Top Story: Did Vermonters Vote for No New Taxes, or a Boatload of New Taxes in the Last Election?

I (and the legislature) am confused….

Last November legislators claimed to have heard the cries of Vermonters who are taxed too much. The number one issue on the campaign trail was high property taxes. Yet here we are, less than six month away from the day Peter Shumlin woke up to find himself nearly taken out by an underfunded, neophyte to politics, and….

THE BIG HITS

Property Taxes: Rather than lower property taxes, the House voted to hold level the homestead rate and raise the non-homestead rate by a penny for a total $16 million increase. However, in order to keep the rates at this level, the House had to use $11.5 million in reserve funds that will at some point need to be replaced. Adding insult to injury, the “reform” efforts pursued by the legislature center on providing financial incentives to communities to consolidate into larger, ostensibly more efficient school districts. Where will the money for those incentives come from? Property taxes! And will consolidated districts lower costs? The evidence points to No!

Income Taxes: The House is looking to raise roughly $33.2 million in new income tax revenue by capping itemized deductions on the state income tax at $15,000 for individuals and $31,000 for couples, and disallowing deductions for state and local taxes from the previous year. The senate really wants to make things complicated by changing the state's taxable income system to adjusted gross income, replacing itemized state income tax charitable deductions with a charitable tax credit for donations made within the state of Vermont, and disallowing the deduction of out-of-state deductions. The mortgage interest deduction for homeowners would be capped at $12,000. We’ll see what happens.

Payroll Taxes. As part of his budget address Governor Shumlin proposed a 0.7% payroll tax that would take roughly $90 million. This idea was not popular in the legislature, was first cut down to a 0.3% payroll tax increase before being tossed out completely. It has appeared dead for some weeks now, but in the waning weeks of the session, the governor is trying to breathe life back into it.

DEATH BY A THOUSAND CUTS INCREASES
Sugar Sweetened Beverage Tax. Adopting a 2¢ per ounce (total of over $30 million) excise tax on sugar-sweetened beverages (for our health and, of course, the children) was a popular notion at the beginning of the session, but strong opposition has morphed and changed it considerably, but not enough to make it disappear. It went from 2¢ to ½ a cent per ounce on ALL sweetened beverages (sugar or no sugar), and now it looks like legislators are just talking about extending the state sales tax of 6% to cover sweetened beverages, including bottled water (which we all know is responsible for the obesity epidemic and the moral justification for this tax, right?)

Candy & Vitamin Tax. In addition to sweetened beverages, and bottled water, the plan calls for candy to be subject to the 6% sales tax (unless made with flour, so go for those exempt Twix and Kit Kat bars!), as well as dietary supplements. This, along with the sales tax on soda, would take $12 - $14 million out of Vermonters’ pockets.

Vending Machine Taxes: They want to apply the state’s 9% rooms and meals tax to the snacks you get out of a vending machine. Talk about nicked and dimed!

Satellite TV Tax. Back by popular demand (not!) the senate has resurrected at the eleventh hour the idea of a $5 million tax increase on Vermont’s roughly 100,000 satellite television users. This died a quick death when discussed two years ago. Hopefully the same fate awaits it now.

Cigarette/Tobacco Tax. In what has become an annual tax raising ritual, the House wants to raise cigarette and other tobacco taxes by 23¢, and the Senate wants to raise them another $1.00. This gives you a good idea about how a similar sin tax on soda and/or candy would grow over time.

Insurance Claims Tax. Weren’t we trying to lower the cost of insurance? Anyway… some senators are now pushing for a 0.9% tax on health insurance claims. In addition, they would increase the “employer assessment” on businesses that do not offer health insurance by $10 million.

Property Transfer Tax. To pay for lake clean up the House approved 0.2% surcharge to the property transfer tax, as well as adding a number of additional fees. The total take for the government is about $8 million.

Mandatory Paid Sick Leave. Though technically not a tax, this unfunded mandate passed by the House forcing businesses to provide paid sick leave to employees will cost mostly small, marginally profitable enterprises up to $14 million a year.

NOT READY FOR PRIME TIME, BUT….

Two ideas appear dead for this year, but the groundwork is being laid for passage in 2016. They are…

Carbon Tax. A coalition led by VPIRG is calling for an eventual $700 million Carbon Tax which would lead to a surcharge of $1.35 on each gallon of gasoline, with similar
charges attached to home heating fuel, etc.

Rep. Mike Hebert (R-Vernon) of the House Energy & Natural Resources Committee explained, “What we’re doing right now is laying the groundwork for next year. I think we will see a Carbon Tax bill next year.”

According to Hebert, proponents of the tax who testified before the committee did not look into the impact of such a tax on employment in Vermont. “We asked basic questions, like how many gallons of diesel [fuel] are used on farms,” said Hebert. “They had no clue.” Hebert looked up the data for himself and found that the number is about 7 million gallons per year. “So, that would mean somewhere between $6.3 million and $7 million on our farmers.” That number was just for farm work, and did not include transportation or other uses.

Rep. Tom Burditt (R-Rutland) described what this tax would mean for his small landscaping business. According to Burditt, he uses roughly 2500 gallons of gasoline per year. The tax would mean $2500 coming directly out of his pocket. In addition, Burditt said that he used 700-800 gallons of fuel oil for heat. The total carbon tax hit on his income would be well over $3000.

Sales Tax on Services.

Senator Tim Ashe (D/P-Chittenden) is leading the charge to expand Vermont’s 6% sales tax to services, lowering the overall rate to 4.75% (at least initially). This idea was championed by Speaker of the House Shap Smith (D-Morristown) in 2012, so Ashe may have a powerful ally in the House.

Though the idea is dead for now, Ashe has promised to bring it back next year. For more, read John McClaughry’s excellent commentary…..

Commentary:
The Latest Big Idea In Montpelier: Taxing Services

By John McClaughry

On April 15 the Democratic/Progressive chair of the Senate Finance Committee, Sen. Tim Ashe, lamented the difficult time the legislature is having trying to fill a $113 million General Fund budget gap. Some believe that the state is spending beyond its taxpayers’ means, but Ashe sees it differently. There’s not enough revenue! And there won’t be enough revenue for the next two fiscal years either!

But wait! There’s a nifty solution! Just extend the retail sales and use tax to services!

There are some economic arguments for doing this. For example, taxing consumption is generally better than taxing production, and a broader sales tax is less volatile than a narrow one. However the current push by Sen. Ashe is clearly motivated by the need of liberal legislators to find new tax dollars to pay for spending increases. As
the liberal Center for Budget and Policy Priorities has pointed out, “taxing additional services can generate substantial new sales tax revenue.”

How would a sales tax on services work? First the legislature would have to decide which of 164 different services are to be taxed, and which are to be exempted. (This will be a guaranteed full employment plan for lobbyists.)

It’s generally agreed that “business to business” services – such as a lawyer drafting a contract for a manufacturer – ought not to be taxed. But lawyers performing services to non-businesses, like defending someone charged with a crime, wouldn’t qualify for that exemption.

Certain specific entertainment services are already taxed, like ski lift tickets and movie admissions. There are probably not enough votes to tax the services provided by doctors, dentists, psychologists, home health and day care workers, pastoral counselors, tutors, and funeral parlors.

What’s left? Here’s a partial list: barbers, cosmetologists, cab drivers, electricians, plumbers, painters, carpenters, truckers, butchers, architects, lawyers, auto and truck mechanics, small engine repair, excavators, seamstresses, veterinarians, advertising services, computer repair, gunsmiths, custom farm and garden services, snow plowers, tattoo artists, musicians, and many others.

All of these, faced by a sales tax on services, would face a daunting record-keeping problem, and the prospect of heavy handed state tax audits based on the principle of “guilty until proven innocent.” Worse yet, putting a 6% tax on services would motivate lots of people to purchase those services from another state, such as New Hampshire.

Economists agree that sales taxes are regressive. Liberals would insist that broadening the sales tax to include services purchased by lower income families requires “targeted credits” or “rebates to protect the poor.” Of course these credits and rebates eat into the revenue.

The sales tax on services advocates invariably put forth the idea that broadening the sales tax might allow dropping the present 6% sales tax rate to 5% or 4.5%. This is a pathetically hollow argument.

Reducing the sales and use tax rate depends on how much new revenue can be swept in from taxing a broad range of services. Every politically-won exemption reduces the projected revenue and, since the whole idea is to extract more revenue, that requires pushing the rate back up again.

Vermont’s original sales tax law of 1969 imposed a three percent rate, exempted food, and offered a rebate to low income families. In 1982 the rate was raised to 4% and the low income rebate had disappeared. In 1991 the rate went up to 5%, to sunset in mid-1993.

When the sunset date came, the 5% went back to 4%. A month later Gov. Dean called a special session, which pushed the sunset date ahead to 1995. When that date came it was advanced to 1996, and a year later to 1997. In that year Senate leader Peter Shumlin presided over repeal of the sunset forever, leaving the rate at 5%. In 2003 Gov. Douglas agreed to another increase, to 6%.

This makes a crucial point: once a tax is on the books, legislators can always nudge the rate up, and further broaden the base to affect more taxpayers, without facing a public uproar.

The leftist “Fight Back” coalition has urgently demanded that the legislature raise more revenue to prevent any cutbacks in state spending or employment. Sen. Ashe may
think extending the sales tax to services is a brilliant solution. But politically, it’s not. He might want to go back and read the partial list of service providers above, and ponder his political future before going further down this road.

- John McClaughry is vice president of the Ethan Allen Institute (www.ethanallen.org).

Commentary:
Time to Bring Climate Change Debate to the Next Level

By Rob Roper

It is safe to say that all or at least most of us believe that Vermont is a very special place, and we all want to do what’s necessary to preserve and pass on this unique treasure that both draws and keeps us here – majestic mountains, pristine waters, and wild, open spaces. The question is, what is the best policy for doing so.

On April 15, the State Senate passed a resolution declaring:

*That the Senate of the State of Vermont recognizes that climate change is real, that human activities make a substantive contribution to climate change, and that it is imperative Vermont take steps now to reduce its reliance on fossil fuels in order to promote energy independence and meet the State’s statutory goals for reduced greenhouse gas emissions....*

These statutory goals mean putting Vermont on a path toward getting 90 percent of our energy, including that for home heating and transportation, from renewable, preferably local sources by 2050. This sounds all well and good until one considers the cost, and we’re not talking about money. The policy of generating so much electricity from wind and solar plants will require developing thousands of acres of Vermont’s pristine landscape for industrial energy production. This will have profoundly negative effects on both the aesthetics and the ecology of the Green Mountain State.

It’s time to bring the climate change debate beyond whether or not the phenomenon exists (the useless quibbling between “deniers” and “alarmists”), and to start seriously discussing in concrete, realistic terms the costs and benefits of specific proposed policies. In other words, if we embark on transitioning to a largely renewable, locally produced energy portfolio, what will the net impact be on our ecosystem both in the short and long term.

Let’s assume for the moment that the most dire climate change predictions are true: human activity is a big factor, and temperatures could rise as much as 4 degrees by the end of the century.

So, if we develop all of Vermont’s usable ridge lines with industrial wind turbines, and develop thousands of acres of pasture land with industrial solar plants, will that have any impact on global climate trends either directly or indirectly? Will this effort and expense be relevant in preserving our own ski or maple sugaring industries, for example, over the next eight decades? Will it prevent the next Irene from happening? The honest answer to all these questions is no.
So, why are we doing this?

Some will argue that while Vermont’s efforts are by themselves futile, we should serve as an example to others. Okay. But, then we have to ask how much of an influence would Vermont’s example have to have to impact global climate trends? If a couple of New England states follow us, would that make a difference? What about the East Coast? Or the Entire United States? The honest answer is, even if the entire world did its best to follow Vermont, the impact by 2100 would be negligible to the point of unnoticeable. And, realistically, what are the odds China and India or even Texas are going to take a cue from Vermont any time soon?

We do know, however, that developing the kind of land intensive energy sources our current policy path calls for will negatively impact our ridge line ecosystems through the construction of industrial wind turbines. Birds and bats will be killed, including endangered species. Thousands of acres of solar panels will disrupt animal habitats, ironically, making it harder for some species to adapt to climate change. And, of course, we will be sacrificing to a great extent the singular beauty of Vermont.

Is this really what we want to do?

A recent article in the New Yorker by environmental conservationist Jonathan Franzen, Carbon Capture: Has climate change made it harder for people to care about conservation, makes several interesting points on this topic, but this one sums it up neatly:

“We can dam every river and blight every landscape with biofuel agriculture, solar farms, and wind turbines, to buy some extra years of moderated warming. Or we can settle for a shorter life of higher quality, protecting the areas where wild animals and plants are hanging on, at the cost of slightly hastening the human catastrophe.

Is it worth wiping out wildlife species, habitats, and landscapes today if the end result is an earth is three point nine degrees warmer a hundred years from now instead of four?

We can use our resources to make genuine progress in preserving our mountain tops, cleaning our lakes and waterways, maintaining open spaces, and saving our wildlife, or we can sacrifice all this to no real effect whatsoever. Plan A makes more sense.

- Rob Roper is president of the Ethan Allen Institute.

Commentary: Time for Facts About Vermont Health Connect

By Wendy Wilton

The 2015 Doyle poll and others leading up to the 2014 election indicated the majority of Vermonters were stretched to their tax limit for property and income taxes. The gubernatorial race was evidence of this outrage.

In the last two weeks the majority of legislators in the Vermont House voted to ignore the concerns of their constituents and went on a taxation spree. This action is inexplicable given the financial predicament of the state due to shrinking revenues and soft economic growth. It appears the consensus and camaraderie of their committee
meant more to them than the fiscal future of the state and its people.

The majority in the House passed or is likely to pass a collection of bills increasing taxes $130 million mainly on the middle class. These tax increases come from a new tax bill (H.489), increases in education spending, environmental taxes, increased fees, a sugar-sweetened beverage tax, and a big increase to the general fund budget which will mean higher income taxes.

The appropriation bill (H.490) increases state spending by $68 million, or 4.8%--well beyond the economic growth rate. Worse, this budget has $24 million in one-time funds baked-in to shore up this budget increase, which will need to be found in future years. This is a pattern the governor and legislature have repeated for several years which is how we got into this jam.

If the Senate agrees, the proposals will increase income taxes on middle income Vermonters by nearly 10%, according to former Tax Commissioner Tom Pelham’s analysis, not including property taxes. The number of ‘wealthy’ Vermont taxpayers is relatively small and insufficient to carry this burden—debunking the myth that taxing the rich is a solution. Vermont’s middle-incomers are closing in on their retirement years and will be making choices about where retirement will be sustainable. Will it be here?

The legislature must consider the impacts of these decisions not just for this year but for the years ensuing. Find out how your legislators voted at ethanallen.org under Roll Calls. They must be held accountable for these actions by expressing your outrage to them individually.

- Wendy Wilton, is treasurer for the City of Rutland, and a member of the Ethan Allen Institute board of directors.

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**Roll Call Votes**

**House Votes for $16 Million Property Tax Increase, Mandates for School District Consolidation.** (88-55), April 1, 2015. [Click to see you your representative(s) voted.](#)

**House Approves $12 Million In New Taxes on Candy, Sweetened Beverages, Vending Machines & Tobacco (78-62),** 2015. [Click to see you your representative(s) voted.](#)

**House Raises $8 Million in New Taxes for Lake Clean Up (40-100),** April 1, 2015. [Click to see how your representative(s) voted.](#)

**House Mandates Businesses Pay $14 Million for Paid Sick Leave (76-66),** April 22, 2015. [Click to see how your representative(s) voted.](#)

**House Blocks Ban on Teachers’ Strikes (70-73),** April 8, 2015. [Click to see how your representative(s) voted.](#)

**House Passes New Gun Control Regulations on Felons, Mentally Ill (80-62),** 2015. [Click to see how your representative(s) voted.](#)
House Blocks Repeal of Physician Assisted Suicide Law (60-83), April 29, 2015. Click to see how your representative(s) voted.

Senate Resolves to “Take Steps Now” on Climate Change (25-5), April 15, 2015. Click to see how your senator(s) voted.

Senate Says No To Sales Tax Holiday (9-21), April 10, 2015. Click to see how your representative(s) voted.

Senate Blocks Photo ID Requirement for Election Day Voter Registration (7-21), April 1, 2015. Click to see how your senator(s) voted.

Please Help Us Hold Montpelier Accountable! Make a Contribution to EAI today.

Thanks to all who have already made a donation to our 2015 campaign! For those who haven't yet, please help us fight all the potential taxes mentioned above and other encroachments on our liberty. Be generous. We're only as strong as you make us. Thanks!

Ethan Allen Intstitute
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News & Views

Jobs Report: According to the latest from the Bureau of Labor Statistics, March numbers showed a slight improvement over February. While the total labor force continued to decline from 348,500 to 348,200, the number of employed Vermonters rose from 334,700 to 335,000. The unemployed dropped from 13,700 to 13,200 and the unemployment rate fell from 3.9 to 3.8%.

Vermont #49! “Only New York is worse than Vermont when it comes to tax and regulatory policies that foster economic growth, according to a new report on economic competitiveness between states. According to the eighth annual Rich States, Poor States, Vermont is 49th out of 50 states on economic outlook due to the state’s ratings on 15 different variables, including tax rates, labor policies and overall regulatory burden.” – Vermont Watchdog, (4/9/15)
Second Amendment Watch: “The gun bill passed out of my committee yesterday, 7-4, in spite of my objections. They claim it protects people, but it's just gun control, the first step in taking away our second amendment rights. The bill is invasive, unnecessary, and unconstitutional, but they seemed determined to pass it anyway, with out-of-state money coming in to pass this legislation in Vermont.” – Rep. Vicki Strong (R-Albany)

Heading South: “A study by the Fraser Institute (British Columbia) found that more than 52,000 Canadians left the country to obtain non-emergency medical treatment in 2014, a 26% increase compared with 2013.” (AAPS April 2015)

Shumlin Opposes Extending Sales Tax to Services (at least for now): 'Every time we do, it's a huge gift to the state of New Hampshire,' Shumlin said in an interview on Vermont Edition Friday. “I've got nothing against New Hampshire, but I don't particularly want to drive their economic development. We've watched our retail cross over the river to New Hampshire, and they're booming on the other side of the river. And it's really hurting our downtowns in Vermont on the eastern side. My fear of that proposal is that first of all, they'll expand it, and then the next time they need revenue they'll say, ‘Look, it's only three-and-a-half percent now, but we could raise it to four-and-a-half percent and solve all these problems.’ And then five-and-a-half percent and then you'll be back at six. So I'm not enthusiastic about it.’” (VPR 4/25/15)

Well, If Scientists Are Saying It… As they review the bizarre and unpredictable weather pattern of the past several years, a growing number of scientists are beginning to suspect that many seemingly contradictory meteorological fluctuations are actually part of a global climatic upheaval. However widely the weather varies from place to place and time to time, when meteorologists take an average of temperatures around the globe they find that the atmosphere has been growing gradually cooler for the past three decades. The trend shows no indication of reversing. Climatological Cassandras are becoming increasingly apprehensive, for the weather aberrations they are studying may be the harbinger of another ice age. Telltale signs are everywhere—from the unexpected persistence and thickness of pack ice in the waters around Iceland to the southward migration of a warmth-loving creature like the armadillo from the Midwest. Since the 1940s the mean global temperature has dropped about 2.7° F. Although that figure is at best an estimate, it is supported by other convincing data.” - Time Magazine, June 24, 1974

The Renewable Promise: “Altogether, renewable energy sources—including wind, solar, hydropower, geothermal and biomass—generate one-tenth of the energy Americans demand. Without fossil fuels to fill that 90% gap, the economy would collapse, commodity supplies would dwindle, jobs would disappear, and households would remain cold, dark and haunted by hunger.” – Donald Boudreaux, (WSJ 3/28/15

Shumlin on Local Control: “I am a strong supporter of local control. I firmly believe that we in Montpelier should never live under the illusion that we should decide which schools stay open and which schools consolidate.” (Budget message, 1/12/14)

Vermont Yankee Compared: “Hoover Dam’s generation capacity is 2100 MWe, or was
until drought-lowered water levels forced downgrade to 1600 MWe. It’s used primarily for load balancing California nuclear and regional coal; for all the mighty Colorado, Hoover’s plant capacity factor is just 24%, and 24% of 2100 MWe is but 500 MWe…. Vermont Yankee is was 620 MWe, 87% lifetime capacity factor for 537 MW average, handily beating Hoover.” – Meredith Angwin, (EAI Energy Education project, 4/25/15)

**Funny Because It’s True.** “When I saw the recent claim that 97% of climate scientists endorse the theory of catastrophic man-made global warming, it struck me that this is the same margin by which dictators typically claim they have won re-election—and for the same reason. These are both systems in which voting for the “wrong” result is not tolerated.” - Robert Tracinski, in The Federalist http://thefederalist.com/2014/02/26/the-original-sin-of-global-warming/

**Crazy (Horse).** The federal government, which has “Tomahawk” cruise missiles and "Apache," "Blackhawk," 'Kiowa" and "Lakota" helicopters - and used the code name "Geronimo" in the attack that killed Osama bin Laden -- officially objects to the name of the Washington Redskins. – Unknown.

**The Mentality!** Rep. Tristan Toleno (D-Brattleboro) on the endless appetite of legislators: "I’ve been too cheap to buy my own snacks, so I go to different committee rooms…. It’s amazing how we deplete the snacks, and they just keep getting replenished." (BFP, 4/8/15). Kind of the perfect metaphor for how they spend our money, isn’t it? No idea where it comes from; no sense of responsibility for how it’s consumed.

**Jefferson Day Report:** EAI’s John McClaughry presented “Thomas Jefferson’s Legacy to America’s Youth of Today” to three history classes at Burr & Burton Academy, Manchester, on April 20. It was EAI’s 22nd Jefferson Day observance.

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**Book of the Month**

**The Rational Optimist: How Prosperity Evolves**

By Matt Ridley

Harper Collins UK, 2011, (364 pp.)

The Economist (UK) cited this book by Matt Ridley as “best book of the year”, and they were right on the mark.

Matt Ridley is an Oxford PhD (zoology) and the author of half a dozen well received popular books on scientific topics. This latest work focuses on how human societies get more competent, more comfortable and above all more prosperous through the workings of the evolutionary processes within their societies.

Copiously footnoted yet understandably written, *The Rational Optimist* starts by explaining how the uniquely human practices of exchange, specialization, trust and rule-making efficiently create new wealth. Ridley builds upon Adam Smith and Charles Darwin “to interpret human society as the product of a long history of…”’bubble up’ evolution through natural selection among cultural rather than genetic variations, and as
an emergent order generated by an invisible hand of individual transactions, not the product of a top down determinism.”

Exchange, barter, trade, communication – these practices starting in Africa around a hundred thousand years ago “gave the species an external collective intelligence far greater than anything it could hold in its admittedly capacious brain.” Ridley emphasizes the crucial role of rules governing acquisition, protection and exchange of private property as essential to human progress.

An especial triumph of the species was its mastery of energy conversion. Coal, almost limitless in supply, was the great breakthrough. It produced first industrial steam power, locomotive power, and then electric power. Intermittent renewables can’t really replace coal, for the moment. Wind power, he observes, “requires a regressive transfer from ordinary working people to rent seeking rich landowners and businesses; as a rule of thumb, a wind turbine generates more value in subsidy than it does in electricity.” The next energy age will be dominated not by intermittent low-density wind and solar, but by steady, high density nuclear.

On climate change, Ridley describes himself as a “lukewarmer.” After reviewing the science, he concludes that “the probability of rapid and severe climate change is small; the probability that no adaptation will occur is small; and the probability of no new low-carbon energy technologies emerging in the long run is small.”

That is only a brief sampler. The Rational Optimist is a book worth reading twice, and marking key insights. The central one is that human ingenuity and the collective genius of us humans, within a framework of facilitating rules and beckoning opportunity, is the key to a happier and more prosperous future for the people of the planet. Amen.

- Review by John McIcaughry, founder and vice president of the Ethan Allen Institute.

The Final Word

May Survey: Sales Tax on Services?

Should Vermont expand the 6% sales tax to cover services (such as Child Care, Automotive Repair, Information Technology, Web/Graphic design, Home Maintenance, Plow Services, Construction/Carpentry, Barbers/Hairdressers, Real Estate, Accounting, Legal Services, Cleaning Services, Landscaping, Electricians, Plumbing & Heating, etc.) and lower the rate to 4.75%?

CLICK HERE TO TAKE THE SURVEY

Comments will be made available to legislators. Respondents will remain anonymous, so please take a moment to leave a civil comment!

Results of the April Survey: