

## **Testimony on H.177**

### **Submitted to the House Committee on Ways & Means**

**February 25, 2025**

Respectfully submitted by Bram Kleppner

Five years ago, before the pandemic, before supply chain disruptions, before labor shortages and inflation, before the run-up in property values, the Tax Structure Commission took testimony from Vermonters from every corner of the state, and their number one request was that we do something about property taxes.

During the summer and fall of 2024, Vermonters in every corner of the state once again asked us to do something about property taxes. In other words, Vermonters gave us a very clear assignment to cut property taxes.

In over six years of working on this question, moving to an income-based education tax is the ONLY plan I've heard that would provide all Vermont homeowners with a big property tax cut relatively quickly.

It is also simply good tax policy. The bi-partisan Vermont Tax Structure Commission was charged with making recommendations to make Vermont's tax system fairer, more sustainable, and simpler. It was our unanimous recommendation that we take the last step on our 55-year journey and finally move our ed funding from our current impossibly complicated mix of income and property value to a simple income-based tax.

This would be good tax policy even if we did nothing about education: it would more closely match people's taxes with their ability to pay. It would make the system simpler, fairer, and more sustainable. For instance, we could get rid of the common level of appraisal from all 170,000 homesteads in the state.

This would be a good move regardless of what other changes we make or don't make to education funding. If we stay with our current system of local school budgets, going to income-based ed funding would make the system better.

If we move to a foundation formula, going to income-based ed funding would make the system better.

All Vermont homeowners would get a big, like 50% or more, tax cut on their property taxes. Vermonters would also get a new education income tax. In total, this would not increase Vermonters' taxes, but it would shift some of the education tax burden from lower income people to higher income people. By my VERY rough estimates/calculations, something like

70% of Vermont households would see a net tax cut, about 10% would stay level, and about 20% of higher income Vermonters would see a tax increase.

However, although this would be good tax policy even if we did nothing else, we're not going to do nothing else. Vermonters have also demanded that we cut costs and move away from our current painful spot as state with the highest per-pupil spending in the country, and the Governor has put forward a plan that will do that. However, the Governor's plan will take a couple of years to commence, and then another four to six years before we start seeing meaningful savings, so it won't provide meaningful property tax relief for at least six or seven years, which is way longer than Vermonters can bear. So Vermonters get a big property tax cut now, and get a new education income tax, and over the next five to seven years, that new education tax would at very least grow more slowly than property taxes have been, as we cut cost out of the education system over the next few years, and maybe the new education income tax would stay flat or slightly decline.

Imagine how good this move will be not just for our tax system, but for our democracy. Imagine how gratified Vermonters will be, imagine how much their faith in our state government will be restored, if they ask us to cut property taxes, and 10 months later, we deliver a big property tax cut.

A few other topics:

- The Governor proposed replacing the current way we protect lower income Vermonters from property taxes, which is the property tax credit, with a homestead exemption. I think that can be a good move, but it doesn't provide real property tax relief – it just replaces a kind of clunky income sensitization with a potentially better way of doing that. Looking at the analysis the tax department did for the Governor, it looks like net property taxes would actually go up for quite a few lower income Vermonters. The plan wouldn't provide any tax relief for any household with household income over \$125,000, so again, it's not a real property tax cut, and provides no protection from property taxes continuing to climb unsustainably – it's just a new way to income-sensitize the system we have.
- Although it is contrary to conventional wisdom and counterintuitive, property value data and income data from 2000 to 2018 show that property values are actually more volatile than income. (See VT Tax Structure Commission Final Report, pp. 48-50).
- This is not a new idea. It has been thoroughly reviewed and vetted by the Tax Department and JFO at least a couple of times over the years. It was fully examined in the final report of the bi-partisan Vermont Tax Structure Commission (Feb 8, 2021), and fully worked out and detailed in the final report of the bi-partisan, bi-cameral Income-based Education Tax Study Committee (December 2022).

- Another bit of unfairness in our current system is that, if our presumption that renters pay their landlord's property tax through their rent is correct, renters are paying the higher non-homestead property tax on their portion of the building their apartment is in, and homeowners are paying the lower homestead rate. Going to an income-based education tax would bring all Vermonters into the same system. We would continue to need to enact a program to ensure that renters weren't paying twice, once on their income and once on their building's non-homestead property tax, which they pay through their rent.

If we do not address property taxes this session, a lot of Vermonters will consider the session a failure. On the other hand, if the **only thing** we do this session is pass a property tax cut, it will be a **very successful session**. Here's to our success!