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Vermont commissioner worries about property taxes

By Nancy Remsen, Free Press Staff Writer

MONTPELIER -- Tax Commissioner Richard Westman illustrated his worry about the burden the state has placed on the property tax with a slide showing a donkey cart loaded so heavily that it tipped backward lifting the donkey off the ground.

The base of property that can be taxed is shrinking as businesses, individuals and communities take advantage of programs that give them breaks on their property taxes, Westman said. These programs include tax increment financing districts to support downtown development, current use value appraisal to help owners of farms and forest land, tax exemptions for nonprofit organizations, and lower payments for Vermonters who pay taxes based on income rather than property value.

"It's all done for good intentions, all of it," Westman said. However, given the effects of the economic downturn, he warned, "I think we are coming to a place where we are reaching a tipping point."

Westman made his observations about the troubles he sees in the property tax system to a three-member commission charged with making recommendations in 18 months about how to improve the state's taxing systems.

Westman's theme, that there are good reasons for many of the quirks in the property tax system but they add up to trouble, echoed a conclusion the commission has reached about a feature of the income tax they were also charged with reviewing.

The legislation creating the commission asked it to recommend whether the state should change the definition of income used to calculate state income taxes. Should the state calculate from federal taxable income, a figure arrived at after a host of allowed deductions are subtracted -- or should the state use adjusted gross income, which is a bigger number?

The commission -- Kathy Hoyt, William Sayre and William Schubart -- is leaning toward postponing a recommendation on the income tax question until it can view it in the context of changes it might recommend to the entire tax system.

The task is enormous, and the panel took time Tuesday to talk about hiring an outside consultant. The legislative staff who have been assisting the commission will soon return to work for lawmakers, who reconvene at the Statehouse in January.

The opening presentation Tuesday came from the Washington D.C.-based Tax Foundation. William Ahern, director of policy and communication, explained why his organization ranks Vermonters as having the eighth highest tax burden.

The commission was interested in hearing what changes in the state's taxing system might improve the Vermont's ranking and change its reputation as inhospitable in the business world.

Ahern advised against a menu of tax credits to try to lure businesses to locate in Vermont despite an unfavorable tax environment. "A state that grants huge tax concessions to prospective businesses is

administering a sharp slap in the face to every resident business and usually for little or no payoff."

Do away with the sales tax, Ahern suggested during his telephoned testimony. "You are mostly dependent on the income tax already," he said. "The best way to improve your tax index rank is to scrap (the sales tax) all together."

The sales tax generates about \$300 million a year -- a big hole to fill, whispered Sara Teachout, a member of the Legislature's fiscal staff sitting in the audience.

Ahern argued that the absence of a major tax is a plus for a state tax system because it forces fiscal discipline.

Westman also spoke of the need for fiscal discipline, retroactively, in the property tax system -- but he acknowledged it would be difficult.

He said he knows personally how beneficial the current use program is to farmers. "I love the program. It has helped my family. But when my family doesn't pay on an acre of land, somebody else does."

He noted he worked for the past decade in downtown Winooski, which has been revitalized through tax increment financing. Under this program, a defined area in a downtown is allowed to keep the taxes collected on the increased value of new or rehabilitated properties to pay for infrastructure expenses such as new roads, sidewalks, sewer and water systems. The state won't benefit from the growth in tax revenues for a period of 20 or more years.

"I find it really hard to be critical of TIF districts," Westman said. "We want to promote growth in our downtowns."

Still, he said the cumulative impact would be significant if every downtown that wanted tax increment financing got it. To make his point, he put up a map with flashing red dots all over the state representing all the communities interested in TIFs.

"I'd like to underscore a point you made early on," Sayre told Westman. "Individuals and businesses have been pursuing their own interests. What we didn't consider was the profound unintended consequences."

Westman didn't offer a remedy. New to his job, he first wants to help more people see the problem.

The commission also sees public education as a critical step. "If we do nothing else but help people understand the trade-offs, I think we are doing an important service," Sayre said.

Contact Nancy Remsen at 651-4888 or nremsen@bfp.burlingtonfreepress.com.
