

H.349

Introduced by Representative Olsen of Londonderry

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.

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

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

12 (2) The tax rate for homestead property shall be \$1.00 ~~multiplied by the~~
13 ~~education property tax spending adjustment for the municipality~~ per \$100.00 of
14 equalized education property value as most recently determined under section
15 5405 of this title. ~~The homestead property tax rate for each municipality which~~
16 ~~is a member of a union or unified union school district shall be calculated as~~
17 ~~required under subsection (c) of this section.~~

18 (b) The statewide education tax shall be calculated as follows:

19 (1) ~~The Commissioner of Taxes shall determine for each municipality~~
20 ~~the 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 in subsection (a) of this

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

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

13 ~~(3) If a district has not voted a budget by June 30, an interim homestead~~
14 ~~education tax shall be imposed at the base rate determined under subdivision~~
15 ~~(a)(2) of this section, divided by the municipality's most recent common level~~
16 ~~of appraisal, but without regard to any spending adjustment under subdivision~~
17 ~~5401(13) of this title. Within 30 days after a budget is adopted and the deadline~~
18 ~~for reconsideration has passed, the Commissioner shall determine the~~
19 ~~municipality's homestead tax rate as required under subdivision (1) of this~~
20 ~~subsection. [Repealed.]~~

21 * * *

1 (d) A municipality which has upon its grand list an operating electric
2 generating plant subject to the tax under chapter 213 of this title shall be
3 subject to the nonresidential education property tax at three-quarters of the rate
4 provided in subdivision (a)(1) of this section, as adjusted under section 5402b
5 of this chapter; and shall be subject to the homestead education property tax at
6 three-quarters of the base rate provided in subdivision (a)(2) of this section, as
7 adjusted under section 5402b of this chapter, ~~and multiplied by its spending~~
8 ~~adjustment under subdivision 5401(13) of this title.~~

9 (e) ~~The Commissioner of Taxes shall determine a homestead education tax~~
10 ~~rate for each municipality which is a member of a union or unified union~~
11 ~~school district as follows:~~

12 ~~(1) For a municipality which is a member of a unified union school~~
13 ~~district, use the base rate determined under subdivision (a)(2) of this section~~
14 ~~and a spending adjustment under subdivision 5401(13) of this title based upon~~
15 ~~the education spending per equalized pupil of the unified union.~~

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

17 ~~(A) Determine the municipal district homestead tax rate using the~~
18 ~~base rate determined under subdivision (a)(2) of this section and a spending~~
19 ~~adjustment under subdivision 5401(13) of this title based on the education~~
20 ~~spending per total equalized pupil in the municipality who attends a school~~
21 ~~other than the union school.~~

1 ~~(B) Determine the union district homestead tax rate using the base~~
2 ~~rate determined under subdivision (a)(2) of this section and a spending~~
3 ~~adjustment under subdivision 5401(13) of this title based on the education~~
4 ~~spending per equalized pupil of the union school district.~~

5 ~~(C) Determine a combined homestead tax rate by calculating the~~
6 ~~weighted average of the rates determined under subdivisions (A) and (B) of~~
7 ~~this subdivision (2), with weighting based upon the ratio of union school~~
8 ~~equalized pupils from the member municipality to total equalized pupils of the~~
9 ~~member municipality; and the ratio of equalized pupils attending a school other~~
10 ~~than the union school to total equalized pupils of the member municipality.~~
11 ~~Total equalized pupils of the member municipality is based on the number of~~
12 ~~pupils who are legal residents of the municipality and attending school at~~
13 ~~public expense. If necessary, the Commissioner may adopt a rule to clarify and~~
14 ~~facilitate implementation of this subsection. [Repealed.]~~

15 Sec. 2. 32 V.S.A. § 5822a is added to read:

16 § 5822a. EDUCATION INCOME TAX

17 (a) Resident income taxpayers shall pay an education income tax calculated
18 by dividing the per-equalized-pupil amount of the district's education
19 spending, as defined in 16 V.S.A. § 4001(6), by the State base spending
20 amount calculated under 16 V.S.A. § 4011, multiplied by the statewide

1 education income tax base rate under subsection (b) of this section, and then
2 multiplied by the taxpayer's federal adjusted gross income.

3 (b) The statewide base rate for the education income tax shall be set by the
4 General Assembly based on the recommendation of the Transition Committee.

5 (c) The education income tax shall be assessed and administered in the
6 same manner as the personal income tax imposed under section 5822 of this
7 title. The education income tax shall be assessed against resident taxpayers
8 based on their filing status under section 5822. Persons who are part-time
9 residents of Vermont shall pay a proportion of the tax due under this section
10 that equals the proportion of the taxpayer's Vermont income to his or her
11 federal adjusted gross income.

12 Sec. 3. 32 V.S.A. § 6062(a) is amended to read:

13 ~~(a) In the case of a renter credit claim based solely on allocable rent, the~~
14 ~~claimant shall have rented property during the entire taxable year; provided,~~
15 ~~however, a claimant who owned a homestead which was sold in the taxable~~
16 ~~year prior to April 1 may file a renter credit claim. If two or more individuals~~
17 ~~of a household are able to meet the qualifications for a claimant hereunder,~~
18 ~~they may determine among them who the claimant shall be. Any disagreement~~
19 ~~under this subsection shall be referred to the commissioner and his or her~~
20 ~~decision shall be final. [Repealed.]~~

1 Sec. 4. REPEALS

2 (a) 32 V.S.A. chapter 154 (income sensitivity adjustment) is repealed.

3 (b) 32 V.S.A. § 6069 (landlord certificate) is repealed.

4 Sec. 5. 32 V.S.A. § 6071(c) is amended to read:

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~~
7 ~~arms-length, the Commissioner may determine the rent constituting property~~
8 ~~tax for purposes of this chapter. [Repealed.]~~

9 Sec. 6. TRANSITION COMMITTEE

10 (a) There is established a Transition Committee to recommend transition
11 rules for the implementation of this act. The Transition Committee shall make
12 its recommendations in bill form to the Senate Committee on Finance and the
13 House Committee on Ways and Means on or before January 15, 2018. The
14 Committee shall be composed of three members from the Senate, appointed by
15 the Committee on Committees, and three members of the House, appointed by
16 the Speaker of the House. The Committee shall have the assistance of the
17 Department of Taxes, the Agency of Education, the Joint Fiscal Office, and the
18 Office of Legislative Council.

19 (b) The transition rule recommendations shall address how to incorporate
20 the reductions in the education property tax and the creation of the education
21 income tax under this act into the revenues and obligations for the Education

1 Fund. The Transition Committee shall also recommend base rates established
2 under 32 V.S.A. § 5402(a)(1) and (2) in Sec. 1 (education property tax) and
3 under 32 V.S.A. § 5822a(b) in Sec. 2 (education income tax) of this act for the
4 transition period and going forward. The Transition Committee shall also
5 recommend a mechanism for providing financial incentives for school districts
6 to improve student performance with an adjustment to either the base payment
7 amount or spending adjustment amount for the district. Among other
8 performance incentives, the Committee shall consider:

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

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

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

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

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

4 Sec. 7. 32 V.S.A. § 5410(m) is added to read:

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

10 Sec. 8. EFFECTIVE DATES

11 This act shall take effect as follows:

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

18 (2) Sec. 6 (Transition Committee) and this section (effective dates) shall
19 take effect on passage.