BROWNING EDUCATION FINANCE & INCOME TAX REFORM PROPOSAL
Rep. Cynthia Browning **February 20, 2018**

I believe that two of the many factors that have driven up the property tax burden have been the imposition of non-education costs on the Education Fund and increases in total education costs at rates sometimes faster than the growth of the economy despite fewer students. The non-education costs that I am focused on are the cost of the Property Tax Adjustment/Homeowner Rebate program that is an internal transfer within the Education Fund and the cost of the Current Use program in uncollected property tax revenue. These are both worthy programs but they are not education and before there was an Ed Fund they were funded in the General Fund.

My proposal raises funds through income tax reform that will finance a new Property Tax Support Program that will transfer half of the cost of those two programs to the Ed Fund from the previous year into the Ed Fund this year. This will reduce property tax rates and likely decrease the cost of these programs, so that the necessary transfer the following year might be less.

The income tax reform would shift from Taxable Income to Adjusted Gross Income, eliminating all pass-through Federal tax deductions and exemptions. I would use the additional revenue that would be raised at existing rates to finance a new Vermont Standard Tax Credit, a new Vermont Personal Tax Credit, and the Property Tax Support Programs transfer to the Ed Fund. This would go into effect for tax calendar year 2018 and fiscal year 2019.

Added Revenue generated by shift from TI to AGI:	**$315 million used for the following:**
Vermont Standard Tax Credit	**$114 million**
Vermont Personal Tax Credit	**$91 million**
Property Tax Support Programs	**$110 million**
(total FY2018 cost of programs is $220 million)	

The Property Tax Support Program Transfer of $110 million could be used to reduce the Average Homestead Property Tax Rate for FY2019 by 21 cents compared to current law and the Non Resident Property Tax Rate for FY2019 by 6 cents compared to current law.

The cap on the rate of growth on total education spending for each district would be 2.5% with possible waivers in special conditions.

NOTE: All figures must be subjected to analysis, testing, and confirmation or correction by the Joint Fiscal Office. This proposal contains my attempt to see what might be possible through this basic approach, and that essential approach could be adjusted in various ways should the figures involved need revision.

EDUCATION FINANCE REFORM.

There will be a new Property Tax Support Program Transfer from the General Fund to the Education Fund every year that is equal to half of the previous year's combined cost of the Property Tax Assistance/Income Sensitivity program within the Ed Fund and the cost of the Current Use program in uncollected revenue.

For FY 2018 these costs may be around $176.4 million and $45.4 million respectively, for a total of $221.8 million or rounding off, $220 million.

Half of that would be $110 million.

If $110 million in additional funding is transferred into the Ed Fund the result will be that property tax rates will be lower than they otherwise would have been. Since most of the total Property Tax Support program concerns relief from the Homestead property tax rate, I will use about $85 million to reduce the average Homestead property tax rate by 21 cents, using the rule of thumb that each penny costs about $4 million. I will reduce the Non Resident property tax rate by six cents using about $25 million, using the same rule of thumb of about $4 m per penny. (Both the Non Resident tax rate and the average Homestead Property Tax rate could be reduced by about 13.58 cents with this funding using the rule of thumb that it takes $8.1 million in revenue to reduce both rates by one cent.)

The result of this would be that if Current Law rates for FY19 are compared to Browning Rates for FY19, the Non Resident Rate is a little lower than it would have been and lower than last year's and the Homestead Rate will be significantly lower than it would have been and lower than last year's.

1.591 minus .06 = 1.531, compared to FY2018 1.535

	FY2018 Current Law	FY2019 Current Law	FY2019 Browning Version
Average Homestead Property Tax Rate	**1.50**	**1.554**	**1.344**
Non Resident Property Tax Rate	**1.535**	**1.591**	**1.531**

Since these rates are lower this year, the required Property Tax Support Transfer for next year in FY20 will be lower than it otherwise would have been, because lower rates will require lower subsidy totals in dollar terms. However, at this point due to the complexity of the programs I cannot say how much less these programs will cost.

In this way the Property Tax Support Program mitigates the vicious cycle that the funding of the Income Sensitivity and Current Use Programs from within the Education Fund has created, because those costs drive up property tax rates and mean that the support programs are more expensive. By shifting half of that cost onto the income tax (see below), this vicious cycle is lessened.

INCOME TAX REFORM.

The new Property Tax Support Transfer from the GF to the EF will be financed through revenue raised by reforming the Vermont income tax by shifting from using the base of Taxable Income to using the base of Adjusted Gross Income. By doing this we would be eliminating all the pass through Federal deductions, many of which are altered by the recent Federal tax changes anyway. According to JFO, eliminating the Federal standard deduction, personal exemption, and itemized deductions might amount to about $300 million to $325 million in additional revenue before any re-allocations. I will choose the number of $315 million as the amount that I am re-allocating, but I am open to corrections or revisions of that number as needed, and the proposal below could be adjusted to abide by new restrictions.

Using the $315 million, I will use $113 million to create a new Vermont Standard Tax Credit, $91 million to create a new Vermont Personal Exemption Tax Credit, and use $110 million to finance the new Property Tax Support Transfer from the General Fund to the Education Fund.

I am choosing to create tax credits rather than deductions and exemptions because I want all Vermonters to receive the same value in reduction of tax liability from these provisions. (Only Vermont residents will be able to receive these credits, which I believe is a legally acceptable restriction.) When deductions and exemptions are given, these provisions have greater value in reducing tax liability at the

higher tax brackets subject to higher tax rates than at the lower income levels. I have therefore keyed my new standard credit to the approximate value of the standard deduction at the lowest income tax bracket (pre-Federal changes). The value of a $6,000 standard deduction is about $213 at the lowest tax rate of .0355 filing Single or about $436 filing Married Joint. The key is that every income tax bracket will get the same dollar value tax credit reducing their tax liability.

The total cost of this VSTC will be around $113 million.

Filing Status	VSTC	# of Filers	Cost
Single	$250	166,233	$41,558,250
Married Filing Jointly	$500	121,887	$60,943,500
Married Filing Separately	$250	5,209	$1,302,250
Head of Household	$375	27,477	$10,302,875
Total		321,000	$114,106,875

The Vermont Personal Exemption Tax Credit will be keyed off of the fact that according to the Tax Department about 650,000 personal exemptions are claimed in Vermont (this is more than there are Vermonters, but I will go with it). I will provide a tax credit of $140 per exemption, which is about the value of a $4,000 exemption at the lowest tax rate bracket. The total cost of this VPETC will be around $91 million.

CAP ON ALLOWABLE RATE OF GROWTH OF TOTAL EDUCATION SPENDING.

Given the reduction of the average homestead property tax rate it is important that there not be a surge in education spending to take advantage of what may seem like additional tax capacity. Therefore a cap on the rate of growth of total education spending in each district of 2.5% per year will be imposed indefinitely. There could be a waiver for hardship or emergency situations, or special circumstances beyond the control of the district.

RESULTS.

(1) The state takes responsibility for the cost of state property tax support programs that are not education that have been imposed on the Education Fund and increased the property tax burden.

(2) This proposal shifts half the burden of those costs from the property tax to the income tax, which is a more equitable system for raising revenue. Vermont Homestead taxpayers who receive property tax adjustments/income sensitivity and/or homeowner rebates will continue to receive the same level of support as before. Homestead taxpayers who do not receive such supports will likely pay less in homestead property tax rates and more in income taxes, but there is no mechanism to even out those burdens for particular categories of taxpayers. Those taxpayers who have used itemized deductions extensively will pay more in income taxes. All Vermonters with any amount of Non Resident property will pay less than they otherwise would have, which includes all business, commercial, and so forth.

(3) The reforms of the income tax system make it more equitable both vertically and horizontally in two ways. The elimination of itemized deductions means that it is no longer possible for higher income taxpayers to reduce their tax liabilities down to the tax liabilities of those with lower incomes. The creation of a standard credit and personal credit instead of a deduction and an exemption mean that all Vermont filers get the same dollar value reduction in tax liability from these provisions. Vertical equity

means that taxpayers with higher income should pay more in taxes. Horizontal equity means that taxpayers in similar situations should pay similar amounts of taxes.

(4) The cap on the rate of growth of total education spending will restrain cost increases that might offset the reduction of property tax burden from these reforms.

OTHER POSSIBLE PROVISIONS.

In terms of some of the other provisions of the House Ways & Means Proposal, I would be willing to implement many of them but not until next year and not without more evaluation of the implications. In terms of a new billing system for the Municipal and Education property taxes, I would favor continuing to have one bill with a clearer presentation unless the Town Treasurers want the state to take over the state education property tax billing. I am willing to consider the Beck proposal and revisions of the Property Tax Adjustment and Homeowner Rebate systems for next year.

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