Kaj Samsom: Testimony on Current HWM Education Finance/Income Tax Reform proposal 2/28/18

Education Funding:

- Raising an additional $60M on the income tax, some of which levied on NR investors and on renters still looks like a new tax. We are already the 3rd or 4th ranked state for progressivity.
- The new education surcharge buys a 15 cent reduction on property tax rates (creating capacity) with the hope that the Beck maneuver will introduce local cost containment. But keeping the full property tax adjustment scheme in place (70% paying on income) I’m not sure what kind of cost containment we can expect. My concern is that with an education surcharge coming out of withholdings, most people will feel the property tax discount, but not the new income surcharge, and there will be a quick absorption of the capacity. We will see a very quick rebound to $1.60+, all the while Vermonter’s will be paying a new income tax surcharge.
- Far from making things simple, Vermonter’s will have a harder time understanding what they pay towards education. PTA recipients will be also paying the surcharge.
- There is no change here for the NR property tax rate.

Income Tax Reform

- This makes significant tweaks to the income tax reform plan. In addition to introducing a surcharge aimed at upper incomes, you have also skewed the governor’s plan, which was modeled entirely on fair and current distribution of tax between filers and incomes.
- Capping the charitable contribution credit to $250 takes away a key element at holding philanthropic itemizers harmless as a result of the TCJA
- I haven’t heard a thorough discussion of progressivity/fairness, where we stand now and why it is good policy to raise even more money from higher income taxpayers? I haven’t heard consideration of the potential for net reduction in Vermont high earners and how that may impact revenues and economic growth going forward. All I have heard is that if some high earners are paying significantly less in federal taxes, there might be some capacity there. However, if Vermont decides to tax that capacity and other states do not, or don’t have an income tax, we have an exacerbated problem. Our relative tax competitiveness took a hit, (along with all other high SALT states) with the TCJA. we have lost ground in multi-state tax competitiveness even if we do nothing except the Governor’s income tax reform.
- It is essential that before you make significant cost shifts in Vermont’s income tax as far as who pays, that you fully consider:
  - Tax competitiveness and the potential short and long-term impacts
  - What is really going on with federal taxes in the TCJA, who are the actual winners and losers
  - What is the impact on business investment in Vermont, hear from entrepreneurs who solicit investments from non-residents
• Hear from 30,000 non-residents that get their wages in Vermont and pay VT income tax, hear from their employers.

Conclusion:

Is this education finance plan better than current law? No, it adds complication and shifts costs. The potential cost containment in the Beck formula can exist without all of the other change. Maintain current law, with meaningful cost containment, this plan has a hope for cost containment, but honestly, could turn into cost inducement.