H.353

SHORT FORM

Introduced by Representative Browning of Arlington

Referred to Committee on

Date:

Subject: Taxation; tax expenditures; budget

Statement of purpose: This bill proposes to eliminate tax expenditures for the state education property tax and the state income tax and redirect the money saved to lowering tax rates and affirmatively funding policy initiatives by doing the following:

(1) Tax expenditures are revenue losses attributable to preferential treatment of certain taxpayers or transactions in Vermont's tax laws. Tax expenditures are special exclusions, exemptions, or deductions from income or special credits, preferential tax rates, or deferrals of a tax liability. Tax expenditures are forms of spending done outside the appropriations process, and once enacted, can be difficult to modify or repeal. Vermont spends approximately $1.2 billion a year in tax expenditures overall and $610 million a year for the income tax and the statewide education property tax alone.

This bill proposes to eliminate Vermont's tax expenditures for the statewide education property tax and the state income tax over a three-year period. All of the money saved by eliminating tax expenditures for the property tax would be used to reduce the base property tax rates, so that only public exemptions or educational uses are allowed in the Education Fund. Two-thirds of the money saved by broadening the income tax base will be used to lower the income tax rates. The other one-third would be used to provide revenues for the underlying policy initiatives supported by particular tax expenditures of both the property and income taxes within the appropriate agency or in added budget lines. In other words, instead of subsidizing a policy goal with an exemption, credit, or preferential tax rate, those same policy goals could be reached through an appropriation in the budget.

The bill also proposes to make these affirmative expenditures subject to a cost-benefit analysis for the policy in question, and to subject these affirmative expenditures to performance measures and “but for” criteria to justify future retention. If there were no appropriate agency budget for a particular tax expenditure policy purpose, an additional line item in the annual appropriations bill may be established.

(2) Presently, Vermont applies its personal income tax rates to a taxpayer’s federal taxable income. Vermont’s choice of this tax base represents a decision to include every itemized deduction allowed at the federal level. This decision also puts Vermont at odds with the greater number of states that base personal income taxes on federal adjusted gross income, which is the level of federal income calculations before itemized deductions are considered.

The bill proposes to change Vermont's personal income tax base from federal taxable income to federal adjusted gross income. The bill would also limit personal credits or exemptions to one credit or exemption per taxpayer along the lines of the recommendations of the Blue Ribbon Tax Structure Commission. This exemption or refundable credit could be designed to provide economic support for housing or health costs for the low and middle income tax brackets. This expansion of the tax base would result in more revenue. Two-thirds of that could in turn be used to lower the marginal income tax rates to a range of two percent for the lowest bracket and eight percent for the highest bracket. One-third of the extra revenue would be used to finance the personal exemption, and to fund programs within agency budgets that embody the policy goals of the tax expenditures that were eliminated, including those in the Education Fund as described in section (3) below. Once the rates are lower, some of the tax expenditures may no longer be needed, because the overall tax burden would be reduced.

(3) The bill proposes to eliminate state property tax exemptions that are not required for legal or administrative reasons, that do not concern public property, and that do not concern church or school property. The general approach should be that there are no uses in the Education Fund nor tax expenditures for the property tax that are not directly related to K-12 education. All of the additional revenue from this broadening of the property

tax base would increase money in the education fund, which would tend to lower the state base education tax rates by perhaps $0.20 or more. Policy initiatives to replace property tax expenditures with appropriate subsidies, grants, loans, or other budget programs will be established in the General Fund to achieve the original policy goals of the special tax treatments using funds from the reform of the income tax and existing General Fund allocations that are freed up by these reforms. Because property tax rates have come down so much, some subsidies may no longer be needed, and those that are will cost less.

An act relating to eliminating tax expenditures

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

(TEXT OMITTED IN SHORT-FORM BILLS)