

1. Testifying on Sec. 20 of H.783 relating to income-based school taxes
2. We're opposed to the proposed change in Sec. 20 that would have those with incomes of less than \$90,000 who choose to pay school taxes based on income be subject to a new, additional school tax on the value of their housesite above \$425,000 for four reasons:
 - a. The proposed change increases taxes on middle income Vermonters while lowering taxes on those with the highest incomes, making the school funding system more regressive.
 - b. The proposed change attempts to include assets as part of the income-based school tax calculation, but because it only looks at Vermonters' homes as an asset to be taxed and leaves those with other assets of greater value untaxed, it unfairly targets homeowners for this asset tax.
 - c. The proposed change makes the school funding system more complicated, not less complicated, for Vermonters who need to understand the tax consequences of their school budget votes.
 - d. The revenue generated by the proposed change is not needed to maintain the tax rate at \$.86 for homesteads and \$1.35 for non-homestead property this year or next year.
3. There continues to be a fundamental misunderstanding of the purpose of the income-based school tax.
 - a. It was never intended to be an expansion of the property tax rebate program for low income Vermonters, which began in the 1970s and which has an income eligibility threshold of \$47,000.
 - i. The property tax rebate or homeowner/renter rebate is really a band-aid on a property tax system that is unfair because property taxes are not based on a taxpayer's ability to pay.
 - ii. Unlike the income-based school tax, the rebate program caps taxpayers' liability at a fixed percentage of income regardless of how much the town spends on municipal services or schools.
 - b. Sec. 51 of Act 60 of 1997 clearly states the eligibility threshold to pay school taxes based on income was \$75,000.
 - i. The legislature has rightly attempted to update this eligibility threshold to keep pace with inflation. It's now set at \$90,000, even though \$75,000 in 1997 would equal about \$100,000 in 2010 dollars.
 - ii. So effectively the state has reduced eligibility for Vermonters to pay school taxes based on income and that shows up in the reduced participation levels: originally closer to 80% of homeowners to about 66% currently.
 - c. The property tax is unfair because it is not based on Vermonters' ability to pay. The idea of the income-based school tax was to shift school funding off property taxes and instead levy school taxes for homeowners based on income, eliminating the widely acknowledged unfairness.
 - d. The reason the homeowner rebate was left in place was to correct for the remaining unfairness of municipal property taxes.
 - i. With the fairer income-based school tax in place, the state appropriation required for the rebate program went down significantly.
 - e. The income-based school tax is not a program; it does not require an annual legislative appropriation. The way the system works, the housesite school

property tax is really an estimated tax payment and the credit on the property tax bill is a refund of an overpayment.

- i. Just like income tax refunds, income-based school tax refunds are not appropriated by the legislature because the refund money is not the state's money; it's the taxpayer's money that is being returned to them.
- ii. Just like the homestead property tax, the income-based school tax rate increases for a given town as spending per pupil increases in that town.

4. I'd like to explain the four reasons I mentioned earlier for our opposition to the House's proposed changes in Sec. 20 of the bill:
 - a. The proposed change increases taxes on middle income Vermonters while lowering taxes on those with the highest incomes, making the school funding system more regressive.
 - i. The study completed by the Vermont Tax Department last summer clearly shows that school property taxes on housesites in Vermont hits middle income Vermonters harder than those in the top income brackets.
 - ii. The school portion of property taxes for Vermonters in the \$47-75,000 bracket is on average over 4% of income. For those in the top income bracket, it is .5%, one-eighth of the burden of those in the middle.
 - iii. Fortunately, most homeowners with incomes between \$47,000 and \$90,000 can pay their school taxes based on their income, bringing their average percent of income down to 2.6%, still five times those in the top bracket, but better than the eight times.
 - iv. The proposed change would increase the school taxes that the more heavily burdened middle income group would pay in order to lower the taxes on those with less burden in the top brackets.
 - b. The proposed change attempts to include assets as part of the income-based school tax calculation, but because it only looks at Vermonters' homes as an asset to be taxed and leaves those with other assets of greater value untaxed, it unfairly targets homeowners for this asset tax.
 - i. A home is one asset that a taxpayer might have. There are many others including a stock portfolio, bonds, a bank account, a yacht, an expensive car, a second home in another state, and many others.
 - ii. If the legislature is concerned that someone with a modest income but significant assets should pay more taxes than an income tax collects, then it should research what kind of assets Vermonters have and the options for taxing them.
 - iii. It makes no sense to target the homes of some Vermonters for an asset tax, which letting those with other assets worth much more pay nothing.
 - c. The proposed change makes the school funding system more complicated, not less complicated, for Vermonters who need to understand the tax consequences of their school budget votes.
 - i. School budgets in Vermont are set through direct-democracy decision making: citizens vote on how much they want to spend on their schools.

- ii. For this system to work, the tax consequences of voters' spending decisions need to be as transparent as possible.
 - iii. There are things the legislature could do to make Vermont's system more transparent. This is not one of them.
 - iv. Introducing an asset tax on top of an income-based school tax makes the system less transparent, and undermines the democratic decision making process that the system depends on.
 - v. I should add here that the recent practice of the legislature delaying its decision about school tax rates for the current year until April or May also undermines the democratic process because voters cannot know the tax implications of their vote until the legislature sets the base rates and many of school budget votes have already happened this year.
- d. The revenue generated by the proposed change is not needed to maintain the property tax rates at \$.86 for homesteads and \$1.35 for non-homestead property this year.
- i. School budget votes are coming in much lower than JFO assumed in January.
 - ii. Based on actual votes this year and revised projections for next year, there would be a surplus in the Education Fund with the House's proposed change in Sec. 20 of this bill both this year and next year.
5. We recommend that if the committee feels that an asset tax of some sort is appropriate that they recommend a study of this issue that looks at all assets, and of the best way to implement an asset tax, but refrain from making this change this year.