

Notes and questions on the February 16<sup>th</sup> Education Finance proposal:

1. Implementation:
  - “No penalty for under-withholding” ?
  - “Homestead Value Exemption”. Very difficult to build/code prior to July 1
  - 8.b. “Using a portion of the existing fee paid to cover administration costs” ?
  
2. AGI tax base. As a rule of thumb, Vermont taxable income is about 73% of Vermont AGI. As such, the proposed education income tax has the following general equivalence to our current tax rates when applied to Vermont Taxable Income:

AGI Bracket	Education Income Tax Rate	Vermont Income Tax Equivalent	Existing Income Tax Marginal Rates in Bracket	Range of Total New Marginal Rate (brackets don't align)
0-\$47,000	Exempt	N/A		3.55%
\$47,001-\$125,0000	1.20%	1.64%	3.55%-6.80%	5.19%-8.44%
\$125,000-\$4,000,000	1.65%	2.26%	6.80%-8.95%	9.06%-11.21%

Top 10 (per Intuit, source: FTA)

- California 13.3%
- Oregon 9.9%
- Minnesota 9.85%
- Iowa 8.98%
- New Jersey 8.97%
- Vermont 8.95%
- District of Columbia 8.95%
- New York 8.82%
- Hawaii 8.25%
- Wisconsin 7.65%

Vermont will leap from #6 to #2 on this list. What is the impact on in and out migration of Vermonters and attracting and retaining Vermonters?

3. Constitutes a new tax on certain renters (non Renter-Rebate eligible). About 13,000?
  - The policy logic behind the renter rebate appears hinged on the concept that some portion of a tenant’s monthly rent is directly attributable to the landlord’s property tax.
  - Following that logic, and applying the AGI tax to renters who do not get a rebate seems unfair, as they are paying towards the (not-reduced) Non-residential property tax rate, and also paying a new education income tax. If one assumed property tax savings would be reflected in the rental market, one might apply the new revenue from renters as a reduction to the NonRes tax rate.
  
4. Constitutes a new tax non-residents:

- Wage Earners: About 33,000 non-residents earn Vermont taxable wages of over \$800M. As Vermont businesses compete for talent across state borders, how might this higher tax environment influence recruitment and retention of non-resident employees?
- Business: When we look at Vermont businesses with at least one non-resident owner that could be subject to this new non-resident(NR) Education Income tax, here is what we find:

At least 4,000 Non Residents paying income tax here because of Vermont sourced income (usually ownership/investment in a passthrough entity such as a Vermont partnership or S-Corporation) Even when excluding Part Year residents, the above population is paying about \$50M in income tax to Vermont annually. A subset of the data above includes VT business with employees: Over 1,200 businesses with 3,400 Non Resident owner/investors have VT employees. These businesses above are responsible for over \$600M in wages paid, whose employees generate over \$20M in income tax withholding annually. These businesses have over 30,000 employees

5. Impact on middle income filers:

- Our analysis indicates that about 12,500 filers in the \$50,000 to \$75,000 AGI range (homes \$300k-\$400k), many of whom are receiving significant property tax adjustments. With no property tax adjustment in this new system, a slight income tax increase and a 47% reduction in the residential rate, how does this significant cohort of Vermonters fare? \$1k-\$2k worse:
  - A family who makes \$50,000 of income and lives in a \$300,000 house would see an increase of about \$1,200 under this plan
  - This assumes they live in a town that spends about the average, such as Burlington. In a higher spending town, such as E. Montpelier, the impact would be more.
  - The reason their ed. tax is going up so much is because they are losing their property tax adjustment, which used to make sure they only paid a little more than two and a half percent of their household income to fund education
  - Now they would have to pay the 25 cent base property tax rate, plus another 58 cents, roughly, for their spending over the base amount
  - So this family will be paying about 83 cents on their \$300,000 house, which is \$2,500. Under current law, they pay about \$1,300

6. Top heavy financing, tax competitiveness, behavior and volatility concerns:

- AGI > \$1M, about 500 filers, \$93M to PIT, \$16.5M to Education Tax
- Top 1%, 3,800 filers, \$198M to PIT (nearly a third), \$40M (31%) of this new tax (AGI > \$330K)
- Top 10% pay 63.8% of PIT and will pay 74% of the new education income tax
- Depending on the housing choices of our highest income Vermonter's, the offsetting impact of the lower property tax rate becomes less likely to balance the new income tax burden as incomes grow.

**Scenario analysis assuming some behavior change from top earners**

<b>Million Dollar + AGI Vermont Filers</b>							
<b>Cohort Loss</b>	<b>COUNT AGI &gt; \$1M</b>	<b>PIT Impact</b>	<b>Education Tax Impact</b>	<b>Total</b>	<b>avg. PIT</b>	<b>Avg Education</b>	
No Loss/Current State	524	\$ 92,600,000	\$ 16,500,000	\$ 109,100,000	\$ 176,718	\$ 31,489	
0.20%	523	\$ (185,200)	\$ (33,000)	\$ (218,200)			
0.50%	521	\$ (463,000)	\$ (82,500)	\$ (545,500)			
1.00%	519	\$ (926,000)	\$ (165,000)	\$ (1,091,000)			
2.00%	514	\$ (1,852,000)	\$ (330,000)	\$ (2,182,000)			
3.00%	508	\$ (2,778,000)	\$ (495,000)	\$ (3,273,000)			
4.00%	503	\$ (3,704,000)	\$ (660,000)	\$ (4,364,000)			
5.00%	498	\$ (4,630,000)	\$ (825,000)	\$ (5,455,000)			
10.00%	472	\$ (9,260,000)	\$ (1,650,000)	\$ (10,910,000)			
20.00%	419	\$ (18,520,000)	\$ (3,300,000)	\$ (21,820,000)			
30.00%	367	\$ (27,780,000)	\$ (4,950,000)	\$ (32,730,000)			
40.00%	314	\$ (37,040,000)	\$ (6,600,000)	\$ (43,640,000)			
50.00%	262	\$ (46,300,000)	\$ (8,250,000)	\$ (54,550,000)			
<b>Top 1% Filers (AGI over \$330K)</b>							
<b>Cohort Loss</b>	<b>COUNT AGI &gt; \$330K</b>	<b>PIT Impact</b>	<b>Education Tax Impact</b>	<b>Total</b>	<b>avg. PIT</b>	<b>Avg Education</b>	
No Loss/Current State	3800	\$ 198,500,000	\$ 39,700,000	\$ 238,200,000	\$ 52,237	\$ 10,447	
0.20%	3,792	\$ (397,000)	\$ (79,400)	\$ (476,400)			
0.50%	3,781	\$ (992,500)	\$ (198,500)	\$ (1,191,000)			
1.00%	3,762	\$ (1,985,000)	\$ (397,000)	\$ (2,382,000)			
2.00%	3,724	\$ (3,970,000)	\$ (794,000)	\$ (4,764,000)			
3.00%	3,686	\$ (5,955,000)	\$ (1,191,000)	\$ (7,146,000)			
4.00%	3,648	\$ (7,940,000)	\$ (1,588,000)	\$ (9,528,000)			
5.00%	3,610	\$ (9,925,000)	\$ (1,985,000)	\$ (11,910,000)			
10.00%	3,420	\$ (19,850,000)	\$ (3,970,000)	\$ (23,820,000)			
20.00%	3,040	\$ (39,700,000)	\$ (7,940,000)	\$ (47,640,000)			
30.00%	2,660	\$ (59,550,000)	\$ (11,910,000)	\$ (71,460,000)			
40.00%	2,280	\$ (79,400,000)	\$ (15,880,000)	\$ (95,280,000)			
50.00%	1,900	\$ (99,250,000)	\$ (19,850,000)	\$ (119,100,000)			