

November 5, 2009

Blue Ribbon Tax Structure Committee
State House, Drawer 33
115 State Street
Montpelier, VT 05633-5201

Dear Committee Members:

We appreciate the time you allowed for members of the Lake Champlain Regional Chamber of Commerce, GBIC and the Southern Vermont Business Leadership Council to present recommendations for Vermont's tax structure, sustainability and economic competitiveness. Our businesses have recently sustained significant increases in costs due to increases in unemployment taxes, electric rates, health insurance, property taxes, fees, licenses, workers compensation and the minimum wage, followed by several substantive changes to Vermont's tax policy in the last legislative session that have created uncertainty for our future planning.

As a follow up to our testimony, we offer the following recommendations both from a comprehensive approach in addition to more specific tax policy suggestions:

Comprehensive Strategy

- State government must adopt best management practices used by the private sector to increase productivity and achieve efficiencies.
- Centralized information technology and management must be deployed.
- The core functions of government must be identified and prioritized with cuts made to nonessential programs and services.
- Strategic, rather than across the board cuts to government must be made and union contracts and employee benefit programs must be reevaluated and renegotiated to become more sustainable.
- Vermont's tax policy must be changed to broaden the tax base, i.e., more citizens paying more income, property and other state taxes, but we must not increase the burden on those who already pay a disproportionate amount of these taxes. We need more people and business generating more revenue.
- The current tax system must be changed such that every taxpayer has "skin in the game" to allow for better fiscal discipline in spending decisions. Income sensitivity and earned income tax credits must be reevaluated so that more of a connection is made between spending and taxation for all taxpayers.

- Vermont should adopt tax policies that more aggressively target both the retention of existing businesses and the relocation of out-of-state entrepreneurs, small business and clean, large employers to attract investment and create jobs.
- Educational spending must be reined in.

Specific Tax Policy Recommendations

INDIVIDUAL TAXES:

- a. The recent changes by the Legislature in capital gains exemptions, depreciation, the estate tax and deductibility of state income taxes enacted during the last year should be repealed to place Vermont in a more competitive tax structure to retain and attract wealth and to encourage the entrepreneurial risk taking that creates jobs and broadens the tax base.
- b. Compare the current system and rates based on federal taxable income to one similar to several other states which base their tax on federal adjusted gross income (AGI) as a starting point. Under either system, the goal would be to place Vermont in the middle of the pack for all states.
- c. If an AGI concept is adopted, we recommend that in addition to continuing the current adjustments for tax-exempt interest income and U.S. Government interest, there be an adjustment for contributions to Vermont charities.
- d. Consider re-coupling of Vermont's income tax with the federal tax system with the overall goals of restoring simplicity to Vermont's tax calculations, and tying Vermont tax and economic policy to that of the United States, thereby creating a unified policy instead of the current system which has numerous adjustments to arrive at the Vermont taxable income and thus partially negates federal tax policy initiatives.

CORPORATIONS:

- a. Current corporation tax rates of up to 8.5 % are applied to taxable income apportioned to Vermont, i.e. Vermont Source Taxable Income. This is based on the weighted average of four factors in Vermont versus elsewhere. (wages, property and sales-double weighted). Any shipments from a Vermont location to out-of-state customers are 'thrown back' to and taxed in Vermont unless they are shipped to a state where the Vermont company has nexus and files a return there. We recommend that the corporate apportionment factor be changed to mirror New York, which now uses a single double weighted sales factor without a throwback rule.
- b. Evaluate the corporate income tax and the unitary corporate law and make changes that would encourage corporate investment and create jobs in Vermont. If Vermont were to become competitive in regards to corporate tax policy, more companies would site their profit centers here rather than establishing nexus in lower tax states.
- c. Other than the VEGI program and a few solar/energy credit projects and the recently enacted research and development credit, there are not many tax benefits for a broader group of businesses to invest in Vermont versus other states. For example, federal accelerated bonus depreciation passed to help get us out of the recession- is a disallowed add back in Vermont. We suggest Vermont reverse its position on bonus depreciation and/or establish an investment tax credit for qualified new investment in property, plant

and equipment in Vermont. We also recommend changing the tax statute (Title 32) to exempt the VEGI incentive payment received from income and adding language that exempts it for corporations and individuals.

We appreciate the challenge before the Legislature and are willing to assist with efforts to make our state government more sustainable, prosperous and for all Vermonters.

Sincerely,

Lake Champlain Regional Chamber of Commerce/GBIC
Tax and Fiscal Policy Study Committee 2009