

**Vermont Blue Ribbon Tax Structure Commission**

**Work Plan**

February 23, 2010

**Kathy Hoyt, Chair  
William Sayre, Vice Chair  
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## **Abstract**

The Vermont Blue Ribbon Tax Structure Commission is required by law to create a work plan to guide its second year. The work plan must address certain questions set forth by statute, but it is not limited to these questions. Accordingly, the Commission has designed a work plan that addresses the Commission's original mandate, statutory requirements, and the myriad challenges that have arisen during the Commission's first six months of collaborative effort. Specifically, the work plan sets forth several concurrent processes designed to achieve the following goals:

- Develop a framework for inquiry and discussion that allows the Commission to examine specific challenges with precision.
- Base all proposals and final recommendations in a firm understanding of how Vermont is changing and what those changes mean for the revenue system and tax structure.
- Balance the need for information with thoughtful deliberation.
- Maximize both the opportunity for public input and the Commission's ability to incorporate that input into its final recommendations.

The work plan contains specific objectives, strategies, and actions designed to further these goals. These include drafting white papers that provide a precise context and framework for the Commission's proposals and recommendations, adopting a bifurcated scheduling process to accelerate the Commission's information gathering and deliberations, and the creation of an array of public input tools. Together, these materials, processes, and tools will allow the Commission to formulate recommendations that represent their best judgment regarding how Vermont should proceed in creating a 21<sup>st</sup> century tax structure.

## Introduction

The Vermont Blue Ribbon Tax Structure Commission's mandate is "to prepare a structural analysis of the state's revenue system, offer recommendations for improvements and modernization, and provide a long-term vision for the tax structure."<sup>1</sup> To this end, the Commission is required by law to create a work plan guiding its second year and submit that work plan to the Governor, legislative leadership, and certain legislative committees. The work plan must include, but is not limited to, examining tax expenditures, fees, consumption taxes, and business taxes; examining whether fees are being used to fund general responsibilities of government and whether such use is sustainable, appropriate, and equitable; and recommending an analysis of the process for reviewing tax expenditures under section 312 of Title 32. Also, the Commission is required to recommend whether the State's interests are best served by using Federal Adjusted Gross Income (AGI) rather than Federal Taxable Income (TI) as the basis to assess the State's personal income tax. The law requires the work plan to include a delivery date prior to February 1, 2011 for the Commission's final recommendations.

Achieving these goals is complicated by four major challenges that have emerged during the Commission's six months of taking testimony and working collaboratively.

1. The wide variety of revenue streams within the tax structure make issuing recommendations simultaneously across the entire tax structure impractical.

The tax structure implicates every facet of Vermont's government. This enormous scope hampers efforts to engage in a focused discussion. The Commission may create confusion, rather than clarity, if its proposals and recommendations pertaining to all aspects of the tax structure are released simultaneously.

2. The future challenges facing Vermont's revenue system are poorly understood.

Any discussion of Vermont's future involves complex demographic, economic, and public policy questions. The Commission's future discussions, proposals, and final recommendations

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<sup>1</sup> 2009 (Special Session) Act. No. 1, Sec. H.56. Appendix A.

may be difficult to understand if the underlying assumptions about Vermont's future are not stated with specificity. Currently, no single resource exists that frames the future challenges that face Vermont's revenue system and tax structure.

3. The current meeting structure does not allow adequate time for group deliberation and decision making.

The Commission met seven times between August and December 2009. These meetings have focused on hearing expert testimony, fact-finding, and analysis of the personal income tax. The next twelve months require the same rigorous examination of Vermont's business taxes, consumption taxes, property taxes, and other revenue streams and the formulation of recommendations. Accordingly, the Commission has found the current meeting schedule insufficient to both gain substantive expertise and deliberate.

4. The current hearing structure does not provide an adequate forum to engage the public.

Currently, the Commission holds hearings monthly in Montpelier and maintains a website through the Joint Fiscal Office. Also, the Commission has met previously with the Speaker of the House, Senate President Pro Tempore, representatives of the Administration, and the House Ways and Means Committee. The Commission remains concerned that these efforts are insufficient to generate meaningful public input regarding the scope of Vermont's future challenges, the Commission's future proposals, and the Commission's final recommendations.

The Commission faces a formidable challenge in meeting the law's requirements and overcoming the difficulty inherent in a public examination of the revenue system and tax structure. This work plan is an effort to reduce the work into a series of specific, achievable component parts. When assembled, these pieces will provide the Administration, Legislature, and public with reference materials that will be designed to tell a coherent story about Vermont's future challenges, assemble a range of proposals designed to meet those challenges, and offer final recommendations based on expert testimony, analysis, and public input that represent the Commission's best judgment regarding how Vermont should proceed in creating a 21<sup>st</sup> century revenue system and tax structure.

## Goals and Objectives

The work plan sets goals that address both the Commission's legislative mandate and the challenges identified by the Commission during its initial work. Specifically, the Commission believes that the work plan should embody the following goals.

1. Develop a framework for inquiry and discussion that allows the Commission to examine specific challenges with precision.
2. Base all proposals and final recommendations in a firm understanding of how Vermont is changing and what those changes mean for the revenue system and tax structure.
3. Balance the need for information with thoughtful deliberation.
4. Maximize both the opportunity for public input and the Commission's ability to incorporate that input into its final recommendations.

The Commission will further these goals by meeting the following objectives related to each goal.

1. Goal: Develop a framework for inquiry and discussion that allows the Commission to examine specific challenges with precision.

Objective: Create reference materials that answer discrete questions whenever possible.

2. Goal: Base all proposals and final recommendations in a firm understanding of how Vermont is changing and what those changes mean for the tax system.

Objective: Create reference documents that frame Vermont's future tax challenges and serves as a touchstone for future inquiries by the Commission, government leaders, and the public.

3. Goal: Balance the need for information with thoughtful deliberation.

Objective: Create a meeting schedule for 2010 that meets the Commission's need for information on tax topics and facilitates deliberations and decision making.

4. Goal: Maximize both the opportunity for public input and the Commission's ability to incorporate public input into its final recommendations.

Objective: Create a multi-faceted public input strategy that encourages feedback at each stage of the Commission's work.

The Commission will use a range of strategies and actions to further these objectives. Specifically, the work plan will set forth several concurrent processes to be utilized by the Commission during the next twelve months to achieve these objectives and fulfill the Commission's mandate.

## Strategy and Action

Each objective set forth by the Commission can be achieved by employing specific strategies and actions. This section of the work plan describes, in the broadest sense, the actions that will guide the Commission and staff during the next twelve months. These actions will serve as a useful guidepost for the Commission and staff while preserving flexibility for the Commission's future direction and actions.

1. Goal: Develop a framework for inquiry and discussion that allows the Commission to examine specific challenges with precision.

Objective: Create reference materials that answer discrete questions whenever possible.

Strategy: Develop and publish a series of white papers that serve as a point of reference for the Commission, Legislature, and the public.

The tax structure's wide variety of revenue streams makes issuing recommendations simultaneously across the entire tax structure impractical. The Commission will overcome this challenge by creating a framework for inquiry and discussion that lends itself to examining discrete revenue and tax challenges. Specifically, the Commission will develop and issue a series of white papers.

Each white paper will examine discrete topics within the revenue system and tax structure. Issued monthly beginning in April, the white papers will allow the Commission to examine a topic fully and receive input without the dissonance that would be created by issuing a single all encompassing report. Overall, the white papers will build sequentially toward the Commission's final report. The final report, which will integrate the white papers and create final recommendations based on public input, will be issued on January 31, 2011.

The accompanying action to implement this strategy is the adoption of the work plan and its organizational framework. The Commission will discuss the work plan at its February 16, 2010 hearing, and the work plan will be presented for approval at the Commission's February 23, 2010 hearing.

2. Goal: Base all proposals and final recommendations in a firm understanding of how Vermont is changing and what those changes mean for the tax system.

Objective: Create reference documents that frame Vermont's future tax challenges and serves as a touchstone for future inquiries by the Commission, government leaders, and the public.

Strategy: Divide the monthly white papers into two series that (1) define and elucidate the future challenges that stand between Vermont and an effective 21<sup>st</sup> century tax structure and (2) present proposals designed to address these challenges.

The Commission's white papers require a context to be focused and meaningful. Since the future challenges facing Vermont's revenue system are poorly understood, the Commission will draft an initial white paper series that will explore the scope of the challenges facing Vermont's tax system in the 21<sup>st</sup> century. The first series of white papers will include an examination of the demographic, economic, and public policy pressures that challenge the tax structure's sustainability, appropriateness, and equity. These white papers will pose discrete, prioritized questions that require further examination and serve as the framework for the Commission's second set of white papers.

The second set of white papers will analyze a range of policy proposals that address the specific tax challenges identified in the first white paper series. This call and response method will ensure that the Commission's proposals are based in a firm understanding of how Vermont is changing in the 21<sup>st</sup> century. Ultimately, the Commission will use the public input gathered in response to the second white papers series to calibrate its final recommendations.

The accompanying action to implement this strategy is the selection of discrete tax challenges facing Vermont. The Commission will begin discussion of this matter at its February 16, 2010 meeting and select topics for the first white paper series at its March 16, 2010 meeting.

3. Goal: Balance the need for information and the virtue of thoughtful deliberation.

Objective: Create a meeting schedule for 2010 that meets the Commission's need for information on tax topics and facilitates deliberations and decision making.

Strategy: Develop a two-track scheduling model.

The Commission will accelerate both its information gathering and deliberations by implementing a two track schedule. These tracks are called the *Information Track* and the *Decision Making Track*. The Information Track continues to provide the Commission with information and testimony on remaining tax topics. The Decision Making Track will provide a context for the Commission to structure its deliberations and recommendations. Each track is described in greater detail below.

The *Information Track* provides the Commission with a base of substantive knowledge on all remaining major tax topics. Three major categories of revenue remain for initial examination. These are consumption taxes, property taxes, and other non-tax revenue. These categories contain the following specific taxes:

- Consumption Taxes:
  - Sales and Use
  - Meals and Rooms
  - Purchase and Use
  - Excise Taxes
- Property Taxes:
  - Education Tax
  - Property Transfer Tax
  - Land Gains Tax
  - Current Use
- Other Revenue:
  - Lottery
  - Fees

The *Decision Making Track* provides a context for the Commission to structure its deliberations and recommendations. Beginning in February, the Commission will spend time at each meeting reviewing issues previously examined, deliberating on matters that will lead ultimately to proposals and final recommendations, and charting the course for future reference materials. This time will allow the Commission to distill and test its own ideas and build consensus on future directions.

The Commission will take two actions to effect this change. First, the Commission will meet semi-monthly beginning in February 2010.<sup>2</sup> Second, the Commission will adopt a tentative schedule for the next twelve months that incorporates these changes.<sup>3</sup> Overall, implementation of a two track scheduling model will allow the Commission to strike the proper balance between information gathering and thoughtful deliberations.

4. Goal: Maximize both the opportunity for public input and the Commission's ability to incorporate public input into its final recommendations.

Objective: Create a multi-faceted public input strategy that encourages feedback at each stage of the Commission's work.

Strategy: Leverage the Commission's resources and work plan to create a rebranded web presence and solicit public input on the tax system and white papers.

The Commission values public input and seeks to increase public participation and feedback. The Commission will utilize new public outreach tools to provoke specific, timely feedback on the challenges facing Vermont's tax system and the proposals and recommendations designed to meet those challenges. These tools will include an enhanced internet presence, public meetings, and solicited feedback from key opinion leaders.

It is important to note that the Commission believes that all efforts to gather public input must solicit specific feedback on particular tax topics and challenges. Generalized tax grievances and partisan myths are not useful to the Commission and its work. Therefore, all feedback tools must

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<sup>2</sup> See Appendix B.

<sup>3</sup> See Appendix C.

provide participants with a clear question, the facts underlying that question, and the opportunity to provide specific, timely feedback.

The Commission's renewed outreach effort will begin with an enhanced web presence. By April 15, 2010, the Commission will launch a new web site. The web site will be rebranded to promote easier access and public use. Overall, the site will serve three purposes.

First, all Commission work and materials will be posted and available to the public. Second, the web site will contain a citizen's primer on various aspects of Vermont's tax system. Third, the web site will provide a forum for public input on both the tax system and the Commission's work. This forum will allow the public to comment on specific aspects of the tax system and Vermont's tax challenges.

The feedback tool would be designed to promote constructive comments by engaging the public on specific, timely issues. For example, the feedback tool would contain a drop box of tax topics, i.e. current use, sales tax, income tax, and the like. Response space would be limited, and participants would be required to input their name, e-mail address, and a Vermont street address. If designed properly, the tool could provide the Commission with directed feedback on specific tax topics and, over time, on specific proposals. Together, this input would be used to shape the Commission's final recommendations.

Much like the web site, the white papers are designed to provoke specific, timely feedback on the challenges facing Vermont. The Commission plans to issue the white papers to the Administration, legislative leadership, relevant committee members, and the public. Feedback would be requested in writing, but the Commission would supplement this by holding public hearings in Montpelier and around the State. In this way, the Commission can more fully understand the impact of their proposals and calibrate their final recommendations to help build consensus. Given the timeline for the white papers, written requests for feedback and public hearings would begin in April 2010 and continue through January 31, 2011 when the Commission issues its final recommendations to the Legislature.

## **Conclusion**

The Vermont Blue Ribbon Tax Structure Commission is committed to a transparent public process that provides the maximum benefit to the people of Vermont. The work plan is designed to ensure that the Commission understands the challenges facing Vermont's revenue system and tax structure and offers proposals and recommendations responsive to those challenges. The Commission will test these ideas by soliciting input from experts, public officials, and Vermont's residents. Overall, it is the Commission's desire that the reference materials created by the Commission serve as an impartial reference point for future discussion by the Legislature and public.

## Appendix A

2009 Act No.1 (Special Session)

**\* \* \* Blue Ribbon Tax Structure Commission \* \* \***

### Sec. H.56. BLUE RIBBON TAX STRUCTURE COMMISSION

(a) Composition of commission. There is hereby established a blue ribbon tax structure commission composed of three to five members to be selected as follows:

- (1) The speaker of the house, the president pro tempore of the senate, and the governor shall each appoint one member; and
- (2) The three members appointed pursuant to subdivision (1) of this subsection may select one or two additional members.

(b) The commission shall be appointed as soon as possible after the effective date of this act. The panel shall elect a chair and a vice chair from among its members.

(c) Purpose and goals. The commission shall prepare a structural analysis of the state's revenue system and offer recommendations for improvements and modernization and provide a long-term vision for the tax structure. The commission shall have as its goal a tax system that provides sustainability, appropriateness, and equity. For guidance, the commission may use the Principles of a High-Quality State Revenue System as prepared by the National Conference of State Legislatures as of June 2007. A high-quality revenue system:

- (1) Comprises elements that are complementary, including the finances of both state and local governments.
- (2) Produces revenue in a reliable manner. Reliability involves stability, certainty, and sufficiency.
- (3) Relies on a balanced variety of revenue sources.
- (4) Treats individuals equitably. Minimum requirements of an equitable system are that it imposes similar tax burdens on people in similar circumstances, it minimizes regressivity, and it minimizes taxes on low income individuals.
- (5) Facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs.
- (6) Promotes fair, efficient, and effective administration. It is as simple as possible to administer, raises revenue efficiently, is administered professionally, and is applied uniformly.
- (7) Is responsive to interstate and international economic competition.
- (8) Minimizes its involvement in spending decisions and makes any such involvement explicit.
- (9) Is accountable to taxpayers.

(d) The blue ribbon commission shall receive technical support from the department of taxes, the legislative joint fiscal office, and consultants. From data provided from the tax department the following reports will be provided to the commission:

- (1) Changes in personal income, arranged by decile, over the last five years;
- (2) House site and homestead value arranged by adjusted gross income (AGI) and, where available, household income;
- (3) Gross and net school taxes paid, arranged by adjusted gross income and, where available, by household income.

(e) The joint fiscal office with the assistance of the legislative council and the department of taxes may contract with one or more consultants to provide assistance with achieving the goals for the commission. The consultants shall have extensive experience with state tax systems and shall have participated in at least one other study of a state tax system.

(f) Work Plan.

(1) Year 1 – Examine Vermont’s income tax structure and analyze, among other things, whether the principles of sustainability, appropriateness, and equity would be better met by using adjusted gross income rather than federal taxable income. This shall include an examination of personal exemptions, deductions, brackets, credits, and other adjustments to income. The commission shall prepare a work plan by September 15, 2009, preliminary findings by November 1, 2009, and a final report due January 1, 2010 submitted to the governor, the speaker, the president pro tempore, the house committee on ways and means and the senate committee on finance.

(2) Year 2 – The commission, by February 1, 2010, shall also present a proposed work plan which shall include a delivery date prior to February 1, 2011 for examining tax expenditures, fees, consumption taxes, and business taxes. The work plan shall include examining whether fees are being used to fund general responsibilities of government and whether such use is sustainable, appropriate, and equitable. The work plan shall include an analysis of the process for reviewing tax expenditures under section 312 of Title 32.

(g) Of the funds appropriated to the joint fiscal office, \$200,000 is for the purpose of hiring consultants and other support for the commission.

(h) Non-legislative members of the commission shall be entitled to compensation as provided under 32 V.S.A. § 1010. Any legislative members of the commission shall be entitled to the same per diem compensation and reimbursement of necessary expenses for attendance at a meeting when the general assembly is not in session as provided to members of standing committees under 2 V.S.A. § 406.

## **Appendix B**

### **Blue Ribbon Tax Structure Commission Proposed Semi-Monthly Meeting Schedule for 2010 *Scheduled for Approval at the Commission's February 16<sup>th</sup> Meeting***

- February 16<sup>th</sup> from 1 p.m. to 4 p.m.
- February 23<sup>rd</sup> from 9 a.m. to 4 p.m.
- March 16<sup>th</sup> from 9 a.m. to 4 p.m.
- April 13<sup>th</sup> from 9 a.m. to 4 p.m.
- April 20<sup>th</sup> from 1 p.m. to 4 p.m.
- May 11<sup>th</sup> from 9 a.m. to 4 p.m.
- May 18<sup>th</sup> from 1 p.m. to 4 p.m.
- June 15<sup>th</sup> from 9 a.m. to 4 p.m.
- June 22<sup>nd</sup> from 1 p.m. to 4 p.m.
- July 20<sup>th</sup> from 9 a.m. to 4 p.m.
- July 27<sup>th</sup> from 1 p.m. to 4 p.m.
- August 17<sup>th</sup> from 9 a.m. to 4 p.m.
- August 31<sup>st</sup> from 1 p.m. to 4 p.m.
- September 28<sup>th</sup> from 9 a.m. to 4 p.m.
- October 19<sup>th</sup> from 9 a.m. to 4 p.m.
- October 26<sup>th</sup> from 1 p.m. to 4 p.m.
- November 23<sup>rd</sup> from 9 a.m. to 4 p.m.
- November 30<sup>th</sup> from 1 p.m. to 4 p.m.
- December 21<sup>st</sup> from 9 a.m. to 4 p.m.

## Appendix C

### Information Track Schedule January 2010 – February 2011 (13 months)

<b>Topic</b>	<b>Details</b>	<b>Timeline</b>
Business Taxes	Corporate Income Insurance Premiums Bank Franchise	January 2010
Consumption Taxes	Sales and Use Meals and Rooms Purchase and Use Excise Taxes	February and March 2010
Property Taxes	Education Property Tax Property Transfer Tax Land Gains Tax Current Use	April, May, and June 2010
Other Revenue	Lottery Fees	July 2010
Develop and Review White Papers on Tax Challenges	Determine the Challenges to be Addressed in the Second White Paper Series.	April - August 2010
Develop and Review White Papers that Propose Solutions to Identified Tax Challenges	Proposals Based on Discrete Tax Topics Delineated in Challenge Series	September - December 2010
Final Report	Recommendations Issued to the Legislature	January 31, 2011

## Appendix D

### Work Plan Deadlines

<b>Task</b>	<b>Deadline</b>
Adopt Semi-Monthly Schedule to Facilitate Two Track Scheduling Model	February 16, 2010
Adopt Work Plan	February 23, 2010
Select Tax Challenges to be Addressed in First White Paper Series	March 16, 2010
Launch Rebranded and Enhanced Web Site	April 15, 2010
Issue First Series of White Papers on Discrete Tax Challenges	Monthly, April - July 2010
Issue Second Series of White Papers on Proposals Drafted in Response to Discrete Tax Challenges	Monthly, August - December 2010
Final Report Issued to the Legislature	January 31, 2011

## Appendix E

### A Note on the Commission's Structure

The Act that created the Blue Ribbon Tax Structure Commission required the Commission to elect a Chair and Vice Chair from among its members. The Commission voted unanimously to elect Bill Schubart as Chair and Kathy Hoyt as Vice Chair at its August 14<sup>th</sup>, 2009 meeting. In the spirit of comity, the Commission decided to rotate the Chair and Vice Chair positions every six months thereafter. Accordingly, the Chair and Vice Chair positions will rotate twice during the Commission's final year of work. The chart below depicts the timing of the rotation.

<b>Commission Structure</b>	<b>Timeframe</b>
<i>Schubart Chair, Hoyt Vice Chair, Sayre Commission Member</i>	August 14, 2009 – February 16, 2010
<i>Hoyt Chair, Sayre Vice Chair, Schubart Commission Member</i>	February 16, 2010 - August 17, 2010
<i>Sayre Chair, Schubart Vice Chair, Hoyt Commission Member</i>	August 17, 2010 February 1, 2011

