



# Vermont Taxes Poor and Middle-Income Families More than the Wealthy

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Low- and middle-income families in Vermont pay more of their income in state and local taxes than do the richest families in Vermont, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “When it comes to paying for services, Vermont has a moderately fair tax system.”

## Vermont’s Tax Code: No Breaks for the Poor and Middle Class

When all Vermont taxes are totaled up, the study found that:

- The richest Vermont taxpayers—with average incomes of \$686,000—pay 9.7% of their income in Vermont state and local taxes before accounting for the tax savings from federal itemized deductions. After the federal offset, they pay only 7.1%.
- Middle-income taxpayers in Vermont—those earning between \$27,000 and \$44,000—pay 9.8% of their income in Vermont state and local taxes before the federal deduction offset and 9.5% after the offset—much more than what the rich pay.
- Vermont families earning less than \$16,000—the poorest fifth of Vermont non-elderly taxpayers—pay 10% of their income in Vermont state and local taxes, one and half times the share the wealthiest Vermonters pay.

“Vermont’s income tax is not progressive enough to offset the regressivity of its sales and excise taxes,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Vermont.”

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## Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of Vermont taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Taxes rose in Vermont as shares of income, but by far the largest tax hikes fell on the poorest fifth of Vermont's families.
- Vermont's adoption of a refundable earned-income tax credit was laudable, but failed to offset rising consumption taxes and property taxes on poor Vermonters.

"While Vermont lawmakers did well to adopt an Earned Income Tax Credit, this change wasn't enough to prevent the overall tax system from becoming even more regressive," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers."

### **Two pages of tables detailing the Vermont findings of the study follow**

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

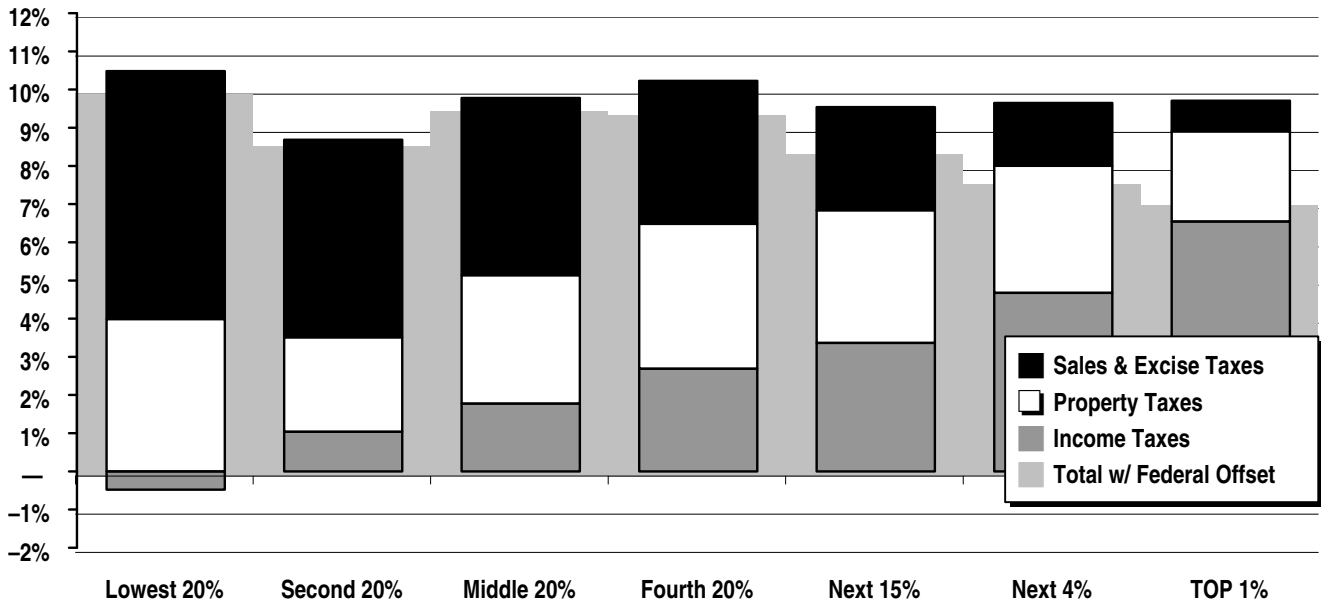
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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# Vermont

## State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
<b>Income Range</b>	Less than \$16,000	\$16,000 – \$27,000	\$27,000 – \$44,000	\$44,000 – \$68,000	\$68,000 – \$122,000	\$122,000 – \$260,000	\$260,000 or more
<b>Average Income in Group</b>	\$9,200	\$21,200	\$35,800	\$55,100	\$87,900	\$171,600	\$686,200
<b>Sales &amp; Excise Taxes</b>	<b>6.5%</b>	<b>5.2%</b>	<b>4.6%</b>	<b>3.7%</b>	<b>2.7%</b>	<b>1.6%</b>	<b>0.8%</b>
General Sales—Individuals	2.0%	2.1%	2.1%	1.8%	1.3%	0.8%	0.4%
Other Sales & Excise—Ind.	3.3%	2.0%	1.6%	1.3%	0.9%	0.6%	0.2%
Sales & Excise on Business	1.2%	1.0%	0.9%	0.7%	0.5%	0.3%	0.2%
<b>Property Taxes</b>	<b>4.0%</b>	<b>2.5%</b>	<b>3.4%</b>	<b>3.8%</b>	<b>3.5%</b>	<b>3.3%</b>	<b>2.4%</b>
Property Taxes on Families	3.7%	2.3%	3.1%	3.4%	2.9%	2.7%	1.0%
Other Property Taxes	0.3%	0.2%	0.2%	0.4%	0.6%	0.7%	1.3%
<b>Income Taxes</b>	<b>-0.5%</b>	<b>1.0%</b>	<b>1.8%</b>	<b>2.7%</b>	<b>3.4%</b>	<b>4.7%</b>	<b>6.5%</b>
Personal Income Tax	-0.5%	1.0%	1.8%	2.7%	3.3%	4.6%	6.4%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
<b>TOTAL TAXES</b>	<b>10.0%</b>	<b>8.7%</b>	<b>9.8%</b>	<b>10.2%</b>	<b>9.5%</b>	<b>9.6%</b>	<b>9.7%</b>
<b>Federal Deduction Offset</b>	<b>-0.0%</b>	<b>-0.0%</b>	<b>-0.2%</b>	<b>-0.8%</b>	<b>-1.1%</b>	<b>-2.0%</b>	<b>-2.6%</b>
<b>TOTAL AFTER OFFSET</b>	<b>10.0%</b>	<b>8.6%</b>	<b>9.5%</b>	<b>9.5%</b>	<b>8.4%</b>	<b>7.6%</b>	<b>7.1%</b>

Note: Table shows 2002 tax law at 2000 income levels.

# Vermont Tax Trends

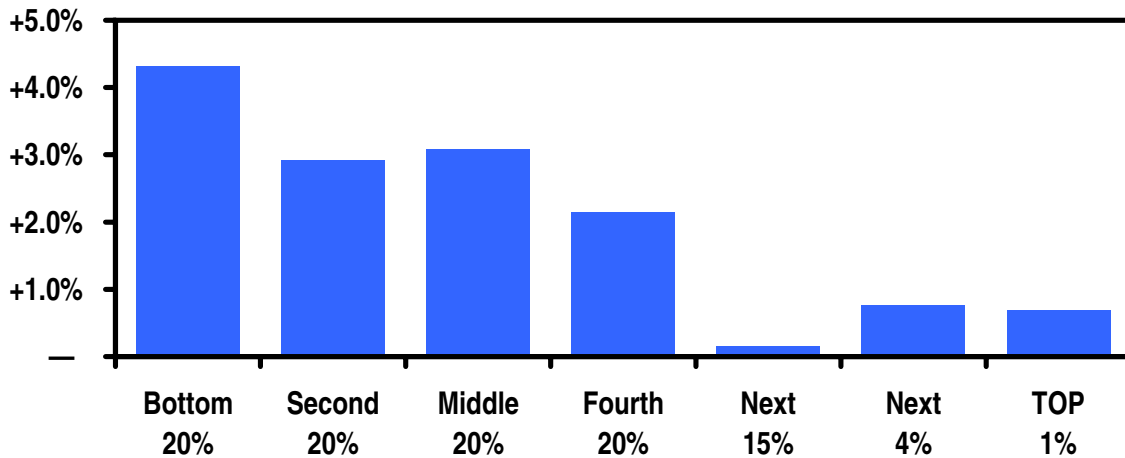
## Progressive Features

- ✓ Income tax based on federal rates
- ✓ Below-average consumption tax reliance
- ✓ Property tax circuit breaker

## Regressive Features

- ✗ Relatively high cigarette tax

## Changes in Taxes as Shares of Income, 1989 – 2002

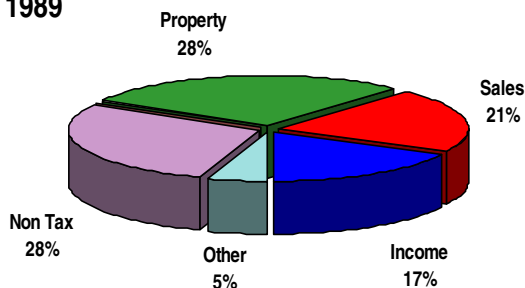


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+2.2%	+1.1%	+0.9%	+0.7%	+0.5%	+0.3%	+0.1%
Property	+1.7%	+0.3%	+0.8%	+0.5%	-0.8%	-0.0%	+0.0%
Income	+0.4%	+1.5%	+1.6%	+1.3%	+0.6%	+0.8%	+1.4%
Federal Offset	-0.0%	-0.0%	-0.2%	-0.4%	-0.1%	-0.3%	-0.9%
<b>Overall Change</b>	<b>+4.3%</b>	<b>+2.9%</b>	<b>+3.1%</b>	<b>+2.1%</b>	<b>+0.1%</b>	<b>+0.8%</b>	<b>+0.7%</b>

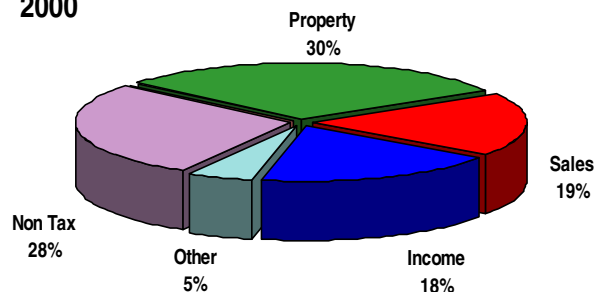
Vermont's personal income tax is a percentage of the federal tax, so the progressive changes in the federal tax in the 90s translated to progressive changes for Vermont's income tax. The state also expanded the EITC (up to 32% of federal—one of the nation's most generous) but these progressive changes were not enough to counter the regressive sales and excise tax hikes. The general sale tax was hiked one percent and the cigarette tax was hiked by one dollar.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census