

House Committee on Ways and Means
Summary of Working Education Finance Proposal for FY2019
February 22, 2018

This proposal has not been adopted by the House Ways & Means Committee.

Estimates only

Based on board-approved school budgets submitted to AOE to date

Subject to change:

*Base homestead tax rate, base spending amount, and property yield
AGI brackets, income tax rates and cap
Homestead exemption and homestead value cap*

1. Reduce the average homestead education property tax rate in FY2019 from \$1.554 to \$0.820 by:

- a. Lowering the base homestead property tax rate to \$0.25
- b. Providing a base spending amount of \$12,113 per equalized pupil
- c. Raising the homestead property yield to \$5,825 (on above-base spending only)
Homestead tax rates increase faster than under current law for every \$1 of additional above-base spending per-pupil

2. Maintain the nonresidential property tax rate at its current-law amount - \$1.591

3. Simplify administration and compliance with the education tax system by:

- a. Replacing the property tax adjustment and income yield with a school income tax (*see item 4*)
- b. Replacing the homeowner rebate on the education property tax with a homeowner exemption (*see item 5*)
- c. Replacing the homeowner rebate on the municipal property tax (*see item 6*)

4. Create a marginal school tax on adjusted gross income (AGI):

- a. Tax brackets, tax rates, and AGI cap:

AGI Bracket	Tax Rate
\$0 to \$47,000	Exempt
\$47,001 to \$65,000	0.50%
\$65,001 to 125,000	1.50%
\$125,001 to \$4,000,000	1.80%
Over \$4,000,000	Capped

- b. Resident renters and nonresidents with Vermont AGI would be subject to the AGI tax
- c. AGI is the measure of income closest to household income available
- d. AGI tax would be collected through wage withholding (*no penalty for underwithholding in CY2018*)

5. Assist low-income homeowners with their education property bills by:

- a. Providing a variable housesite exemption for homeowners with household income under \$47,000:

Household Income Bracket	Housesite Value Exemption
\$0 to \$47,000	10% to 90%

See tax table

- b. Limiting the housesite exemption to the first \$400,000 of housesite value
- c. Applying the tax value of the education property tax exemption directly to education property tax bills
Unlike under current law, all homeowners would have a stake in the growth of their school budgets

6. Create a municipal property tax rebate program:

- a. Tax brackets, tax limits based on household income, and cap:

Household Income Bracket	Household Income Limit
\$0 to \$10,000	1.20%
\$10,001 to \$24,999	3.15%
\$25,000 to \$47,000	3.50%

- b. Limits maximum rebate on the municipal property tax to \$2,400 per homestead
- c. Applying the municipal property tax rebate directly to the municipal property tax bill

7. Retain the existing renter rebate program

8. Eliminate the \$323 million GF transfer to the EF in a revenue-neutral fashion by a combination of:

- a. Dedicating GF revenues to the EF in lieu of the GF transfer:
 - * 100% of the Sales & Use Tax
 - * 25% of the Meals & Rooms Tax
- b. Transferring some EF uses that do not go directly to school districts to the GF:
 - * Adult Education and Literacy
 - * Flexible Pathways
 - * Community High School of Vermont
 - * Renter Rebate

9. Separate the school and the municipal property tax bills by:

- a. Sending separate municipal and school property tax bills through the existing NEMRC system
- b. Using a portion of the existing fee paid to municipalities to cover administration costs
This may give voters a better understanding of the factors that determine their total property tax bills

Current Law Compared to HWM Working Proposal as of February 20, 2018

(millions of dollars)

Estimates

Proposal has not been adopted by HWM

<i>Proposal has not been adopted by the House Ways & Means Committee</i>		Current Law	Proposal
a	Average Homestead Property Tax Rate	\$1,554	\$0.820
b	Average Tax Rate on Household Income	2.58%	NA
c	Uniform Non-Homestead Property Tax Rate	\$1,591	\$1,591
d	Base Spending Amount	NA	\$12,113
e	Property Yield Per Equalized Pupil	\$9,832	\$5,825
f	Income Yield Per Equalized Pupil	\$11,880	NA

Repealed

See attached worksheet for calculation

Repealed

Sources (actual)

1	Base Homestead Property Tax	NA	99.2
2	Homestead Property Tax Based on Yield	619.6	232.3
3	Property Tax Adjustment and Rebate	(176.4)	NA
4	Homestead Exemption	NA	(34.0)
5	Education Income Tax	NA	146.0
6	Non-Homestead Education Tax	677.5	677.5
7	Purchase & Use Tax	37.3	37.3
8	General Fund Transfer	322.9	-
9	Sales & Use Tax	144.3	400.9
10	Meals & Rooms Tax	-	44.6
11	Lottery Transfer	25.6	25.6
12	Medicaid Transfer	8.6	8.6
13	Other Sources (Wind & Solar, Other)	1.5	1.5
14	Total Sources	1,660.9	1,639.4

25-cent base homestead property tax rate

Yield applied to spending in excess of base amount

Repealed

Homestead exemption - household income under \$47,000

Graduated tax on AGI over \$47,000

Repealed

Dedicates 100% of sales & use tax to EF

Dedicates 25% of meals & rooms tax to EF

Uses (appropriations)

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

Transferred to GF - \$21.5 million

Operating Result

31		6.3	6.3
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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 working proposal as of February 16' 22

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 Education Payment

(millions of dollars)

1,639.4	Education Fund sources
<u>(297.5)</u>	Less net homestead tax
1,341.9	
1,633.1	Education Fund uses
<u>6.3</u>	Plus FY2019 transfer to stabilization reserve
1,639.4	
1,639.4	Education Fund uses
<u>(1,367.8)</u>	Less total education payment
271.6	
1,341.9	Available Education Fund sources
<u>(271.6)</u>	Less committed Education Fund uses
1,070.3	
1,070,300,000	Total base payment
<u>88,359</u>	Equalized pupils
\$12,113	Base payment per equalized pupil

**Homestead Exemption for Taxpayers
with Household Incomes under \$47,000**

\$0 -\$10,000	90%
\$10,001-\$11,000	80%
\$11,001-\$12,000	78%
\$12,001-\$13,000	76%
\$13,001-\$14,000	74%
\$14,001-\$15,000	72%
\$15,001-\$16,000	69%
\$16,001-\$17,000	67%
\$17,001-\$18,000	65%
\$18,001-\$19,000	63%
\$19,001-\$20,000	61%
\$20,001-\$21,000	58%
\$21,001-\$22,000	56%
\$22,001-\$23,000	54%
\$23,001-\$24,000	52%
\$24,001-\$25,000	50%
\$25,001-\$26,000	47%
\$26,001-\$27,000	45%
\$27,001-\$28,000	43%
\$28,001-\$29,000	41%
\$29,001-\$30,000	39%
\$30,001-\$31,000	36%
\$31,001-\$32,000	34%
\$32,001-\$33,000	32%
\$33,001-\$34,000	30%
\$34,001-\$35,000	28%
\$35,001-\$36,000	25%
\$36,001-\$37,000	24%
\$37,001-\$38,000	23%
\$38,001-\$39,000	22%
\$39,001-\$40,000	20%
\$40,001-\$41,000	19%
\$41,001-\$42,000	17%
\$42,001-\$43,000	16%
\$43,001-\$44,000	14%
\$44,001-\$45,000	13%
\$45,001-\$46,000	11%
\$46,001-\$47,000	10%

School Education Tax Rates and Brackets

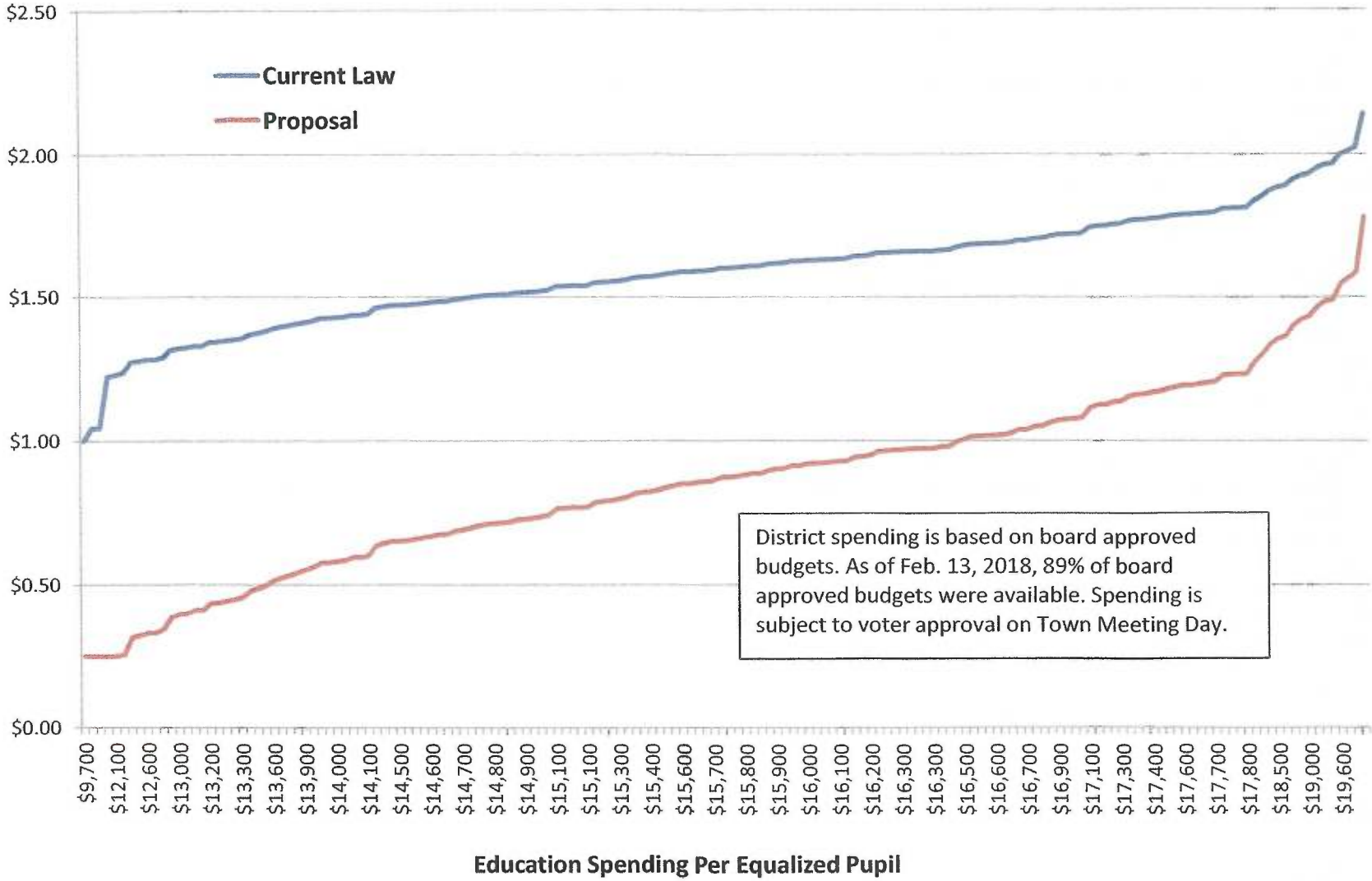
Proposed Rates as of Feb. 22, 2018 - subject to change

House Ways and Means has not yet adopted or acted on Proposal

Married Filing Jointly and Single Filers						
Federal AGI		Tax Liability			Effective Tax Rate	
Over	But not over	Pay	Plus % on excess	of amount over	Federal AGI	% of Tax Paid
0	47,000	\$ -	0.00%	0	50,000	0.03%
47,000	65,000	\$ -	0.50%	47,000	100,000	0.62%
65,000	125,000	\$ 90	1.50%	65,000	150,000	0.90%
125,000	4,000,000	\$ 900	1.80%	125,000	200,000	1.13%
					300,000	1.35%
					400,000	1.46%
					600,000	1.58%

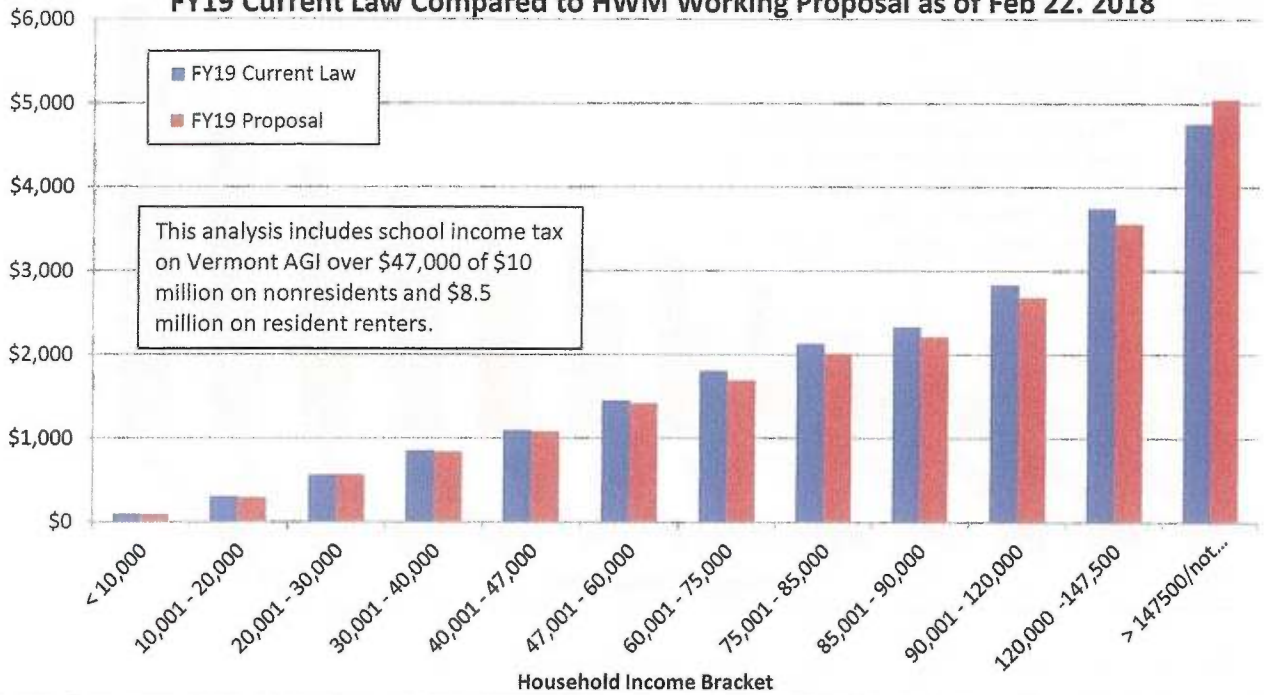
Single						
Federal AGI		Tax Liability			Effective Tax Rate	
Over	But not over	Pay	Plus % on excess	of amount over	Federal AGI	% of Tax Paid
0	23,500	\$ -	0.00%	0	50,000	0.62%
23,500	32,500	\$ -	0.50%	23,500	100,000	1.13%
32,500	62,500	\$ 45	1.50%	32,500	150,000	1.35%
62,500	4,000,000	\$ 450	1.80%	62,500	200,000	1.46%
					300,000	1.58%
					400,000	1.63%
					600,000	1.69%

Estimated Homestead Property Tax Rates
Current Law Compared to HWM Working Proposal as of February 22
FY2019



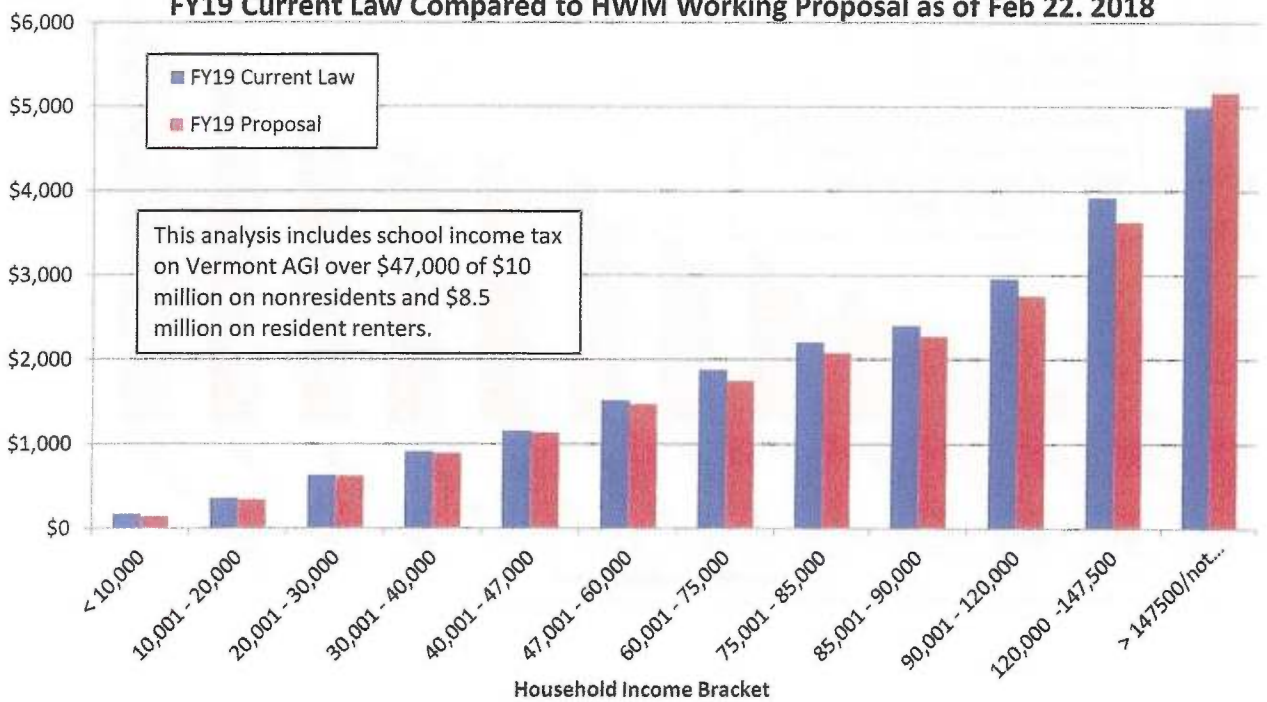
Estimated Median Education Taxes on Housesite

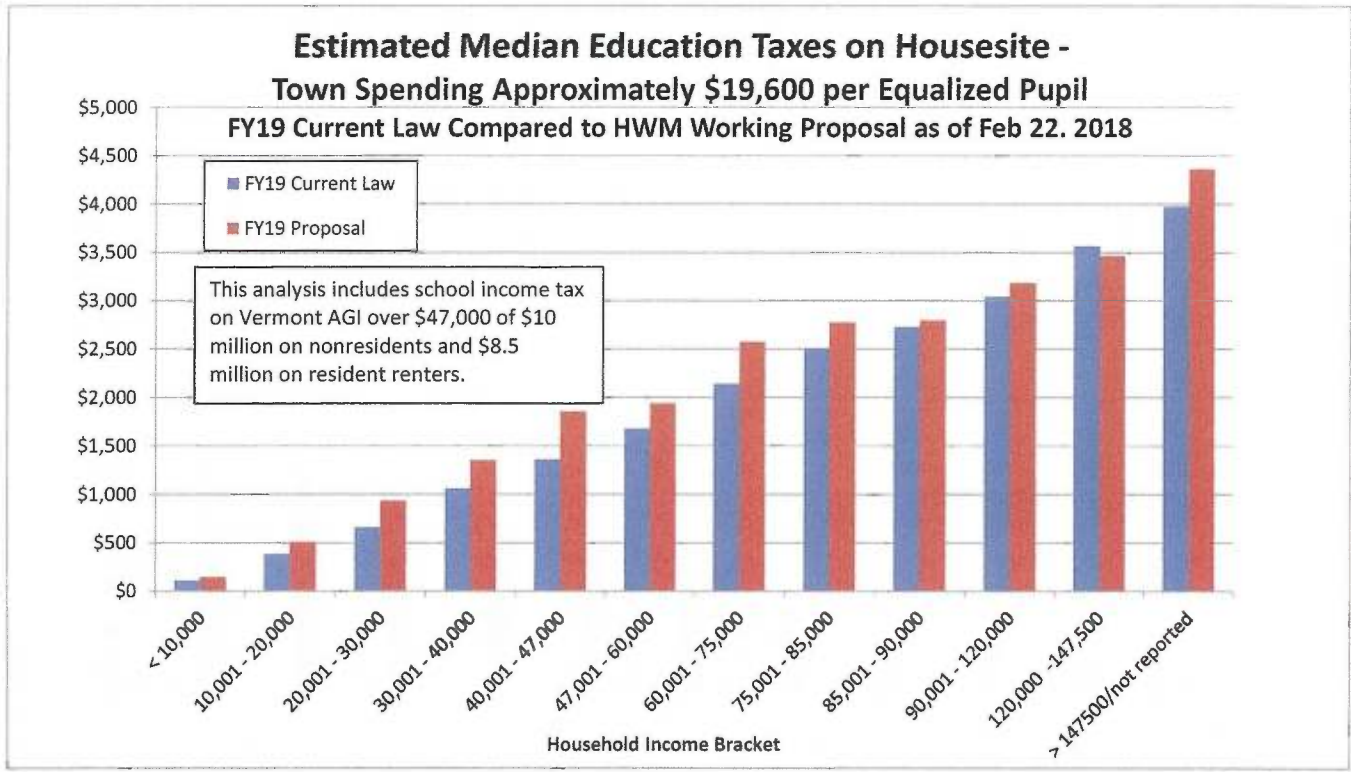
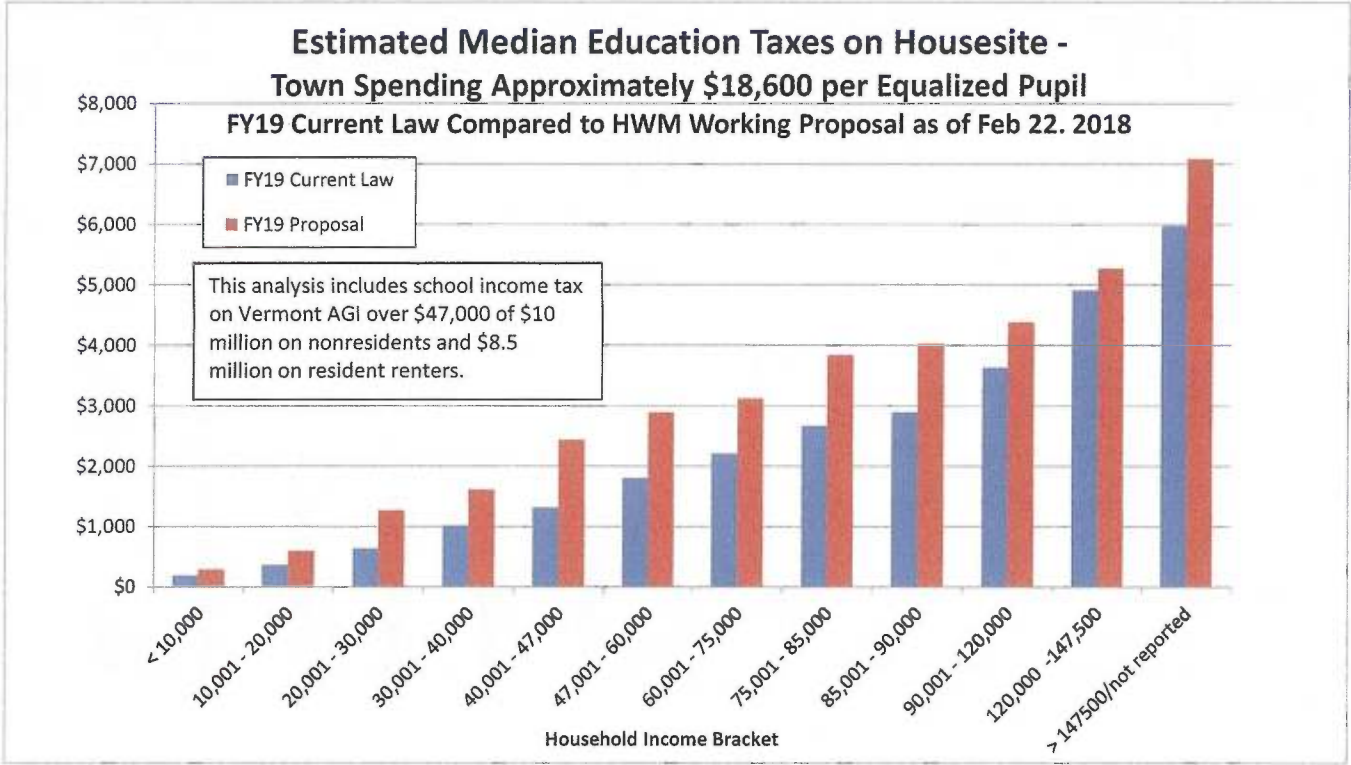
FY19 Current Law Compared to HWM Working Proposal as of Feb 22, 2018

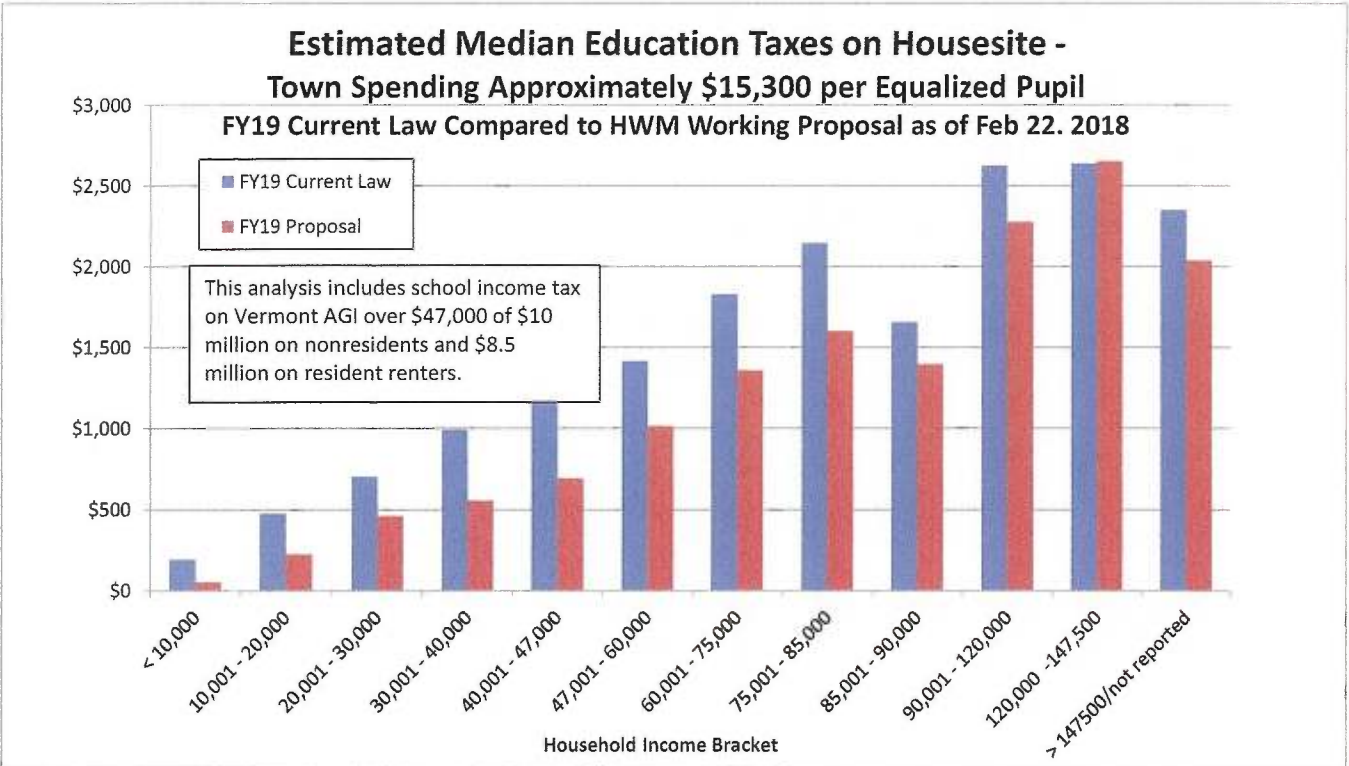
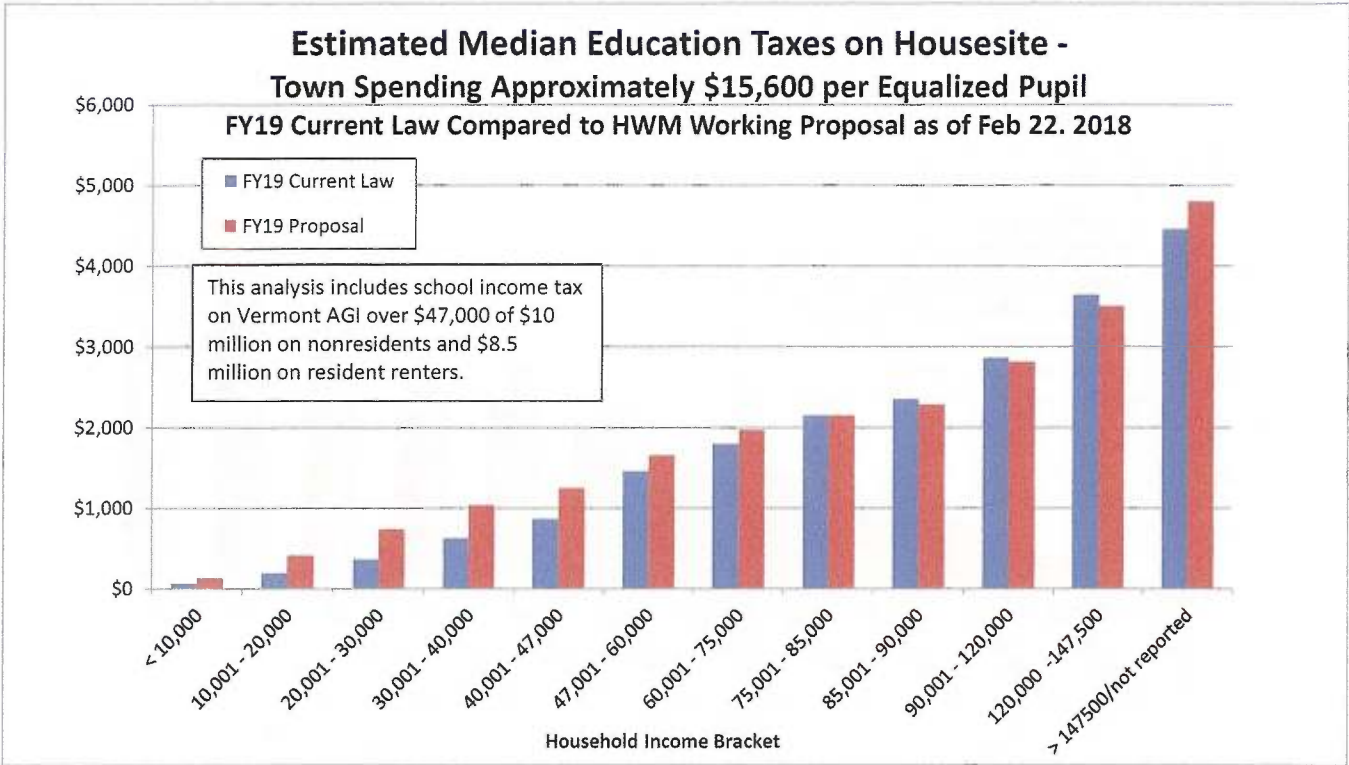


Estimated Median Education Taxes on Homestead

FY19 Current Law Compared to HWM Working Proposal as of Feb 22, 2018

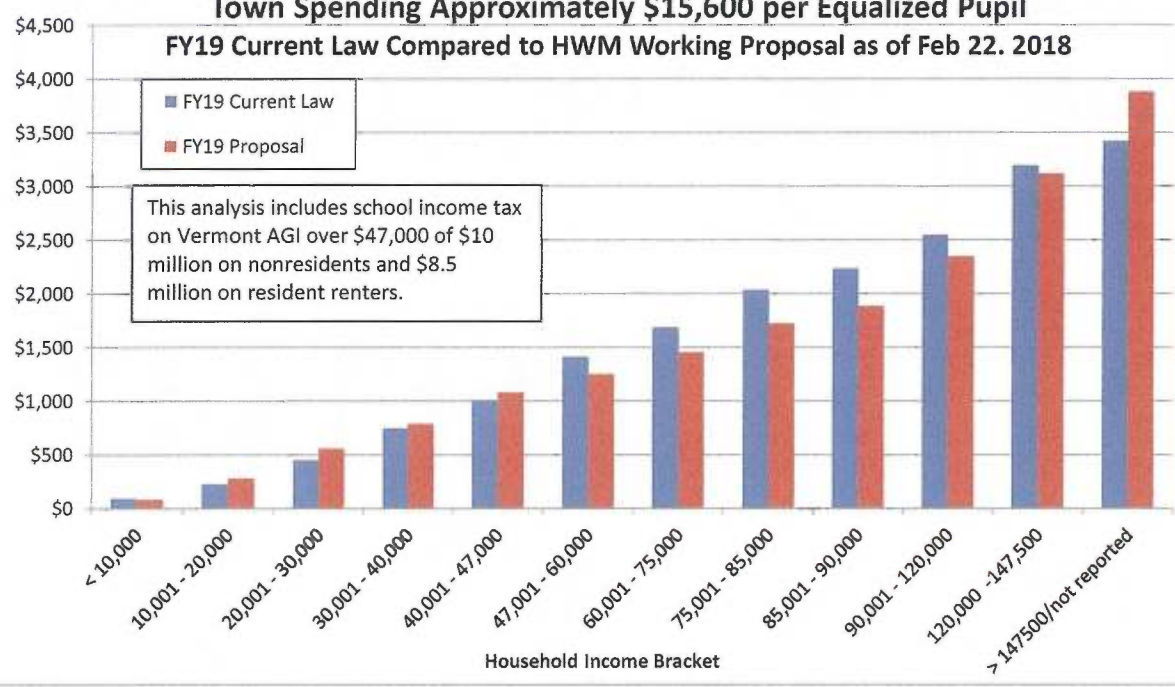


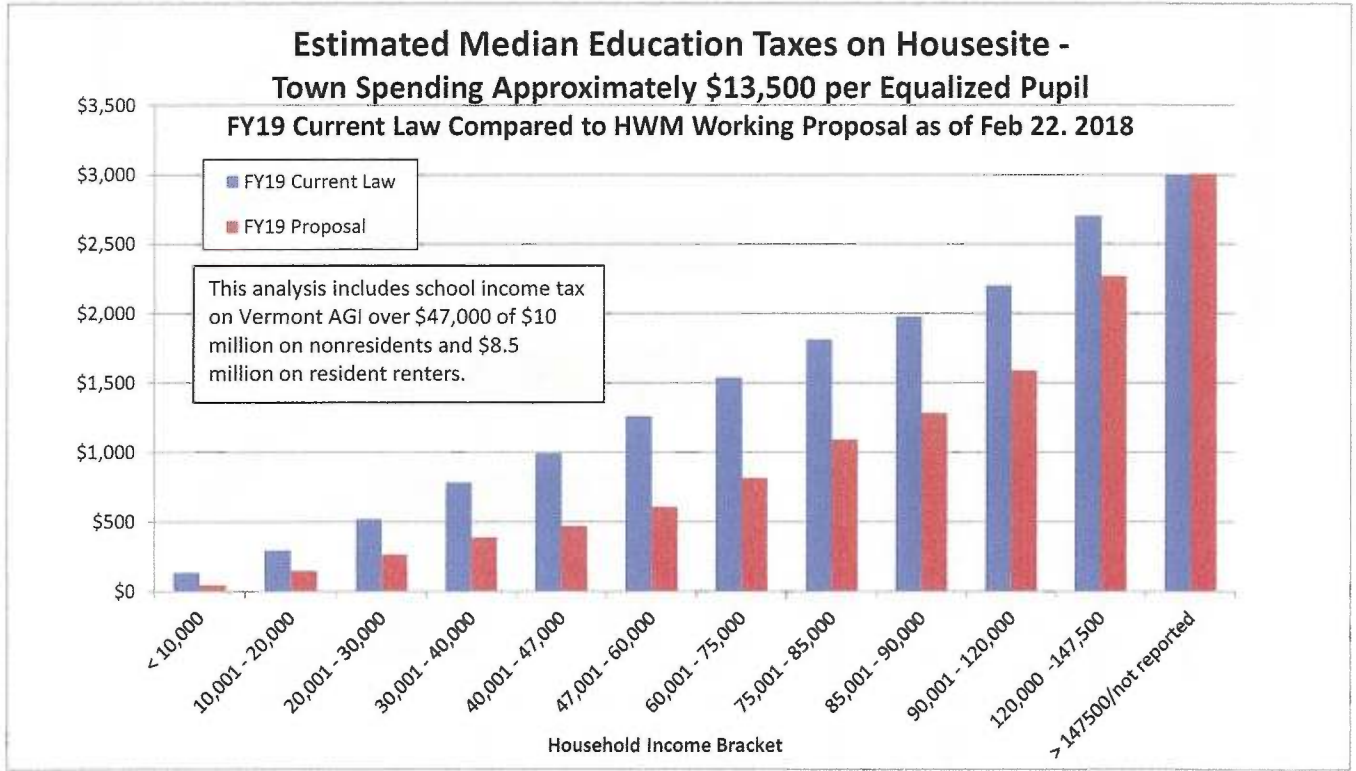
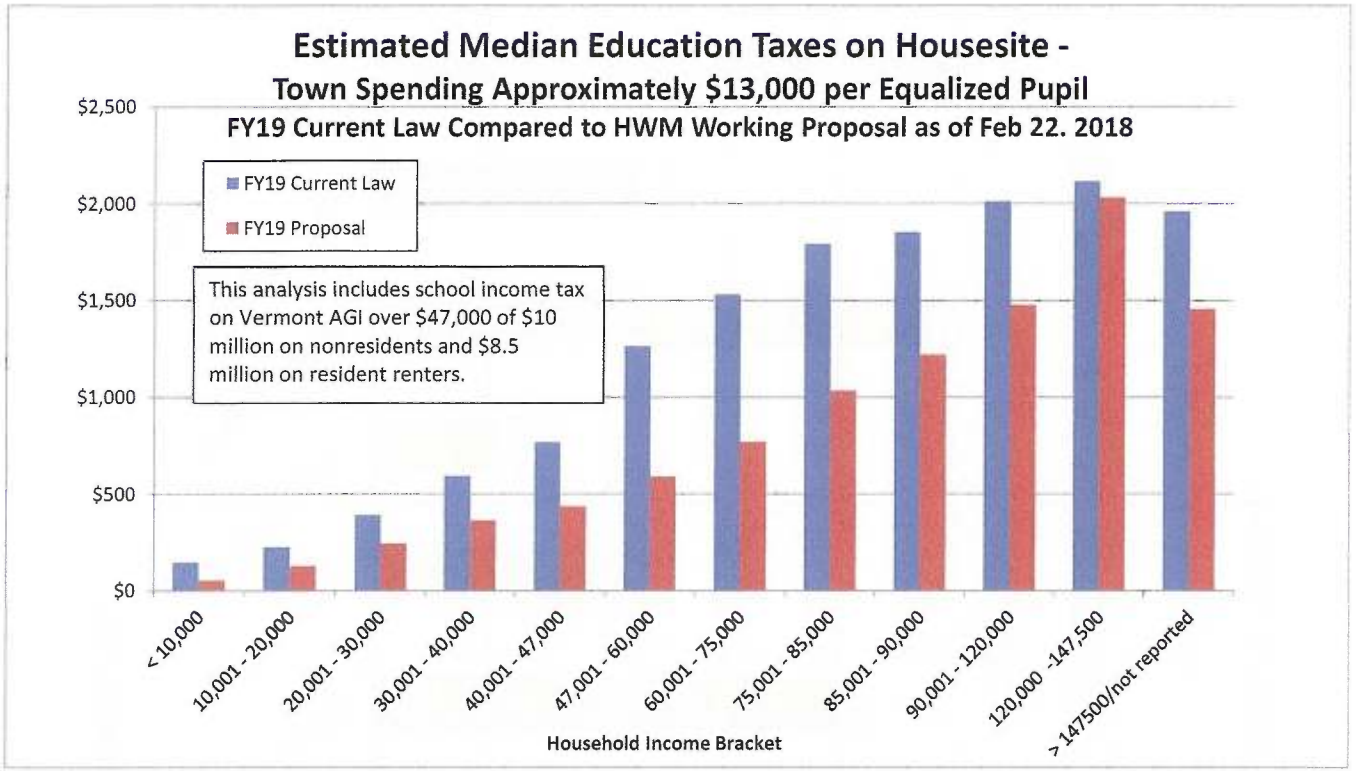




Estimated Median Education Taxes on Housesite - Town Spending Approximately \$15,600 per Equalized Pupil

FY19 Current Law Compared to HWM Working Proposal as of Feb 22, 2018





Number of Homesteads by Household Income

