

INTERACTIVE TAX REFORM: Proposals to Address Imbalance, Inefficiency, & Inequity in the Property Tax & the Income Tax.

For House Education Committee 2/4/15

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(1) Remove the costs of the Income Sensitivity Program (about \$140 m) & the Current Use Program (about \$40 m) from the Education Fund & finance them in the General Fund or connected to the income tax.

*** This lowers net costs in the EF by about \$180 m

*** Therefore we can lower base property tax rates by about 18 cents

*** The costs of these two programs will be decreased by almost one fifth since the property tax rates that determine the cost of the subsidies needed are so much lower.

(2) Limit the rate of increase in Education Spending overall and for each district for several years, either with alterations in the base education amount and the excess spending penalty threshold or by an actual mandated cap on the rate of increase. The decrease in property tax rates is not to be treated as an opportunity to increase Ed spending.

(3) Change the application of the Vermont state income tax rates from Taxable Income to Adjusted Gross Income as recommended by the Blue Ribbon Tax Structure Commission.

*** This will eliminate about \$330 m in tax credits, deductions, and exemptions. About \$200 m in the extra revenue should be used to reduce all income tax rates by one to three percentage points as possible, in a progressive way.

*** About \$100 m of the extra revenue should be used to finance the Income Sensitivity and Current Use programs in the General Fund, along with existing general fund line items connected to these programs.

RESULTS:

*** **INCREASE IN EFFICIENCY:** The Current Use and the Income Sensitivity programs cost less since the vicious cycle in which rising property tax rates cause increases in the costs of these programs, which then contributes to rising property tax rates is broken.

*** **INCREASE IN EQUITY:** Violations of the principles of horizontal and vertical equity in the income tax system are lessened by reducing the opportunities to reduce tax obligations using special provisions.

*** **INCREASE IN ACCOUNTABILITY:** The state has now taken responsibility for paying for policy priorities that are NOT education in the General Fund rather than on the state education property tax. This in effect shifts some of the existing cost of education onto the income tax, so that creating a compound education tax payment between property and income may no longer be needed. In return for this responsible behavior, the School Districts will be required to control the growth in their spending.

*** **LOWER TAX RATES:** Income tax rates and property tax rates are both much lower. How particular taxpayers might fair is something that needs to be analyzed, but the intent is that the only people who might end up paying more would be those who reduced their tax obligations substantially using the special tax provisions that would be eliminated.