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Agency of Administration

TO: Representative Emilie Kornheiser, Chair, House Committee on Ways and Means

FROM: Craig Bolio, Commissioner, Department of Taxes

DATE: March 21, 2024

SUBJECT: Tax increases being considered in the House Ways and Means Committee

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I am writing to express the concerns from the Administration regarding several tax increases being considered in the House Ways and Means Committee this week. We are aware of a $74.9 million personal income tax increase, a $33 million corporate income tax increase, a $17.5 million property transfer tax increase, and a $37.8-$47 million short term rental surcharge being considered, all these proposals totaling $163-$172.4 million. This is while the projection for property tax increases in FY25 are over $241 million, and the childcare contribution payroll tax begins in July with a projected revenue estimate of over $80 million for FY25. All these together represent just under half a billion dollars, and the Administration urges the Committee to take additional time to consider the impacts, policy rationale, and outcomes of the individual proposals on the table, as well as the impact on the State and local taxing capacity and Vermont economy of this level of additional taxes.

As members of the Committee have heard repeatedly from the Governor directly, the Administration does not believe new or increased taxes are the solution to our challenges. This year, the Governor again put forward a balanced budget, without raising taxes or fees, that included strategic proposals such as the tri-partisan housing bill (H.719 – the Administration appreciates that seven members of the Ways and Means Committee are sponsors on that bill), which shows that real progress on Vermont's challenges can be made without the need for increased taxes.

On personal income taxes, the Committee has heard mainly from advocates and proponents of the new personal income tax bracket, saying that tax flight of high-income individuals is a myth. To be clear, the Administration is not raising questions about this policy as an attempt to shield high-income earners from taxes, or to make a claim that such a tax will result in those taxpayers becoming destitute; they're going to be fine. The question is not can they afford it; the question is how does the policy impact the tax base of Vermont? Has the Committee taken the time to understand the extra volatility that comes with the new tax bracket? For instance, nearly 50% of taxpayers who experienced income over $500,000

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in Vermont in the last decade experienced it for only a single year. Less than 5% of taxpayers who reported that income reported it in every year over the decade, and that's accounting for inflation.

Furthermore, has the Committee answered questions about the different financial characteristics of the Vermont economy and tax base that might indicate a different elasticity of taxable income in Vermont compared to the region as a whole? Vermont already has the highest income tax in the region for joint filers between the incomes of $500,000 up to about $5 million. This proposal would give Vermont the highest income taxes in the region for people with income over $500,000 and the second highest income taxes in the country (behind only California) for people with income over $1,000,000. Vermont has the second smallest share of high-income earners in the region. Vermont's economy does not have the same base of industry that New York City, Boston, or other regional areas have. Technology and remote work have changed the rules about where people can live and work. Vermont borders a state with no income tax. What impact on elasticity of taxable income will all these considerations have, especially when paired with other tax pressures like the $241 million property tax increase? And what is the appropriate response to those potential differences in outcomes of the policy?

Additionally, the Committee is considering increasing the top marginal corporate tax rate from 8.5% to 10%. This proposal has seemingly had little to no discussion in committee this year, so it's not clear what the policy rationale behind the increase is. According to the TaxFoundation, this would be the highest corporate tax rate in the country. This would come on the heels of Act 148 of 2022, the most significant corporate income tax reform in Vermont since unitary combined reporting. We do not yet have firm data about what that reform does to our corporate tax base as those tax returns generally become due in April 2024. And while it is true that the move to single sales factor should drastically reduce the role of corporate income tax in business location decisions among multi-state corporations, there are many Vermont-only C Corporations who did not benefit from Act 148 that will experience an increase in taxes. And we must acknowledge that signals and messaging matter. If we believe that the Vermont Child Tax Credit sends the message that Vermont is a welcoming place for working families and believe that message will reach those even with children older than 5, then we must also believe that Vermont having the highest marginal corporate rate in the country will send the message that Vermont is a high-tax state for businesses. Both of those messages can lead to behavioral changes that impact our economy, regardless of individual financial circumstances.

The Administration believes that several of these proposals have outstanding questions or considerations to work through before moving out of committee, and encourages members of the Committee to further consider the impacts on the Vermont and local tax base and economy, and to hear from more diverse voices about potential impacts, before moving forward.