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H.538

SHORT FORM

Introduced by Representative Browning of Arlington

Referred to Committee on

Date:

Subject: Taxation; income taxes; statewide education tax; tax expenditures

Statement of purpose of bill as introduced: This bill proposes to make changes designed to (1) broaden Vermont’s personal income tax base by moving to a system based on adjusted gross income, eliminating federal pass-through deductions, and incorporating the value of employer-provided benefits in income; (2) remove current use, renter rebate, and income sensitivity adjustments from the Education Fund and lower property tax rates; (3) use most of the additional income tax revenue realized to create an income tax standard credit for most income levels to replace the income sensitivity adjustments and the renter rebate program; (4) finance the current use program from the General Fund with a portion of the resulting additional income tax revenue; and (5) cap the rate of growth of total Education Fund cost at the rate of inflation plus one percent.

(1) Presently, Vermont applies its personal income tax rates to a taxpayer’s federal taxable income. Vermont’s choice of this tax base represents a decision to include every itemized deduction allowed at the federal level,

1 subject to the current 2.5 times cap on certain itemized deductions at the State  
2 level. This decision also puts Vermont at odds with the greater number of  
3 states that base personal income taxes on federal adjusted gross income, which  
4 is the level of federal income calculations before itemized deductions are  
5 considered.

6 The bill proposes to change Vermont's personal income tax base from  
7 federal taxable income to federal adjusted gross income. The bill would also  
8 limit personal credits or exemptions to one standard credit along the lines of  
9 the recommendations of the Blue Ribbon Tax Structure Commission, plus a  
10 housing support credit at lower and middle income levels.

11 The bill also proposes to expand the personal income tax base by removing  
12 the tax-exempt status of certain employer-provided benefits, specifically the  
13 portion of health care benefits paid by an employer. The anomalous treatment  
14 of health care benefits is a largely unrecognized tax expenditure. Based on the  
15 work of the Blue Ribbon Tax Structure Commission, eliminating this tax  
16 expenditure could result in tens of millions of dollars in additional revenue.

17 (2) The majority of the additional revenue from broadening the personal  
18 income tax base in these two ways would be used to create the standard and  
19 housing credits. The standard credit would be the same for all income levels  
20 but vary with filing status. The housing credit would be provided at the low-  
21 and middle-income levels and vary with filing status.

