

Vermont Business Roundtable
Tax and Fiscal Policy Statement
December 17, 2009

The Vermont Business Roundtable represents CEOs from 100 of the most successful employers in the state. Member companies employ ten percent of the workforce in Vermont and generate \$136 billion in economic activity. Because the general welfare of the state is so important to the continued vitality of our business community and the current joint fiscal office's economic forecast for the state general fund budget is for deficits through 2013¹, we have issued this tax and fiscal policy statement.

In 2001 when Vermont was dealing with a revenue shortfall arising from federal income tax law changes, the Roundtable developed a position statement² and decision-making matrix for policymakers that identified characteristics to evaluate sound tax policy. We believe most of these characteristics should continue to be the foundation for assessing the state's current tax structure and revenue shortfalls. These characteristics include:

- Adequacy of revenues: insure that any tax raises the revenues needed to finance only the requirements for that specific tax
- Neutrality and competitiveness: all taxes distort economic activity of businesses and households, therefore taxes on those activities should be as low as possible
- Low cost: any tax should have a low cost for administration and compliance
- Exportability: state residents benefit if taxes are paid by non-residents, unless the tax paid by non-residents becomes overly burdensome when considering the value of service received by the non-resident
- Simplicity and transparency: Vermonters should be able to understand the true costs and benefits of their actions and decisions, particularly when items are taxed; what the actual tax rate is and what programs are funded by the tax revenues
- Stability: the tax rate should not vary a great deal from year to year and it should grow revenue over time

Our current fiscal policy has avoided deficits. However, our current spending levels and current revenue projections would lead to deficits if not changed. The full recovery from this recession will take many years. Finding lasting solutions will require bipartisan cooperation, strong executive and legislative leadership and a willingness by all stakeholders to discuss numerous options. Public engagement and understanding will be vital to finding such solutions. Many Vermonters are insulated or held harmless from the implications of voting decisions relative to taxes. This lack of personal investment leads to disconnects around sound tax policy and, consequently, people "vote to spend other people's money." It is imperative that every Vermonter understands consequences, both personal and societal, of voting for increased taxes. Ultimately, these debates are about more than simply numbers, they are about adhering to a policy of living within our means.

¹ VT Revenue and Budget Picture: Facing Vermont's Fiscal Challenges, November 17, 2009

² Vermont's State Income Tax in 2002: A Decision-making Framework, Vermont Business Roundtable, December 2001.

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Key Problems

Those of us who are privileged to live in Vermont understand that we pay a premium to do so. Healthcare is more expensive here than in other parts of the country, as is housing, education and the tax burden. We as a community have chosen to spend our dollars to support our public schools, to expand Medicaid eligibility, and to strengthen the social service safety net. These are laudable efforts, but we have long ago reached the point of unsustainability. Some important points need to be highlighted.

- On the revenue side, general fund revenues are declining and are now below 2005 levels. Personal income tax revenue made up forty-six percent of our total 2008 general fund budget and is projected to decline by twenty-two percent from 2009 to 2010 before it is estimated to rise again.³
- Our personal income rate is among the most progressively structured in the nation. Six percent of all tax filers in the state pay 51 percent of the total personal income tax collected.
- Vermont has the fifth highest overall tax burden in the U.S. and it represents 13.4 percent of personal income compared to, for example, New Hampshire at 9.1 percent.
- On the expenditure side, general fund spending is outpacing available revenues at least through 2013. Education and human services spending, in particular, have consumed increased levels of tax revenue at the expense of other important functions of state government (e.g., investments in transportation, telecommunications, technology deployment, and economic development). Vermont's state spending per capita is 16% above the New England average and 43% above the rest of the U.S.⁴
- Other fiscal obligations, namely state employee and teacher pensions and other post-retirement benefits (i.e., healthcare) stand at \$2.74 billion or \$11,386 for every Vermont household. This fiscal policy is clearly not sustainable.

General Policy Recommendations

In a state with limited resources, both human and financial, it is incumbent upon government and thought leaders to develop fiscal policies that maximize our fullest potential. The Roundtable believes that problems associated with our aging population and subsequent decline in tax revenues can be addressed by encouraging more people to become residents of the state. With carefully crafted tax policy, Vermont can realize favorable growth in both population and wealth creation for the state.

After thoughtful and informed consideration of all the policy alternatives, we support increasing tax revenues, producing a source of stable and reliable revenues, strengthening connectedness of voters to actual votes on taxes, keeping our tax rates competitive with other states in our region, reducing the complexity of the tax code and increasing transparency. Specifically, our legislature should enact tax policies that do the following:

³ VT Revenue and Budget Picture: Facing Vermont's Fiscal Challenges, November 17, 2009

⁴ Rich States, Poor States, American Legislative Exchange Council, 2009

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1. Help increase tax revenues

- a. Expand the base of sales and use tax.
- b. Entice high income earners such as business owners and investors to settle in Vermont through reduction of the top two personal income tax rates from 9.5 percent and 9.0 percent to 8.5 percent, with the intent to increase overall tax collection not decrease it.⁵

2. Produce a stable and reliable source of taxes

- a. Repeal of capital gains tax exemption elimination voted for in 2008⁶
- b. Reduce the over-reliance on a small number of high-income Vermonters for a large portion of our tax revenues (see 1b);⁷ by increasing the number of higher income taxpayers, we would actually spread that burden over a wider field.

3. Strengthen connectedness of voters to the actual vote on taxes

- a. Revisit Act 60 and 68 to make state aid more predictable and local votes on school budgets more transparent
- b. Eliminate income sensitivity for the value of any residence in excess of two times the median homestead value.

4. Keep tax rates competitive within our region

- a. Resist increases in any personal income tax rate/sales and use tax rate

5. Reduce complexity of the tax code

- a. Reduce the number of forms needed to be filed by all tax filers

⁵ The Tax Foundation ranks VT 41st out of 50 for individual income tax (and 44th for property tax). By moving VT away from the top tiers, we believe VT will no longer look like an anomaly.

⁶ Beginning in January, individuals will receive a 5 thousand dollar exemption - this means they'll pay taxes on remaining 95 thousand dollars. Lawmakers made the change to treat capital gains more like income. Last year, just 200 taxpayers accounted for 50% of all capital gains in Vermont - or roughly half a billion dollars. Source: VPR 11/24/09

⁷ The Tax Foundation ranks VT 41st in terms of personal income tax. Progressivity is still maintained, but the tiers are not so steep. ALEC report shows we are second highest in NE and extended Northeast, behind RI.

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Our legislature should also vote to moderate state spending and enact policies that:

1. Decrease state government spending by fifteen percent (15%) over two years by prioritizing programs and services it provides and eliminating those that do not serve a broad enough citizenry, or that do not produce successful outcomes
 - a. For example, mandate an outcome/accountability report from every agency and department in state government; the Pew Center on the States refers to "results-oriented budgeting"⁸.
2. Decrease education spending to no more than one hundred fifteen percent (115%) of the national average (for example, a reduction from \$13,471 to \$11,115 times 92,000 students would equal \$216,752,000 in savings).
 - a. For example, the Vermont median student teacher ratio is at eleven to one and well below the national median of sixteen to one. We would support bringing this ratio closer to the national average.
3. Adopt the forthcoming recommendations of the Pension Commission pertaining to sustainable changes in the structure of the state employees and teacher retirement programs:
 - a. For example, freeze the defined benefit plan enrollments and put in place a defined contribution plan; negotiate with unions to pay a higher contribution in retirement plans; give teacher pension/benefit costs back to the localities.
 - b. For other post-employment benefits (OPEB), raise the co-pay to forty percent; freeze/halt the benefit after a certain date, and introduce a new plan for new employees; change the retirement age to match that of Social Security insurance; reduce the state and teachers workforce.

Summary

At the end of the day, members of the Roundtable and businesses throughout Vermont are deeply committed to the state and its people. We have built our businesses here, have been recruited here, and hope to retire here. We want Vermont to recognize that our state cannot continue to spend at current levels, because this practice is unsustainable.

We must take drastic steps to restructure our government in the short-term in order to thrive in the long-term. The challenge as we know is not in the identification of bold ideas and innovative thinking. The challenge has been and continues to be the political will of our elected leadership to do the right thing; to create successful processes that lead to implementation of the bold ideas and innovative thinking.

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⁸ The ALEC report, "Rich States, Poor States" shows that Vermont has the highest per capita spending in N.E., and second highest in extended Northeast; well above the NE and US averages. This kind of pattern stresses the ability of a small number of taxpayers to continue supporting such largesse.