

Vermont Legislative Joint Fiscal Office

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Tax Policy / Revenue Issues

Typical Legislation Reviewed

In the tax policy and revenue area, there are three pieces of legislation that come before the House Ways & Means and the Senate Finance Committees annually. These include; a miscellaneous tax bill, fee bill, and recently a tax expenditures bill. The miscellaneous tax bill is usually prepared initially by the Department of Taxes and contains a mixture of technical corrections to tax laws and various types of administration tax policy proposals. The executive fee bill is submitted to the legislature by the Department of Finance and Management as a consolidated annual request for changes according to function of government on a rotating three-year cycle. This session the general government, labor, general education, development and community affairs, and transportation areas of government are up for review. A recent development is the submission of a tax expenditure budget along with the regular budget proposals to make explicit the spending decisions made in the tax code as well as “on-budget” expenditures. This bill lists, along with an estimate of the value, each tax deduction credit or other tax expenditure and is organized by tax type. Many other pieces of legislation contain changes to the taxes or revenues of the state and are reviewed by the revenue committees, but the above legislation usually contains the core tax policy and revenue initiatives each session.

Blue Ribbon Tax Structure Commission

The Legislature created the Tax Structure Commission, in 2009, and the results and recommendations of their work will be presented no later than February 1, 2011. The Commissioners have spent the past year-and-a-half reviewing the entire state tax system and developing recommendations. While there have been no final decisions, the Commission has been exploring four primary areas: 1) using federal AGI (adjusted gross income), instead of TI (taxable income), as the starting point for the personal income tax, limiting deductions, flattening and perhaps reducing the number of brackets and lowering the marginal income tax rates; 2) expanding the sales tax base to include services, with a business-to-business exemption and significantly lowering the tax rate; 3) considering a flatter corporate income tax; 4) exploring education finance options.

Upcoming Tax Changes

The “Bush” tax cuts are scheduled to expire at the end of 2010. Congress has yet to act to preserve, allow to expire, or modify the tax changes made 10 years ago. While the Vermont personal income tax is insulated from federal tax rate changes, some of the potential personal income tax changes may have a state revenue impact. In addition, changes made to the federal estate tax, to which the state estate tax is closely linked, may influence the direction of the Vermont estate tax. The Legislature will need to be kept abreast of federal tax legislation and its potential impact on state revenue. Finally, the ENVY Nuclear Power Plant pays several taxes to the state that would expire if the plant were to cease operations that the tax committees may review.