

# Vermont Legislative Joint Fiscal Office

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## *ISSUE BRIEF*

January 24, 2006

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### **Background Information on Education Fund Tax Components**

The passage of Act 60 (in 1997) created the Education Fund and raised numerous taxes to provide non-property tax support for education finance. These taxes included the meals and rooms tax, the corporate income tax rates, the bank franchise tax, telecommunications taxes, the tax on gasoline, and the purchase and use tax, among others.

A purchase and use tax of 5% and a gasoline tax of 15 cents per gallon were assessed prior to 1997 and 100% of these revenues were dedicated to the Transportation Fund. The Act 60 legislation increased the purchase and use tax to 6% and the gasoline tax to 19 cents per gallon, both effective August 1, 1997. In FY 1998 revenue from these tax sources was deposited into the newly created Education Fund roughly equivalent to the new revenue raised by the tax increases. Subsequent legislation (Act 71 of 1998) dedicated set percentages of these revenue sources to the Education Fund, one sixth of the purchase and use tax and 21% of the gas tax in FY 1999 and 16% thereafter.

This construction remained unchanged until the passage of Act 68 in 2003 with a restructuring and simplification of the non-property tax revenue sources dedicated to the Education Fund. The gasoline tax was redirected 100% to the Transportation Fund and one sixth dedication of the Purchase and Use Tax was increased to one third to the Education Fund. Along with redirecting the rental car revenue, adjusting the JTOC percentages and altering the general fund transfer to the Education Fund, this adjustment was intended to be revenue neutral.

On the following page are charts, showing the various non-property tax revenue sources to the Education Fund, the revenue from the gasoline tax and the purchase and use tax revenue prior to Act 60 and in the first 2 years of implementation. The second shows the redirection of funds between the General, Transportation and Education Funds for Act 68 simplification.

### Education Fund Tax Components[1]

<b>Tax</b>	<b>Act 60 Percentage in 2003</b>	<b>Act 68 Percentage</b>
Meals & Rooms Tax	20%	0%
Telecommunications Tax	100%	0% [2]
Bank Franchise Tax	58.3%	0%
Corporate Income Tax	19%	0%
Securities Registration Fees	100%	0%
Gasoline Tax	16%	0%
Purchase & Use Tax	1/6	1/3
Sales & Use Tax	N/A	1/3
Lottery	100%	100%
Interest	100%	100%

[1] There are other revenue sources, such as property tax, in the Education Fund

[2] Now included in the Sales & Use Tax

### Act 60 Transportation Fund and Education Fund Revenue

<b>Fiscal Year</b>	<b>FY 1997</b>	<b>FY 1998</b> (1 <sup>st</sup> year of EF)	<b>FY 1999</b> (Dedicated %)	<b>FY 2000</b>
<b>Gasoline Tax</b>	<b>\$47.3</b>	<b>\$59.1</b>	<b>\$61.3</b>	<b>\$62.1</b>
T-Fund	\$47.3	\$48.6	\$48.4	\$51.8
	100%	82.2%	79%	84%
E-Fund	\$0	\$10.5	\$12.9	\$10.3
	0%	17.8%	21%	16%
<b>Purchase &amp; Use</b>	<b>\$45.5</b>	<b>\$56.5</b>	<b>\$64.0</b>	<b>\$69.5</b>
T-Fund	\$45.5	\$48.0	\$53.3	\$57.9
	100%	85%	83%	83%
E-Fund	\$0	\$8.6	\$10.7	\$11.6
	0%	15%	17%	17%

\* percentages are rounded

[1] The gasoline tax increased from 15 to 19 cents per gallon on August 1, 1997.

[2] The purchase and use tax increased from 5% to 6% on August 1, 1997.

### Act 68 Education Fund Tax Simplification: T-Fund Components

<b>FY 2005</b>	<b>E-Fund</b>	<b>G-Fund</b>	<b>T-Fund</b>
2 <sup>nd</sup> Penny of P&U	\$14.1	-	(\$14.1)
Gasoline to TF	(\$11.1)	-	\$11.1
Rental Cars to TF (\$270k)	-	-	-
GF Transfer	(\$3.0)	\$3.0	-
JTOC Reduced from 20.5% to 19.0%	-	(\$3.2)	\$3.2
<b>NET</b>	-	(\$0.2)	\$0.2

