

H.911 House Ways & Means Proposal

Changes to Personal Income Tax and Education Finance System

March 1, 2018

- **Income Tax Changes**

- Reduces state tax burden on Vermonters who are adversely impacted by the change in Federal Tax Law (\$30 million returned to Vermonters)
- Lowers taxes for Vermonters:
 - Lowers all income tax rates by 0.2% and collapses top two income tax brackets
 - Creates a VT Standard Deduction, equal to \$6,000 for single filers and \$12,000 for married couples
 - Creates a Vermont Personal Exemption equal to \$4,150 per exemption
 - Expands the Vermont Earned Income Tax Credit, from 32% of the Federal EITC to 35%
 - Creates a 5% tax credit for the total amount of charitable contributions up to \$10,000. Taxpayers who contribute up to \$10,000 will be eligible for a \$500 tax credit
- Provides tax relief to Vermonters receiving Social Security benefits
 - Taxable Social Security benefits below \$45,000 for single filers and below \$60,000 for married filers will be 100% exempt from State income tax

- **Education Finance System Changes**

- Adds a School Income Tax Surcharge, built upon the reformed income tax system
 - Rates are 0.1% of lowest bracket, 0.5% for middle brackets, and 1% on highest income brackets
 - Raises approximately \$59 million for education
- Uses the \$59 million to reduce average homestead property tax rates (on both property and income) from projected FY19 rates (average reduction of \$0.15)
- Cost containment: future tax rates will rise faster for all spenders
- Non-residential property tax rate: stays at current law = \$1.591
- Homeowner rebate: split into two components: education and municipal
- Renter Rebate: maintained and transferred to GF
- Separates municipal and education tax bills
- GF transfer to EF repealed in a revenue neutral way
 - Dedicates to the EF: 100% of sales tax and 25% of rooms and meals
 - Transfers adult education, flexible pathways, community high school of VT, renter rebate to GF (\$21.5 million)
- Repeals excess spending penalty
- Adds the normal cost of teachers' pensions to each district's education spending in FY2020

Current Law Compared to HWM Proposal March 1, 2018

(millions of dollars)

Estimates

<i>Proposal has not been adopted by the House Ways & Means Committee</i>	Current Law	Proposal
a Average Homestead Property Tax Rate	\$1.554	\$1.404
b Average Tax Rate on Household Income	2.58%	2.32%
c Uniform Non-Homestead Property Tax Rate	\$1.591	\$1.591
d Base Spending Amount	NA	\$11,916
e Base Homestead Property Tax Rate	\$1.00	\$1.00
f Base Homestead Income Tax Rate	2.00%	1.66%
g Property Yield Per Equalized Pupil	\$9,832	\$8,500
h Income Yield Per Equalized Pupil	\$11,880	\$8,500

Sources (actual)

1 Base Homestead Property Tax	NA	396.6
2 Homestead Property Tax Based on Yield	619.6	164.0
3 Property Tax Adjustment and Rebate	(176.4)	(176.4)
4 Education Income Tax Surcharge	NA	59.0
5 Non-Homestead Education Tax	677.5	677.5
6 Purchase & Use Tax	37.3	37.3
7 General Fund Transfer	322.9	-
8 Sales & Use Tax	144.3	400.9
9 Meals & Rooms Tax	-	44.6
10 Lottery Transfer	25.6	25.6
11 Medicaid Transfer	8.6	8.6
12 Other Sources (Wind & Solar, Other)	1.5	1.5
13 Total Sources	1,660.9	1,639.1

Yield applied to spending in excess of base

Repealed

Dedicates 100% of sales & use tax to EF

Dedicates 25% of meals & rooms tax to EF

Uses (appropriations)

14 Education Payment	1,372.3	1,372.3
15 <i>Recapture of Teachers' Health Care Savings</i>	(4.5)	(4.5)
16 Special Education Aid	189.2	189.2
17 State-Placed Students	16.7	16.7
18 Transportation Aid	19.2	19.2
19 Technical Education Aid	13.9	13.9
20 Small School Support	7.6	7.6
21 Essential Early Education Aid	6.6	6.6
22 Adult Education & Literacy	3.0	-
23 Flexible Pathways	7.3	-
24 Community HS of Vermont (Corrections)	3.3	-
25 Renter Rebate (General Govt) - EF share	7.9	-
26 Reappraisal & Listing (General Govt)	3.3	3.3
27 Teachers' Pensions - normal cost	7.7	7.7
28 Other Uses (Accounting fees, Other)	1.1	1.1
29 Total Uses	1,654.6	1,633.1

Transferred to GF - \$21.5 million

Operating Result

30	6.3	6.0
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Option for Repealing and Replacing the General Fund Transfer to the Education Fund

(millions of dollars)

Current law compared to HWM Proposal

Current Law		
Source	General Fund	Education Fund
GF transfer to EF	322.9	(322.9)

Repealed

Proposal		
Source or Use	General Fund	Education Fund
100% Sales & Use Tax	(256.6)	256.6
25% of Meals & Rooms Tax	(44.6)	44.6
Education Fund Uses*	(21.5)	21.5

Dedicated to EF

Transferred to GF

Net Change	0.2	(0.2)
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* Current Law Education Fund Uses Transferred to GF

Adult Education & Literacy	3.0
Flexible Pathways	7.3
Community HS of Vermont	3.3
<u>Renter Rebate - EF share</u>	<u>7.9</u>
Total	21.5

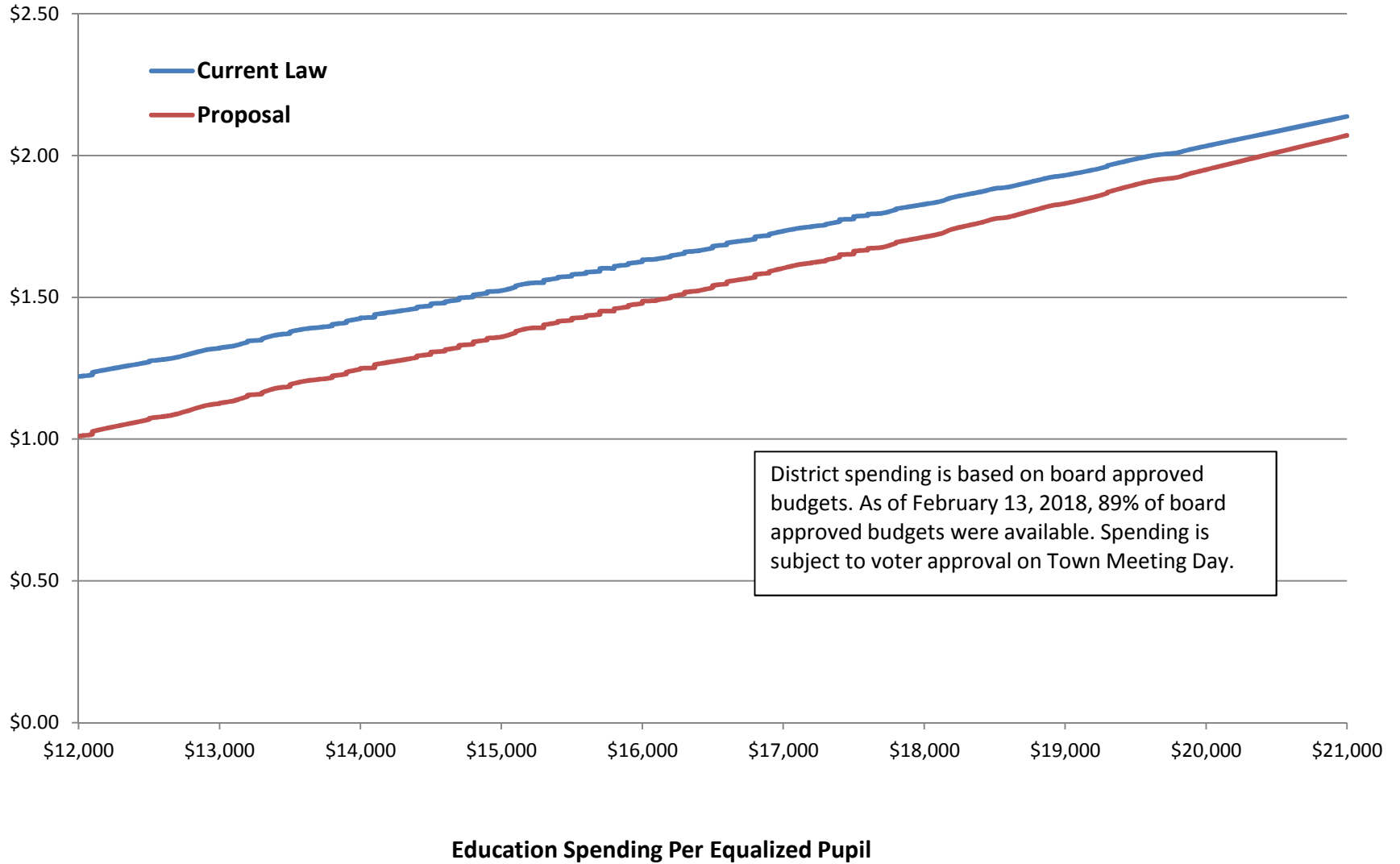
Calculation of the Base Spending Amount FY19

(millions of dollars)

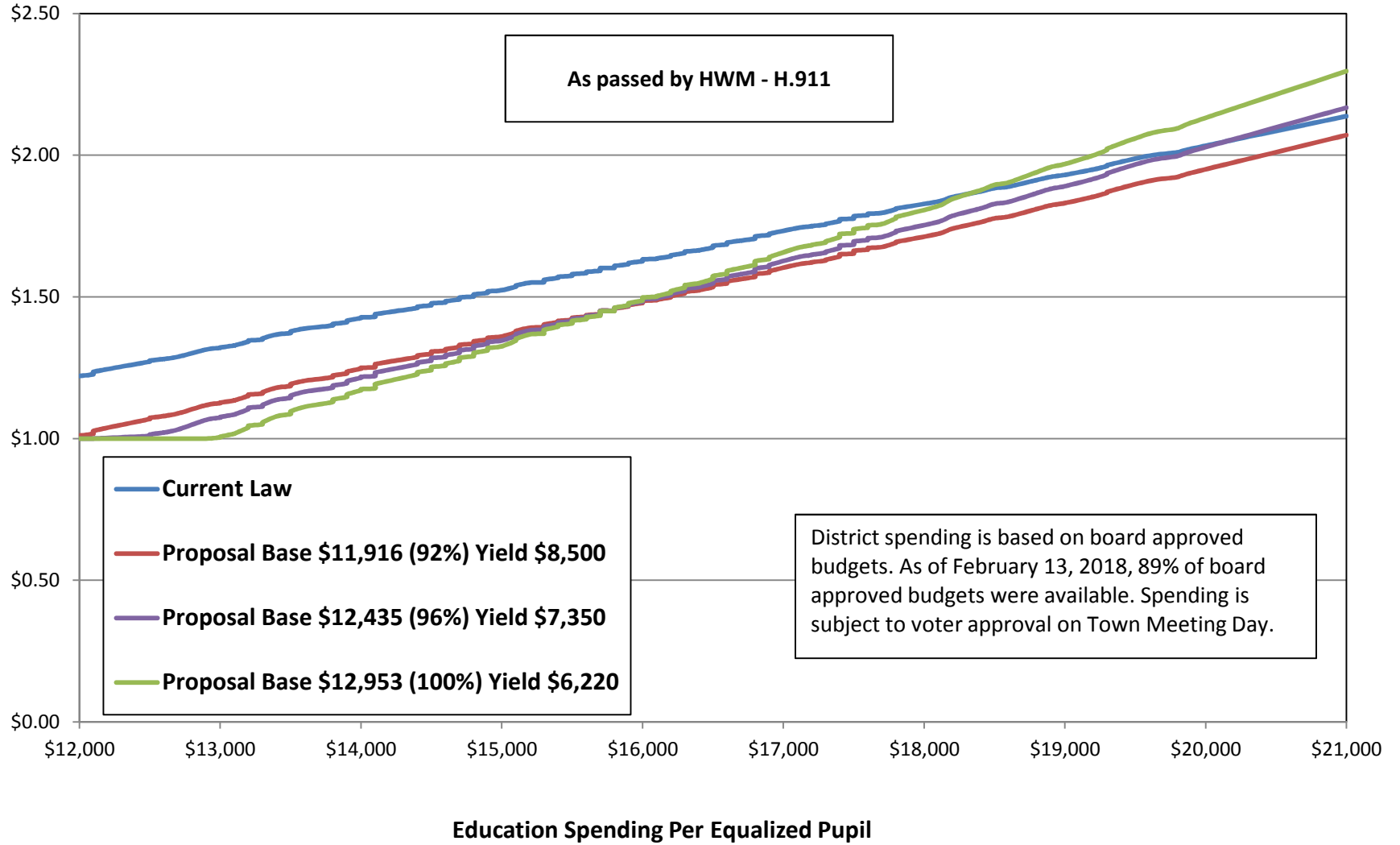
1,639.1	Education Fund sources
<u>(443.2)</u>	Less homestead tax
1,195.9	
1,633.1	Education Fund uses
<u>6.3</u>	Plus FY2019 transfer to stabilization reserve
1,639.4	
<u>(1,367.8)</u>	Less net education payment (includes FY19 recapture)
271.6	
1,195.9	Available Education Fund sources
<u>(271.6)</u>	Less committed Education Fund uses
924.3	
220.2	Plus amount raised on \$1.00 on property and equivalent household income
<u>1,144.5</u>	
1,144,477,000	Total Base Spending
88,359	Equalized pupils
\$12,953	Base spending amount per equalized pupil

Fiscal Year	Base Spending Amount Approximated From FY19	Implementation %
2019	\$11,916	92%
2020	\$12,435	96%
2021	\$12,953	100%

Estimated Homestead Property Tax Rates
Current Law Compared to HWM Proposal as of March 1, 2018
FY2019



Estimated Homestead Property Tax Rates
Current Law Compared to HWM Proposal as of March 1, 2018
FY2019



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Current Law Compared to HWM Proposal as of March 1, 2018
FY2019

