

1 H.164

2 Introduced by Representative Condon of Colchester

3 Referred to Committee on

4 Date:

5 Subject: Taxation; education taxes; income tax basis

6 Statement of purpose of bill as introduced: This bill proposes to alter how

7 Vermonters pay education taxes by doing the following:

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

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

19 The bill would change the current system for taxing homestead property by
20 making it more like the current nonresidential system. Instead of adjusting the
21 homestead tax rate to reflect local spending, there would be a flat statewide tax

1 rate for homestead property, just as there is for nonresidential property. The
2 property tax rate would be set significantly lower than the current homestead
3 base rate, so there would no longer be a need for an income sensitivity or
4 property tax rebate program, which would be eliminated. Rental property
5 would be taxed at the lower residential rate, which would allow for lower rents
6 and the elimination of the rental rebate program.

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

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

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

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

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

6 § 5402. EDUCATION PROPERTY TAX LIABILITY

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

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

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

18 (b) Calculation of education tax.

19 (1) ~~The commissioner of taxes shall determine for each municipality the~~
20 ~~education tax rates under subsection (a) of this section, divided by the~~
21 ~~municipality's most recent common level of appraisal.~~ For each municipality,
22 the Commissioner shall divide the education tax rates under subsection (a) of

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

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

14 (3) ~~If a district has not voted a budget by June 30, an interim homestead~~
15 ~~education tax shall be imposed at the base rate determined under subdivision~~
16 ~~(a)(2) of this section, divided by the municipality's most recent common level~~
17 ~~of appraisal, but without regard to any district spending adjustment. Within 30~~
18 ~~days after a budget is adopted and the deadline for reconsideration has passed,~~
19 ~~the commissioner shall determine the municipality's homestead tax rate as~~
20 ~~required under subdivision (b)(1) of this subsection. [Repealed.]~~

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

18 (d) A municipality which has upon its grand list an operating electric
19 generating plant subject to the tax under section 5402a of this chapter shall be
20 subject to the nonresidential education property tax at three-quarters of the rate
21 provided in subdivision (a)(1) of this section, as adjusted under section 5402b

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

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

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

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

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

17 ~~(B) determine the union district homestead tax rate using the base~~
18 ~~rate determined under subdivision (a)(2) of this section and a district spending~~
19 ~~adjustment based on the education spending per equalized pupil of the union~~
20 ~~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 General Assembly 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. [Repealed.]~~

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

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

1 per annum established from time to time by the ~~commissioner~~ Commissioner
2 pursuant to section 3108 of this title from the date of payment or, in the case of
3 adjustment of a property tax bill under section 6066a of this title, from
4 December 1 of the year in which 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. [Repealed.]~~

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, the House
15 Committee on Ways and Means, the Department of Taxes, the Agency of
16 Education, the Joint Fiscal Office, and the Office of Legislative Council. The
17 transition rule recommendations shall address how to incorporate the
18 reductions in the education property tax and the creation of the education
19 income tax under this act into the revenues and obligations for the Education
20 Fund. The Transition Committee shall also recommend base rates established
21 under 32 V.S.A. § 5402(a)(1) and (2) in Sec. 1 (education property tax) and

1 under 32 V.S.A. § 5822a(b) in Sec. 2 (education income tax) of this act for the
2 transition period and going forward. The Transition Committee shall also
3 recommend a mechanism for providing financial incentives for school districts
4 to improve student performance with an adjustment to either the base payment
5 amount or spending adjustment amount for the district. Among other
6 performance 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.