

Education Funding Proposal 2/13/2018

Revising the current education funding formula so that it is more transparent and still fair is a good goal. The basic template that has evolved, using the Homestead and non-Homestead property taxes, an education income tax, and increased utilization of the sales, purchase and use, and rooms and meals taxes brings greater diversification in raising the required money (lottery, Medicaid etc. dollars included).

In developing the new formula there are certain risks, potential consequences, and concerns we should consider and if possible minimize. Those issues include:

- A. The additional capacity created by a handsomely lower Homestead property tax.
- B. Managing the fluctuating income tax revenue, especially in recessionary times.
- C. With an increase in the income tax we risk high income Vermonters taking actions that have negative consequences to state revenues.
- D. More than 50% of Vermont tax filers make under \$45,000 per year. How do we engage them in the school funding process without creating a financial burden.
- E. Vermonters already face a 30 million dollar income tax increase for 2018. Adding an education income tax will be an issue for many.
- F. Vermonters are interested in cost containment.

To address these points consider the following:

1. Make the amount to be raised by the education income tax \$140,000, a more modest sum than current assumptions.
2. Create a income tax rate schedule that is progressive, that differentiates single filers from joint and head of household filers and shows some restraint on our highest earners. A possible schedule would look as follows;

Rates:

- 0 for joint and head of household filers to \$35,000
- 0 for single filers to \$30,000
- .5% for all filers to \$47,000
- 1.25% for all filers to \$125,000
- 1.55% for filers to \$4,000,000

The schedule is computed on a progressive basis.

3. Tax out of state filers only on earned income.
4. Fund education reserves to 4% for fiscal year 2019.
5. Reduce excess spending threshold.
6. Act on some or all of the Tax Departments recommendations to eliminate or reduce the projected 30 million dollar increase in Vermonter's state income taxes for calendar year 2018.