An Overview of the Final Report of Vermont’s Blue Ribbon Tax Structure Commission

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The origins of the report

- Prepared in accordance with Act 1, Sec. H. 56 of the 2009 Special Legislative Session
- Commission members
  - Kathleen C. Hoyt
  - William R. Sayre
  - Bill Schubart
  - Michael Costa, Director (Principal Researcher)

The purpose and goals

- “The commission shall prepare a structural analysis of the state’s revenue system and **offer recommendations** for improvements and modernization and **provide a long-term vision for the tax structure**.”

- “The commission shall have as its goal a tax system that provides **sustainability, appropriateness, and equity**.”

Principles, unanimously agreed upon, that guided the Commission’s work

- Fairness, Actual and Perceived
  - Impose similar burdens on people in similar circumstances, minimize regressivity, and minimize taxes on low-income people
  - Touchstones: broad base and low rate, progressive, ubiquitous
- Economic Competitiveness
- Simplicity
  - Ease of compliance, ease of administration,
- Transparency
- Tax Neutrality
  - Raise needed revenue without micromanaging the economy
- Sustainability
  - Produce predictable and consistent revenue
- Executive and Legislative Accountability to Tax Payers
- Revenue Neutrality and Interoperability

The Commission's Findings

Six findings that address common misperceptions about Vermont's tax system

1. The Vast Majority of Vermonters Pay Taxes.

- Vermont's tax system has a remarkably even distribution if one considers income, sales, and property taxes. Claims that some Vermonters do not pay their fair share are typically based on personal income tax distribution and ignore other taxes and rising income inequality.

2. Vermont's Choice of Income Tax Base Promotes High Marginal Rates and Lower Effective Rates.

- Vermont's choice of tax base (based on federal taxable income) makes tax rates unnecessarily high as federal deductions pass through and reduce taxable income. The effective tax rates paid by Vermonters are competitive with other states.

3. Changing Consumer Buying Patterns are Eroding Vermont's Sales Tax Base and Should be the Focus of Policymakers.

- Rising purchases of services over goods and growing Internet sales are eroding Vermont's sales tax base.

Findings, continued

4. Tax Expenditures Form a Shadow Budget that Requires Greater Scrutiny.

- The tax system loses over $1 billion annually due to insufficient oversight. Tax expenditures are policy choices made within the tax system, and they lack sufficient transparency.

5. There is Insufficient Data to Claim that Vermonters are Migrating Due to High Taxes – Current Statistics Demonstrate an In-Migration of Income.

- Available data suggests that those entering Vermont earn more than those leaving. Also, Vermont's top tax bracket is populated by high-income events, not high-income earners. While the data cannot determine something as subjective as why people are moving, it does demonstrate that definitive claims that the wealthy are moving out and about the effect of this migration are more complicated than currently assumed.

6. The Complexity of Vermont's Education Funding System Obscures Basic, if Difficult, Tax Structure Issues.

- The mechanics of the tax are complex, but the basic tax structure tension is rooted in equity. This manifests itself in the discussion regarding what is the "right" tax to fund education. Transition toward a tax system rooted more in property value or income would trigger a tax shift that puts pressure on the tax principles of equity and competitiveness.

The Commission's Recommendations

RECOMMENDATION 1: RESTRUCTURE THE PERSONAL INCOME TAX

- 1A: Shift tax base from federal Taxable Income to federal Adjusted Gross Income.
- 1B: Eliminate standardized and itemized deductions.
- 1C: Implement a lower, flatter rate and bracket structure.
- 1D: Implement a residential credit as a transparent alternative to deductions.
- 1E: Evaluate all remaining personal income tax expenditures for opportunities for removal.
- 1F: Reduce the number of filing statuses from four to two, single and joint.

RECOMMENDATION 2: BROADEN THE SALES TAX BASE

- 2A: Levy the general sales tax on all consumer-purchased services with limited exceptions for certain health and education services and business-to-business service transactions.
- 2B: Eliminate all consumer-based sales tax expenditures retaining only the exemptions for food and prescription drugs.
- 2C: Cut the sales tax rate from 6 percent to 4.5 percent.
- 2D: Move as aggressively as possible with other states to collect tax revenue due on Internet purchases.
- 2E: Levy the sales tax on soda by removing its tax exemption as a food product.

RECOMMENDATION 3:
ENHANCE SCRUTINY OF TAX EXPENDITURES

- 3A: Develop a legislative intent for each tax expenditure.
- 3B: Report the foregone revenue value of each tax expenditure biennially in the tax expenditure budget and refine the capacity to evaluate these values.
- 3C: Sunset all tax expenditures that remain in the tax code in a multi-year cycle so that the Legislature evaluates and affirms these policy choices and require a sunset for new tax expenditures as a matter of good, transparent public policy.
- 3D: Require an evaluation of the valuation of tax exempt properties on the grand list, particularly those that qualify for the public, pious, and charitable exemption from the property tax. Any such mandate ought to be accompanied by a sufficient appropriation from the Legislature to avoid levying an unfunded mandate on local officials.

RECOMMENDATION 4:
INVEST IN TAX POLICY RESOURCES

- 4A: Develop or use a tax incidence study so that the Legislature may understand the full ramifications of its tax policy choices.