall be final. [Deleted.]~~

17       Sec. 4. REPEAL

18       32 V.S.A. chapter 154 (income sensitivity adjustment) is repealed.

19       Sec. 5. REPEAL

20       32 V.S.A. § 6069 (landlord certificate) is repealed.

1       Sec. 6. 32 V.S.A. § 6071 is amended to read:

2       § 6071. EXCESSIVE AND FRAUDULENT CLAIMS

3           (a) In any case in which it is determined under the provisions of this title  
4       that a claim is or was excessive and was filed with fraudulent intent, the claim  
5       shall be disallowed in full, and the commissioner may impose a penalty equal  
6       to the amount claimed. A disallowed claim may be recovered by assessment  
7       as income taxes are assessed. The assessment, including assessment of  
8       penalty, shall bear interest from the date the claim was credited against  
9       property tax or income tax or paid by the state until repaid by the claimant, at  
10      the rate per annum established from time to time by the commissioner pursuant  
11      to section 3108 of this title. The claimant in that case, and any person who  
12      assisted in the preparation of filing of such excessive claim or supplied  
13      information upon which the excessive claim was prepared, with fraudulent  
14      intent, shall be fined not more than \$1,000.00 or be imprisoned not more than  
15      one year, or both.

16          (b) In any case in which it is determined that a claim is or was excessive,  
17      the commissioner may impose a ten percent penalty on such excess and if the  
18      claim has been paid or credited against property tax or income tax otherwise  
19      payable, the credit shall be reduced or canceled, and the proper portion of any  
20      amount paid shall be similarly recovered by assessment as income taxes are  
21      assessed and such assessment shall bear interest at the rate per annum

1 established from time to time by the commissioner pursuant to section 3108 of  
2 this title from the date of payment or, in the case of adjustment of a property  
3 tax bill under section 6066a of this title, from December 1 of the year in which  
4 the claim is filed until refunded or paid.

5 (c) ~~In any case in which a homestead is rented by a person from another~~  
6 ~~person under circumstances deemed by the commissioner to be not at arms-~~  
7 ~~length, the commissioner may determine the rent constituting property tax for~~  
8 ~~purposes of this chapter.~~

9 Sec. 7. TRANSITION COMMITTEE

10 There is established a transition committee to recommend transition rules  
11 for the implementation of this act. The transition committee shall make its  
12 recommendations in bill form to the senate committee on finance and the  
13 house committee on ways and means. The committee shall be composed of  
14 one or more members from the senate committee on finance, house committee  
15 on ways and means, department of taxes, the department of education, the joint  
16 fiscal office, and the office of legislative council. The transition rule  
17 recommendations shall address how to incorporate the reductions in the  
18 education property tax and the creation of the education income tax under this  
19 act into the revenues and obligations for the education fund. The transition  
20 committee shall also recommend base rates established under 32 V.S.A.  
21 § 5402(a)(1) and (2) in Sec. 1 (education property tax) and under 32 V.S.A.

1 § 5822a(b) in Sec. 2 (education income tax) of this act for the transition period  
2 and going forward. The transition committee shall also recommend a  
3 mechanism for providing financial incentives for school districts to improve  
4 student performance with an adjustment to either the base payment amount or  
5 spending adjustment amount for the district. Among other performance  
6 incentives, the committee shall consider:

7 (1) incentives for school districts that operate high performing schools or  
8 tuition students to high performing schools;

9 (2) incentives for school districts that operate or tuition students to schools  
10 that demonstrate improvement in student achievement;

11 (3) incentives for school districts that have employee contracts that do not  
12 rely on seniority as the sole or primary basis for determinations regarding a  
13 reduction in force, provided that such determinations will be based upon  
14 performance evaluations and other specified factors.

15 Sec. 8. 32 V.S.A. § 5410(m) is added to read:

16 (m) Owners of residential rental property may declare a homestead for the  
17 percentage of the property actually rented in a given year. The owner shall  
18 annually file a certificate with the department of taxes attesting to the  
19 percentage of the property rented in a given year and the part of the year for  
20 which that property was rented.

1       Sec. 9. EFFECTIVE DATES

2           This act shall take effect as follows:

3           (1) Secs. 1 (education property tax liability), 2 (education income tax),  
4           3 (number and identity of claimants), 4 (income sensitivity adjustment), 5  
5           (landlord certificate), 6 (excessive and fraudulent claims), and 8 (rental  
6           properties) of this act shall take effect upon the adoption by the general  
7           assembly of the recommendations of the transition committee established  
8           under Sec. 7 (transition committee) of this act.

9           (2) Sec. 7 (transition committee) of this act and this section (effective  
10          dates) shall take effect upon passage.