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H.127

Introduced by Representatives Olsen of Londonderry, Condon of Colchester,
Branagan of Georgia, Conquest of Newbury, Greshin of
Warren, Komline of Dorset, Myers of Essex, and Sibilias of
Dover

Referred to Committee on

Date:

Subject: Taxation; education taxes; income tax basis

Statement of purpose of bill as introduced: This bill proposes to alter how
Vermonters pay education taxes by doing the following:

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

(2) The bill creates a simpler property tax system. Currently, Vermont
education property taxes are applied to nonresidential and homestead property.

(A) The bill proposes to retain the current system for nonresidential
property which is to have the towns collect a tax based on multiplying the
equalized value of property by a flat statewide rate.

1 (B) The bill would change the current system for taxing homestead
2 property by making it more like the current nonresidential system. Instead of
3 adjusting the homestead tax rate to reflect local spending, there would be a flat
4 statewide tax rate for homestead property, just as there is for nonresidential
5 property. The property tax rate would be set significantly lower than the
6 current homestead base rate, so there would no longer be a need for an income
7 sensitivity or property tax rebate program, which would be eliminated. Rental
8 property would be taxed at the lower residential rate, which would allow for
9 lower rents 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 a base rate, which would be adjusted by
12 local per-pupil spending and applied to adjusted gross income. The education
13 tax would be assessed based on the following formula: per-pupil spending
14 divided by the State base spending amount, multiplied by a statewide base rate,
15 multiplied by a person's federal adjusted gross income for the applicable tier.
16 The base rate would be established at levels necessary to facilitate a smooth
17 and equitable transition from the current tax system. This education income
18 tax would be administered through the current income tax system. The
19 education income tax would apply to income earned by Vermont residents
20 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.

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 (e) of this section.~~

20 (b) The ~~Statewide~~ statewide education tax shall be calculated as follows:

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

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

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

1 ~~passed, the Commissioner shall determine the municipality's homestead tax~~
2 ~~rate as required under subdivision (1) of this subsection. [Repealed.]~~

3 (c) The treasurer of each municipality shall by December 1 of the year in
4 which the tax is levied and on June 1 of the following year pay to the State
5 Treasurer for deposit in the ~~education fund~~ Education Fund one-half of the
6 municipality's statewide nonresidential tax and one-half of the municipality's
7 homestead education tax, as determined under subdivision (b)(1) of this
8 section. The Secretary of Education shall determine the municipality's net
9 nonresidential education tax payment and its net homestead education tax
10 payment to the State based on grand list information received by the Secretary
11 no later than the March 15 prior to the June 1 net payment. Payment shall be
12 accompanied by a return prescribed by the Secretary of Education. The
13 municipality may retain 0.225 of one percent of the total education tax
14 collected, only upon timely remittance of net payment to the State Treasurer.
15 The municipality may also retain \$15.00 for each late property tax adjustment
16 claim filed after April 15 and before September 2, as notified by the
17 Department of Taxes, for the cost 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 chapter 213 of this title 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.~~

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~~
10 ~~and facilitate implementation of this subsection. [Repealed.]~~

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(c) is amended to read:

2 (c) ~~In any case in which a homestead is rented by a person from another~~
3 ~~person under circumstances deemed by the Commissioner to be not at~~
4 ~~arms length, the Commissioner may determine the rent constituting property~~
5 ~~tax for purposes of this chapter. [Repealed.]~~

6 Sec. 7. TRANSITION COMMITTEE

7 (a) There is established a Transition Committee to recommend transition
8 rules for the implementation of this act. The Transition Committee shall make
9 its recommendations in bill form to the Senate Committee on Finance and the
10 House Committee on Ways and Means on or before January 15, 2016. The
11 Committee shall be composed of three members from the Senate, appointed by
12 the Committee on Committees, and three members of the House, appointed by
13 the Speaker of the House. The Committee shall have the assistance of the
14 Department of Taxes, the Agency of Education, the Joint Fiscal Office, and the
15 Office of Legislative Council.

16 (b) The transition rule recommendations shall address how to incorporate
17 the reductions in the education property tax and the creation of the education
18 income tax under this act into the revenues and obligations for the Education
19 Fund. The Transition Committee shall also recommend base rates established
20 under 32 V.S.A. § 5402(a)(1) and (2) in Sec. 1 (education property tax) and
21 under 32 V.S.A. § 5822a(b) in Sec. 2 (education income tax) of this act for the

1 transition period and going forward. The Transition Committee shall also
2 recommend a mechanism for providing financial incentives for school districts
3 to improve student performance with an adjustment to either the base payment
4 amount or spending adjustment amount for the district. Among other
5 performance incentives, the Committee shall consider:

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

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

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

14 (c) The Committee shall select a chair and vice chair from its members at
15 its first meeting. A quorum is required to meet and a majority of the
16 membership must be physically present to constitute a quorum. Voting may
17 only be done by those members who are physically present at a meeting.

18 (d) For attendance at meetings during adjournment of the General
19 Assembly, legislative members of the Committee shall be entitled to per diem
20 compensation and reimbursement of expenses pursuant to 2 V.S.A. § 406.

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

2 (m) Owners of residential rental property may declare a homestead for the
3 percentage of the property actually rented in a given year. The owner shall
4 annually file a certificate with the Department of Taxes attesting to the
5 percentage of the property rented in a given year and the part of the year for
6 which that property was rented.

7 Sec. 9. EFFECTIVE DATES

8 This act shall take effect as follows:

9 (1) Secs. 1 (education property tax liability), 2 (education income tax),
10 3 (number and identity of claimants), 4 (income sensitivity adjustment),
11 5 (landlord certificate), 6 (excessive and fraudulent claims), and 8 (rental
12 properties) shall take effect upon the adoption by the General Assembly of the
13 recommendations of the Transition Committee established under Sec. 7
14 (Transition Committee).

15 (2) Sec. 7 (Transition Committee) and this section (effective dates) shall
16 take effect on passage.