Rep. Cynthia Browning **Revised for 3/11/14**
H.353 Tax Transformation Bill: Analysis **802.375.9019 (H)**
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SUMMARY.

In this bill I am trying to produce a tax reform proposal for income and property taxes that is consistent with 1) the principles and recommendations of the Blue Ribbon Tax Structure Commission, and 2) the principles and recommendations of the Public Strategies Group with Outcomes Based Budgeting, and also the recent Results Based Accounting approach. Since we actually put some of these principles in various statutes, they can be viewed there, but I would just mention principles of efficiency, equity, transparency, accountability, and effectiveness. This tax reform proposal would affect both the General Fund and the Education Fund.

I propose to reduce or eliminate all Tax Expenditures that it is legally or administratively possible to do. I use MOST of the extra revenue to reduce income and property tax rates. I use SOME of the extra revenue to fund programs within the General Fund budget that are designed to achieve the policy goals of some of the Tax Expenditures. Other TEs may be less necessary once rates are reduced.

RESULTS: Income Tax rates could be reduced by several percentage points for each bracket, depending on policy priorities.
Base Property tax rates could be reduced by up to 22 cents, depending on policy priorities.

Distinctive Characteristics of this Approach:

***** This approach may break what I consider the vicious cycle of rising tax rates stimulating requests for exemptions, which then cause tax rates to be higher to raise the same revenue, which then causes more requests for exemptions.**

***** This approach is designed to force consideration of whether a Tax Expenditure is the best way to achieve a policy goal, as opposed to a regular program in the budget with eligibility requirements, performance standards, and cost controls. In addition, any such parallel program will now cost less since the rates whose payment is subsidized have come down so much.**

***** Even those losing a particular special tax treatment might ultimately benefit because both the income tax rates and the property tax rates have come down,**

and there would still be the new subsidy programs in the budget to meet policy goals when needed.

***** Instead of evaluating Tax Expenditures for possible removal one by one, this imagines eliminating all or most, and then re-justifying them as either a TE or a program.**

NUMERICAL EXAMPLE.

The approach is to lower tax rates by eliminating the Tax Expenditures for the property tax and the income tax. I am taking 20% of the new revenue from eliminating the tax expenditures for the parallel programs, and using 80% to reduce the tax rates.

There are about $610 m in TEs overall for both taxes, and I have to keep about $60m of the property tax exemptions, so net $550 m to reduce and $110 to fund new programs. But this is done asymmetrically. I use all of the extra money in the Education Fund to reduce the property tax rate. So the new version of the income tax personal exemption/credit and the new parallel GF programs like Current Use all have to be funded from one third of the extra revenue from the elimination of the Income Tax TEs, plus funds already allocated to the policy goals in the General Fund. I am thinking that if the personal exemption or refundable credit in the income tax is good enough, it can function to partly replace the Income sensitivity subsidy, kind of doing double duty, but I would still have a circuit breaker for the property tax at low income levels as well.

The numbers used below are taken from the Tax Expenditure Report 2013, Fiscal Facts 2013, and the BRTSC Report. I have rounded for ease of presentation. This example is probably just about the most extreme version of the approach that one could do, for illustrative purposes. For practical purposes, there would likely have to be more exceptions and modifications in terms of how existing tax expenditures are treated. Some of the numbers are firmer than others since estimates of the costs of Tax Expenditures vary in their validity.

Income Tax TEs about $330 million?
Property Tax TEs about $280 million --- but have to retain about $60 million for public, school, and church property?

So it is really IT $330m and PT $220 m for total $550m.

(1) * Use $220 m from PT TEs to reduce PT rates by 22 cents.**

(2)* Use $220 m from IT TEs to reduce IT rates to a low bracket marginal rate of 2% and a high bracket of 8% as possible**

(3)* Use $110 from IT TEs to fund parallel programs or tax provision to replace TEs in combination with existing GF funds as follows:**

(a) $44 m from ITTE -- 1. fund IT personal exemption and/or refundable tax credit for low to middle income tax brackets for about $44 m.

(b) $23 m from ITTE plus $17 m GF-- 2. fund any property tax income sensitivity or circuit breaker subsidy program still needed after reduction in Homestead PT rate $23 m also incorporating the $17 m in GF money previously associated with the Renters Rebate or the Income Sensitivity for a total of $40 m.

(c)* $23 m ITTE plus $12 m GF -- 3. fund Current Use program in GF with about $23 m, adding in previous GF money of $12 m for total $35m new estimated cost.**

(d) * $20 m -- 4. fund Charitable and other tax subsidies for about $20 m (I am totally making up that number).**

Total to parallel policy programs $110 m from the elimination of the tax expenditures in the Income Tax combined with $29 m from current GF allocations.