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# UVM Institute suggests radical overhaul of Vt. taxes

By [Peter Hirschfeld](#) VERMONT PRESS BUREAU

MONTPELIER – If necessity is the mother of invention, then supporters of a tax-code overhaul hope this year's state budget problems will prompt a revolution in the collection of state revenues.

Proposals from the University of Vermont's Gund Institute for Ecological Economics would replace a property-and-income-based tax structure with new assessments on things like gasoline, land use, water and waste. With severe revenue shortages spotlighting the inadequacy of the current tax codes, supporters of the proposal say, lawmakers can use the crisis to redesign an antiquated system.

"The tax system over the last 10 years really hasn't changed," says Gary Flomenhoft, a research fellow at UVM. "And you can't expect to get different results using the same system."

Instead of targeting companies and individuals for creating wealth and jobs, proponents of the new system argue, the state should encourage the good by taxing the bad. Payroll taxes, and taxes on personal and corporate income, Flomenhoft said, discourage or impede the kind of economic activity policy makers presumably want to encourage.

But "green taxes" – on things like energy usage, air pollution, resource extraction and waste – could generate revenue streams while encouraging economic activity and dissuading environmental degradation.

New taxes on energy alone – to include an approximately \$1 per-gallon fee on gasoline as part of a "carbon tax," as well as a nuclear and hydropower tax – could generate more than \$500 million annually, according to Flomenhoft.

The state could generate additional revenue by taxing "common assets," such as water, the Internet and broadcast spectrum. The proposals are outlined in two UVM publications, "A Green Tax Shift for Vermont" and "Valuing Common Assets for Public Finance in Vermont." Flomenhoft said the ideas lay the groundwork for a "tax bads, not goods" philosophy that Vermont could use to encourage economic development while preserving key environmental standards.

"So now we've got some extra revenue – we've added taxes on bads and now we want to lower them on the goods," Flomenhoft said. "We can get rid of all income taxes on people and businesses and say: 'Take that, New Hampshire!'"

Flomenhoft delivered his remarks Tuesday to the Blue Ribbon Tax Structure Commission, a three-person panel appointed to review Vermont's tax code. Bill Schubart, chairman of the commission, called the presentation "provocative."

"You make a strong — and I think good — case for tax code setting good behavior and dissuading bad behavior," Schubart said.

Given logistical and political realities, however, Schubart said that an overhaul on the level proposed by the Gund report simply isn't going to happen. He asked Flomenhoft to return to the commission with suggestions to get at some of the "low-hanging fruit" the plan has to offer.

"We're not going to get this revolutionary an explosion of our tax system out of this commission because we're very focused on the art of the possible," Schubart said.

Another commissioner was less optimistic. One of the Gund proposals levies new tax burdens on private companies for using "common assets," like water. Charging corporations like Entergy and Nestle for groundwater extraction could raise tens of millions of dollars, according to Flomenhoft, who said Vermont is currently giving away those raw materials for free.

William Sayre said those companies also produce a public good in the form of jobs and other economic opportunities, and that targeting them with new fees might have negative consequences. Entergy uses groundwater at its Vernon nuclear plant; Nestle extracts it for bottled water.

"People build their lives and businesses around certain assumptions about how the economy is, what taxes are going to be, what regulations are," Sayre said. "This kind of explosive change can be very disruptive to individual lives and businesses and ultimately to the economy as a whole."

Flomenhoft said some of the economic principles on which the Gund study is founded have worked elsewhere. Germany, according to Flomenhoft, increased fuel taxes by 55 percent and used the revenue increase to reduce payroll taxes. The reforms, he said, served to decrease fuel consumption and lay the groundwork for what he called the largest renewable energy economy in the world.

"It wasn't an accident," Flomenhoft said. "It was due to public policy changes."

That government can use its tax code to spark economic development is one of the reasons Democratic leaders in the House and Senate created the Blue Ribbon Commission during the last legislative session. Senate President Peter Shumlin said it's premature to comment on specific proposals, but said revisions to the state's tax structure should be looked at through the prism of economic development and job creation.

"We should be the first state in the country to modernize our system of raising revenue so that it grows jobs and wealth for Vermonters," Shumlin said. "What we now have is a hodgepodge of taxes raised or lowered without much consideration for the 21st century economy."

Flomenhoft said aspects of Vermont current tax structure discourage that kind of development. Vermont's property tax, for instance, is weighted too heavily toward buildings rather than land, according to Flomenhoft. Reducing the assessment on bricks and mortar, he said, could generate the kind of downtown renaissance projects many say are needed to revitalize local economies.

