To: Vermont Papers

From: Lee Webb

Re: Alternative Tax Strategies for Vermont State and Town Government

Date: March 18, 1975

I wanted to put down on paper for you some of the alternative tax strategies that are available to us in Vermont. Although all of these general approaches are applicable in other state and local governments, they tend to concentrate on the possibilities available to the predominantly rural states such as Vermont.

It is obvious that the alternatives presented below do not include caorporation income taxes, gross receipts taxes, severance taxes or others that are primarily collected from businesses. I think certainly that those taxes should be continued and increased, but I have concentrated on the taxes paid by individuals for a specific reason. All taxes are ultimately paid by individuals, even the corporation income tax, which is either a tax on stockholders, workers or consumers depending on the market positions of the companyconcerned. Thus the major question in tax policy is how individuals are taxed, not businesses.

In addition to the alternatives below, I recognize the need for other types of smaller taxes for the primary purpose of either encouraging or discouraging certain kinds of consumption(cigarette), economic activity (land speculation), or property holdings(a property tax) Other smaller taxes might be related to actual costs, such as toll type taxes or frontage on road improvements. Still other smaller taxes are helpful in fulfilling other social goals, such as land use, energy conservation, etc.

Finally, the laternatives below are primarily seen as both replacing the only slightly progressive state income tax and replacing the various sales and excise taxes that are highly regressive and total nearly 60% of the total state revenues.

The alternatives are as follows:

1. <u>State and municipally owned enterprises</u>. Although these are obviously not taxes, they are the best possible source of state and local revenue. Government in the United States has traditionally been prohibited from the ownership of productive and profit making assets. Local governments should be allowed to share in the dynamic and growing sector of capital accumulation which government expenditures underwrite in the form of infrastructure and social capital. Possible enterrises include transportation, electric and telephone utilities, cable TV, food retailing, housing and land development.

2. <u>A state income tax "piggybacked" on a progressive federal income tax.</u> The advantage of this system is that the administration and collection costs for state government are minimized by relying on forms and auditing already performed by the federal government. The problem, of course, is that the federal income tax must be made more progressive by the elimination of the many loopholes, particularly the ending of special treatment of realized capital gains, the lack of inclusion of unrealized capital gains in income, the exclusion of interest from state and local bonds, the exclusion of income in kind such as business expenses and entertainment.

3. <u>A state income tax piggybacked on a federal income tax on a progressive rather than a flat rate.</u> Although this would correct some of the weaknesses of the progressivity of the federal tax, by relying on income reported to the federal government for the tax base, it would still not reach those wealthy individuals who are able to report little taxable income to the federal government.

4. <u>A state income tax independent of the federal income tax.</u> This would certinaly increase the administrative costs of the tax, but would allow the state to establish clearly its own progressive characteristics as well as treat certain types of income in special ways in light of Vermont conditions.

5. <u>A local income tax-city or town-piggybacked on a independent progressive state income tax or a progressive federal income tax.</u> This would allow local governments to either eliminate the local property tax entirely or at least the costs of schools. It might also allow for a considerable expansion of local revnues and thus an increase in local services and programs.

6. <u>Local property taxes set a different rates depending on the type of property.</u> This method has been proposed already to lessen the tax burden on agricultural or open land, and could be extended to call for higher rates for commercial and industrial property than for residences.

7. Local property taxes set a different rates depending on the income of the person on the business owning the property. This is one of basic concepts in the Rockingham Plan. One of the major problems is its complexity and high administrative costs.

8. Local property taxes set a different and progressive rates depending on either the value of the asset taxed or on the acreage in the case of land. Property taxes in rural Australlia are based on this concept. For Vermont special provision would be required for operating farms.

9. Local property taxes of any type with a homestead exemption for the primary residence of a full time resident of the state. Many states and cities have similar systems. Its advantage is it's simplicity, but it also gives substantial tax relief to the wealthy owners of expensive homes.

10. Local capital gains tax at a very high rate on the difference between the original and sale value of land. Such a tax has the advantage of easy administrative costs and the social value of eliminating the profits of land speculation. The tax would have to take into account the effects of inflation on the original cost of the land and would also need to allow a certain minimum exemption to allow some incentive for the purchase and development of desireable land.

11. Local or state property transfer tax based on either a flat or progressive rate. Such a tax would be easy to administer and could include an exemption for the sale of homes by person who had maintained their primary residence in that house for a certain period.

12. A state wealth tax which would tax intangible personal property such as stocks, bonds, commercial paper, and savings accounts at either a flat or progressive rate. Such a tax should include a liberal exemption for savings accounts and U. S. Savings Bonds.

water, sewers, and other real estate oriented expenditures.

3. Higher Homestead Exemptions. Exempt the first $15,000 of the assessment of an owner-occupied home from property taxation.

4. Establish a Special High Property Tax for Holdings of More than 1,000 Acres

5. Repeal the Poll and Old-Age Taxes

6. Repeal Legislation Allowing "Tax Stabilization" contracts and exemptions for business and commercial property from property taxation.