

Written Testimony of John Pelletier, Stowe VT

I apologize that I am unable to attend the hearing in person on Wednesday, February 21, 2018. I am submitting this written testimony to the Vermont House Ways and Means Committee in lieu of testifying in person.

I am very intrigued by the education funding reform proposal and its use of the income tax for funding a portion of the education fund. I am supportive of proposals that economically reconnects voters/taxpayers to their school budget votes on town meeting day. This concept has merit and is worthy of the Committee's consideration.

I do, however, have serious concerns about this new proposed income tax. In particular, I have the following questions: (1) will the new income tax apply to a majority of taxpayers/voters or to a minority of taxpayers/voters; and (2) does the exemption and AGI education income tax schedule apply to each taxpayer's individual income (like Federal FICA tax) or does it apply on a tax return basis (like the Federal personal exemption and income tax schedules)?

Concern #1: Will the new income tax apply to a majority of voters or to a minority of voters?

A major problem with the current education funding system is that two-thirds of taxpayers can avoid some or all of the economic consequence of their town meeting school budget votes to increase education spending due to the property tax rebate program. How does the education funding reform proposal make sure that it isn't recreating this exact same problem with the new income tax?

As currently structured, it is not clear that new income tax will be paid by a majority of Vermonter taxpayers/voters. What percent of taxpayers/voters will be paying this income tax? Make the tax very progressive by income, but please make sure that it applies to most taxpayers (at least 2/3rds). It's very easy to support an increase in a tax that doesn't apply to you. Please avoid creating the exact same problem with an income tax that currently exists with the property tax. You need to economically connect a majority of taxpayers/voters to increases in both the education income tax and the education property tax. This is the only way to ensure that education spending is controlled. It is basic behavioral economics. Taxpayers will want less of something that will cost them more money in taxes.

Concern #2: Is the education income tax and AGI exemption applicable to each individual's income (like FICA) or does it apply to tax return type (single individuals, married filing separately, married filing jointly and heads of household)?

Based on the documentation presented by the Committee, there appears to be only one AGI exemption of \$47,000 per taxpayer and the tax will be payroll deducted. How does the tax and exemption apply to the following scenarios?

Household #1: total household income \$125,000. Spouse A makes \$100,000 and Spouse B makes \$25,000.

Household #2: total household income \$125,000. Spouse A makes \$63,000 and Spouse B makes \$62,000.

Household #3: total household income \$125,000. Spouse A makes \$125,000 and Spouse B makes \$0.

Depending upon how your craft this law, these three families making identical total household income can have vastly different education income tax outcomes. Based on the limited available information available, it appears that this tax is intended to apply to each individual's income much like FICA does at the Federal tax level. I assume this is the case since there is no distinction in the tax payable, referenced in the Committee's summary materials, based on the type of tax return filed. For example, the 2017 Federal income tax personal exemption for an individual tax return \$4,050 and for married taxpayers filing jointly is \$8,100 and each type of tax filer is subject to a unique tax schedule.

If new education tax and exemption are applied like the Federal FICA tax, the three households described above will not be treated equitably with regard to identical household income levels:

Household #1 income tax of \$636.00 (Spouse A uses 100% of the exemption and pays 100% of the household's taxes paid while Spouse B pays no tax and only uses 53% of the total available exemption--total income tax exemption for this household is \$72,000). This household is punished because of the unequal income distribution between the spouses.

Household #2 income tax of \$372.00 (both spouses pay tax and each uses 100% of the available exemption--total income tax exemption available to this household is \$94,000). This household is being rewarded solely for having near income equality between the spouses.

Household #3 income tax of \$936.00 (Spouse A uses 100% of the exemption and pays 100% of the household's taxes paid while Spouse B pays no tax because there is no income and thus has no exemption--total income tax exemption for this household is \$47,000). This results in a very harsh tax penalty for families that have a stay at home spouse raising kids--does Vermont really want to punish families that have stay at home spouses with its tax policy?

If the education income tax is not applied like FICA, then a single AGI exemption of \$47,000 and a single income tax schedule for all tax return filer types creates other inequities. A single person with \$60,000 in AGI should not be treated the same as a family of five with \$60,000 in AGI. Our state income tax schedules take these differences into account and have different tax schedules based on tax filing status. The Federal exemption and personal deductions have historically differed based on tax status. This is very common tax policy nationally—at both the state and local level. Why would we abandon this wise public policy now? Education income tax schedules and the exemption should be different for different types of tax filers. We should not abandon this historic precedent and wise tax policy structure when implementing this new tax system.

This proposal has merit—but only if a majority of voters are subject to the tax (this will make tax increases more difficult in the future) and if the new tax treats tax return filers differently based on tax status, as the current income tax does today. With some minor modifications these two goals can easily be achieved.