

## INCOME BASED IDEAS FOR EDUCATION FUNDING

Peter Griffin, Legislative Counsel

- Under current law, Vermont's Education Fund is supported by income taxes via the General Fund transfer, and about 2/3 of homestead owners are income sensitized, meaning the amount they pay to support education is a function of their income.

### VARIABLE INCOME BASED EDUCATION FUNDING CONCEPT

- Eliminate the current homestead property tax system. Retain the current nonresidential property tax system.
- Create a spending adjusted income tax for education spending above a certain base amount. This tax would be separate from the current personal income tax. It would be billed and collect by the State.
- Local districts would still set budgets each year, but any increase in spending would be tied to the variable education income tax.
  - The General Assembly would establish a statewide per pupil base amount supported by current fixed Education Fund revenues (sales tax, purchase and use tax, lotteries, etc.).
  - The spending adjusted income tax would be calculated by creating a spending adjustment fraction equal to local district per pupil spending over the base amount.
  - That spending fraction would then be multiplied by a statewide base education income rate, which would be set each year by the General Assembly.
  - The resulting spending adjusted tax rate (spending adjustment fraction (multiplied by) base rate) would then be multiplied by federally adjusted gross income of the individual.
- The variable income tax would allow withholding. Due to variations in individual income and district spending on a year to year basis, the system would need to be structured by setting an average withholding for each individual, and then the withholding and liability would be trued-up when income taxes are filed in the subsequent calendar year.
- Although the current system of income sensitivity would no longer be necessary, a system could be designed to protect lower income taxpayers.
- The current renter rebate system would be established as a freestanding program.
- The current "circuit breaker" for households with less than \$47,000 would be limited to municipal property taxes only.
- Transition issues: