The next step in equitable education funding: Income-based taxes for all residents

Stephanie Yu
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An income-based system for all residents

- Eliminates the school property tax on all primary residences
- Taxes all Vermont residents based on ability to pay
- Creates a simple and easy to understand system for voters
How it would work

– All housesites are exempt from school property taxes.
– All residents pay school tax rate on AGI.
– All other property taxed at the uniform nonresidential rate.
– Individual town rates still determined by per-pupil education spending in that town.
– Renters pay town income rate, but receive credit for landlord’s school taxes paid through rent.
The Dark Ages: Before Act 60 of 1997

- Local property taxes raised + state aid
- Property-rich towns (ski resorts, lakes, big corporations, high-value homes) could spend more with a lower rate than property-poor towns

<table>
<thead>
<tr>
<th>Town</th>
<th>Per pupil spending</th>
<th>Tax rate</th>
<th>Equalized Pupils</th>
</tr>
</thead>
<tbody>
<tr>
<td>Addison</td>
<td>$5,241</td>
<td>$1.38</td>
<td>233</td>
</tr>
<tr>
<td>Dover</td>
<td>$7,968</td>
<td>$0.43</td>
<td>210</td>
</tr>
</tbody>
</table>
The main problem Act 60 was trying to solve: there was little correlation between taxes and spending.

Per pupil spending and equalized school property tax rates by town, FY1997.
Brigham v. State of Vermont

“To keep a democracy competitive and thriving, students must be afforded equal access to all that our educational system has to offer. (p. 14)”

“Children who live in property-poor districts and children who live in property-rich districts should be afforded a substantially equal opportunity to have access to similar educational revenues. (p. 15)”
Common Benefits Clause

Article 7. That government is, or ought to be, instituted for the common benefit, protection, and security of the people, nation, or community, and not for the particular emolument or advantage of any single person, family, or set of persons, who are a part only of that community; and that the community hath an indubitable, unalienable, and indefeasible right, to reform or alter government, in such manner as shall be, by that community, judged most conducive to the public weal.
The main problem Act 60 was trying to solve: there was little correlation between taxes and spending

Per pupil spending and equalized school property tax rates by town, FY1997
After Act 60:
Towns with the same spending per pupil have the same tax rates

Per pupil spending and equalized school property tax rates, by town, FY2018
Fairness for taxpayers
Same spending per pupil, same tax rates

**Town A**
- $12,245 per pupil
- 2.25% income rate
- $1.26 homestead rate

**Town C**
- $15,640 per pupil
- 2.88% income rate
- $1.61 homestead rate

**Town B**
- $12,245 per pupil
- 2.25% income rate
- $1.26 homestead rate

**Town D**
- $15,640 per pupil
- 2.88% income rate
- $1.61 homestead rate
We all have a stake in every child’s future

Before Act 60 ‘our kids’ meant the kids in our own town

Since Act 60 ‘our kids’ includes all the children in Vermont
Fairness for students  Equal access to educational resources

BEFORE ACT 60/68:
A student’s hometown tax base determined the resources available for their education

- $ LOCAL HOMEOWNER TAXES
  - A rural or bedroom community town like Walden or Topsham

- $ LOCAL HOMEOWNER TAXES
  - $ RETAIL AND SMALL MANUFACTURING TAXES
    - A commercial and industrial center like Rutland Town

- $ LOCAL HOMEOWNER TAXES
  - $ RETAIL TAXES
    - $ SECOND HOME TAXES
      - $ SKI RESORT TAXES
        - A ski town like Stowe or Killington

AFTER ACT 60/68:
All Vermont’s students have the same opportunity to access funding

- Homestead taxes top off the pot, but no town raises enough in homestead taxes to pay for its school.

- Non-residential taxes (retail, second homes, factories, stores, and ski resorts) are shared throughout the state
Remaining problems:
The system is skewed toward high-income Vermonters.
Those who pay based on property tend to pay a smaller share of income.
Remaining problems: two systems

2/3 of Vermonters pay homestead taxes based on income (Most have household incomes of $90,000 or less)

1/3 of Vermonters pay based on property value (Most have household incomes of $90,000 +)
Remaining problems:
Property value is not the best measure of ability to pay

• All taxes are paid out of income
• When income fluctuates, so should what you owe
• Property values can continue to rise when you lose your job or retire and move to a fixed income
Remaining problems: 
It’s complicated

For a voter to determine their tax bill before they vote on the school budget, they need to know:

1. Whether all of the income in their household was above or below $90,000 last year
   - if below, how much of their housesite value is above $400,000
   - if above, how much of their housesite value is above $225,000
2. Whether household income was above or below $47,000
3. Their homestead listed value
4. Their housesite listed value
5. The town’s Common Level of Appraisal
6. The equalized homestead property tax rate required for proposed budget
7. The income-based tax rate required for proposed budget
The Solution:
All Vermonters pay their fair share
The Solution:
Income for all: One system based on ability to pay

Taxes based on ability to pay

The way it is now

66%
2/3 of Vermonter pay homestead taxes based on income
(Most have household incomes of $90,000 or less)

33%
1/3 of Vermonter pay based on property value
(Most have household incomes of $90,000+)

The way of the future

100%
100% of Vermonter pay based on income
Household income: All

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The Solution: Simpler and easier to understand

From this:

For a voter to determine their tax bill before they vote on the school budget, they need to know:

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   • if below, how much of their housesite value is above $400,000
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3. Their homestead listed value
4. Their housesite listed value
5. The town’s Common Level of Appraisal
6. The equalized homestead property tax rate required for proposed budget
7. The income-based tax rate required for proposed budget

To this:

Taxpayer income x district tax rate = school tax bill
Five Principles of Vermont’s School Funding System

1. Local control
   - Local school boards develop budgets
   - District voters decide school budgets

2. Fairness for students
   - Equal access to educational resources
   - Before Act 60/68: A student’s hometown tax base determined the resources available for their education
     - $ Local Homeowner Taxes
       - A rural or bedroom community town like Walden or Topsham
     - $ Local Homeowner Taxes
       - A commercial and industrial center like Rutland Town
     - $ Retail and Small Manufacturing Taxes
     - A ski town like Stowe or Killington
   - After Act 60/68: All Vermont’s students have the same opportunity to access funding

3. Fairness for taxpayers
   - Same spending per pupil, same tax rates
   - Town A: $12,245 per pupil, 2.25% income rate, $1.26 homestead rate
   - Town B: $12,245 per pupil, 2.25% income rate, $1.26 homestead rate
   - Town C: $15,640 per pupil, 2.88% income rate, $1.61 homestead rate
   - Town D: $15,640 per pupil, 2.88% income rate, $1.61 homestead rate

4. Simplicity and transparency for citizens
   - There are tax consequences for spending decisions
   - The tax consequences are clear to the voter at the time of their vote

5. Taxes based on ability to pay
   - 2/3 of Vermonters pay homestead taxes based on income
     - Household income of $90,000 or less
   - 1/3 of Vermonters pay based on property value
     - Household income greater than $90,000
The next step for Vermont schools: Eliminate the school property tax on primary residences

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<tr>
<th></th>
<th>Before Act 60</th>
<th>Current system: Act 60/68</th>
<th>Income-based system</th>
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<tbody>
<tr>
<td>Local school districts set school budgets &amp; make school spending decisions</td>
<td>⬤</td>
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<tr>
<td>Weighted pupil count – recognizing the variable costs to educate different kids</td>
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<tr>
<td>Statewide education fund</td>
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<tr>
<td>Non-residential taxes shared statewide</td>
<td>⬤</td>
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<td>Towns with same per-pupil education spending have same tax rates</td>
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<td>Entirely eliminates school property tax on primary residence</td>
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<td>Eliminates the influence of local changes in home values on school tax rates</td>
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<tr>
<td>School tax payments spread out over the year</td>
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