1	H.538
2	SHORT FORM
3	Introduced by Representative Browning of Arlington
4	Referred to Committee on
5	Date:
6	Subject: Taxation; income taxes; statewide education tax; tax expenditures
7	Statement of purpose of bill as introduced: This bill proposes to make changes
8	designed to (1) broaden Vermont's personal income tax base by moving to a
9	system based on adjusted gross income, eliminating federal pass-through
10	deductions, and incorporating the value of employer-provided benefits in
11	income; (2) remove current use, renter rebate, and income sensitivity
12	adjustments from the Education Fund and lower property tax rates; (3) use
13	most of the additional income tax revenue realized to create an income tax
14	standard credit for most income levels to replace the income sensitivity
15	adjustments and the renter rebate program; (4) finance the current use program
16	from the General Fund with a portion of the resulting additional income tax
17	revenue; and (5) cap the rate of growth of total Education Fund cost at the rate
18	of inflation plus one percent.
19	(1) Presently, Vermont applies its personal income tax rates to a taxpayer's
20	federal taxable income. Vermont's choice of this tax base represents a
21	decision to include every itemized deduction allowed at the federal level,

subject to the current 2.5 times cap on certain itemized deductions at the State level. This decision also puts Vermont at odds with the greater number of states that base personal income taxes on federal adjusted gross income, which is the level of federal income calculations before itemized deductions are considered.

The bill proposes to change Vermont's personal income tax base from federal taxable income to federal adjusted gross income. The bill would also limit personal credits or exemptions to one standard credit along the lines of the recommendations of the Blue Ribbon Tax Structure Commission, plus a housing support credit at lower and middle income levels.

The bill also proposes to expand the personal income tax base by removing the tax-exempt status of certain employer-provided benefits, specifically the portion of health care benefits paid by an employer. The anomalous treatment of health care benefits is a largely unrecognized tax expenditure. Based on the work of the Blue Ribbon Tax Structure Commission, eliminating this tax expenditure could result in tens of millions of dollars in additional revenue.

(2) The majority of the additional revenue from broadening the personal income tax base in these two ways would be used to create the standard and housing credits. The standard credit would be the same for all income levels but vary with filing status. The housing credit would be provided at the lowand middle-income levels and vary with filing status.

1	(3) The bill proposes to restructure some of the obligations of the
2	Education Fund. First, by removing current use from the Education Fund and
3	funding it through the General Fund. Second, by eliminating the income
4	sensitivity and renter rebate programs while replacing them with the housing
5	credit on the income tax. A portion of the additional income tax revenue
6	would be combined with existing General Fund financing of the removed
7	Education Fund programs to fund current use from the General Fund.
8	Relieving the Education Fund of these two support programs and the current
9	use property tax expenditure will tend to lower the State base education tax
10	rates by perhaps \$0.22 or more. Because property tax rates will have come
11	down so much, some tax expenditures may no longer be needed, and those that
12	remain will cost less. A cap on the rate of growth of total Education Fund
13	spending of one percent plus the rate of inflation will be imposed to prevent
14	education property tax rates from increasing to previous levels.

An act relating to broadening Vermont's personal income tax base, restructuring the Education Fund, eliminating tax expenditures, and capping education spending growth

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

(TEXT OMITTED IN SHORT-FORM BILLS)

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