

Progressivity in State Tax Structures

HIGHLIGHTS FROM NATIONAL COMPARISONS

MAY 28, 2020

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Overview

- Assessing any single tax type in isolation can show that tax to be regressive, proportional, or progressive.
- More relevant to the lives of taxpayers would be to assess all taxes and fees paid over the course of a year – though such comprehensive assessments are challenging due to data limitations.
- The most comprehensive national studies have deemed Vermont to have one of the most progressive state tax structures in the United States and to be a leader in reducing the tax burden on its lowest-income families.
- The State's graduated income tax and refundable tax credits are among the key features that set Vermont apart from most states.
- Tax cliffs, distortionary incentives, and the opportunity to reduce the burden on state residents are topics worth considering.

Who Pays?

THE INSTITUTE ON TAXATION AND ECONOMIC POLICY'S REPORT ON
INEQUALITY IN STATE TAX SYSTEMS

Lower-income Vermonters Pay a Lower Share of their Income than those with High Incomes

- ITEP dubs Vermont one of just five states with a tax structure that doesn't worsen income inequality.
- Only California and Washington, DC are deemed to have more progressive tax systems.
- According to ITEP, the lowest quintile of Vermonters pay less than 9% of income in state and local taxes while the top quintile pays more than 10%.

VERMONT STATE AND LOCAL TAXES

Taxes as Share of Family Income

| Income Group | Top 20% | | | | | | |
|---------------------------------|--------------------|----------------------|----------------------|----------------------|-----------------------|------------------------|----------------|
| | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% |
| Income Range | Less than \$21,200 | \$21,200 to \$39,100 | \$39,100 to \$59,500 | \$59,500 to \$94,000 | \$94,000 to \$196,000 | \$196,000 to \$460,100 | over \$460,100 |
| Average Income | \$11,500 | \$29,200 | \$49,200 | \$74,800 | \$131,100 | \$279,700 | \$993,600 |
| Sales & Excise Taxes | 5.1% | 4.3% | 3.8% | 3.2% | 2.2% | 1.3% | 0.6% |
| General Sales – Individuals | 2.0% | 2.0% | 1.9% | 1.7% | 1.2% | 0.8% | 0.4% |
| Other Sales & Excise – Ind. | 1.9% | 1.2% | 1.0% | 0.7% | 0.5% | 0.3% | 0.1% |
| Sales & Excise on Business | 1.2% | 1.1% | 0.9% | 0.8% | 0.5% | 0.3% | 0.1% |
| Property Taxes | 3.9% | 4.7% | 4.7% | 3.7% | 5.0% | 4.5% | 3.5% |
| Home, Rent, Car – Ind. | 3.5% | 4.6% | 4.3% | 3.4% | 4.6% | 3.7% | 1.6% |
| Other Property Taxes | 0.3% | 0.2% | 0.5% | 0.3% | 0.4% | 0.8% | 1.9% |
| Income Taxes | -0.3% | 0.0% | 1.5% | 2.2% | 3.2% | 4.2% | 6.3% |
| Personal Income Tax | -0.3% | 0.0% | 1.4% | 2.1% | 3.1% | 4.1% | 6.1% |
| Corporate Income Tax | 0.0% | 0.0% | 0.1% | 0.0% | 0.1% | 0.1% | 0.2% |
| TOTAL TAXES | 8.7% | 9.0% | 10.1% | 9.1% | 10.4% | 10.0% | 10.4% |

Individual figures may not sum to totals due to rounding. [Download the table](#)

Of VT's neighbors, ITEP ranks ME's tax structure as roughly proportional and NH and MA's as regressive

| State and Local Taxes as Share of Family Income by Income Group | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | ITEP Tax Inequality Rank (1=least equitable) |
|--|-------------------|-------------------|-------------------|-------------------|-----------------|----------------|---------------|---|
| Vermont | 8.7% | 9.0% | 10.1% | 9.1% | 10.4% | 10.0% | 10.4% | 49 |
| New Hampshire | 9.1% | 6.7% | 8.1% | 6.6% | 5.7% | 4.5% | 3.0% | 16 |
| Maine | 8.7% | 8.6% | 9.6% | 9.4% | 9.9% | 9.5% | 8.6% | 45 |
| Massachusetts | 10.0% | 9.0% | 9.3% | 9.4% | 8.6% | 7.7% | 6.5% | 30 |

Another Regional and National Comparison

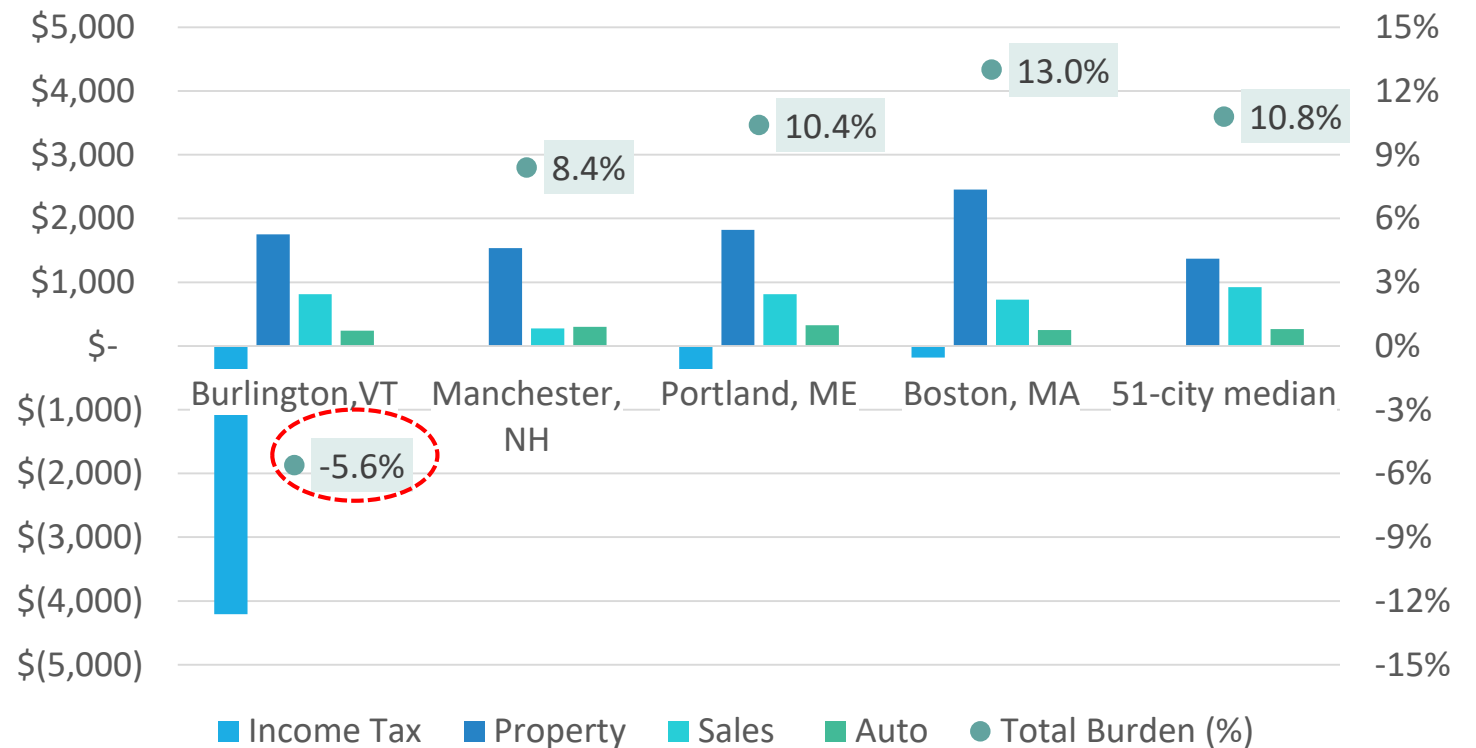
DATA FROM A MARCH 2020 REPORT BY WASHINGTON, DC'S CFO ON
STATE/LOCAL TAX BURDENS ON FAMILIES OF DIFFERENT INCOME
LEVELS IN THE LARGEST CITY IN EACH STATE IN THE NATION

Family of 3 Earning \$25K (1.2x federal poverty level)

- Washington, DC's report calculates Burlington's state and local burden for \$25K at -5.6%.
- Minneapolis is the only other city with a negative tax burden (-1.2%).
- The other 49 cities range from +6.8% to +18.1%, with the median at 10.8%.
- Vermont's relatively low sales and auto taxes help make up for the high rent (and thus high inferred property taxes), but the decisive factor is Vermont's progressive income tax and refundable tax credits for families at this income level (family size assumptions likely also explain the differences between ITEP and this report).

For a Family of Three Earning \$25,000, Burlington has a Lower State & Local Tax Burden – By Far – than the Largest City in Any Other State in the Nation

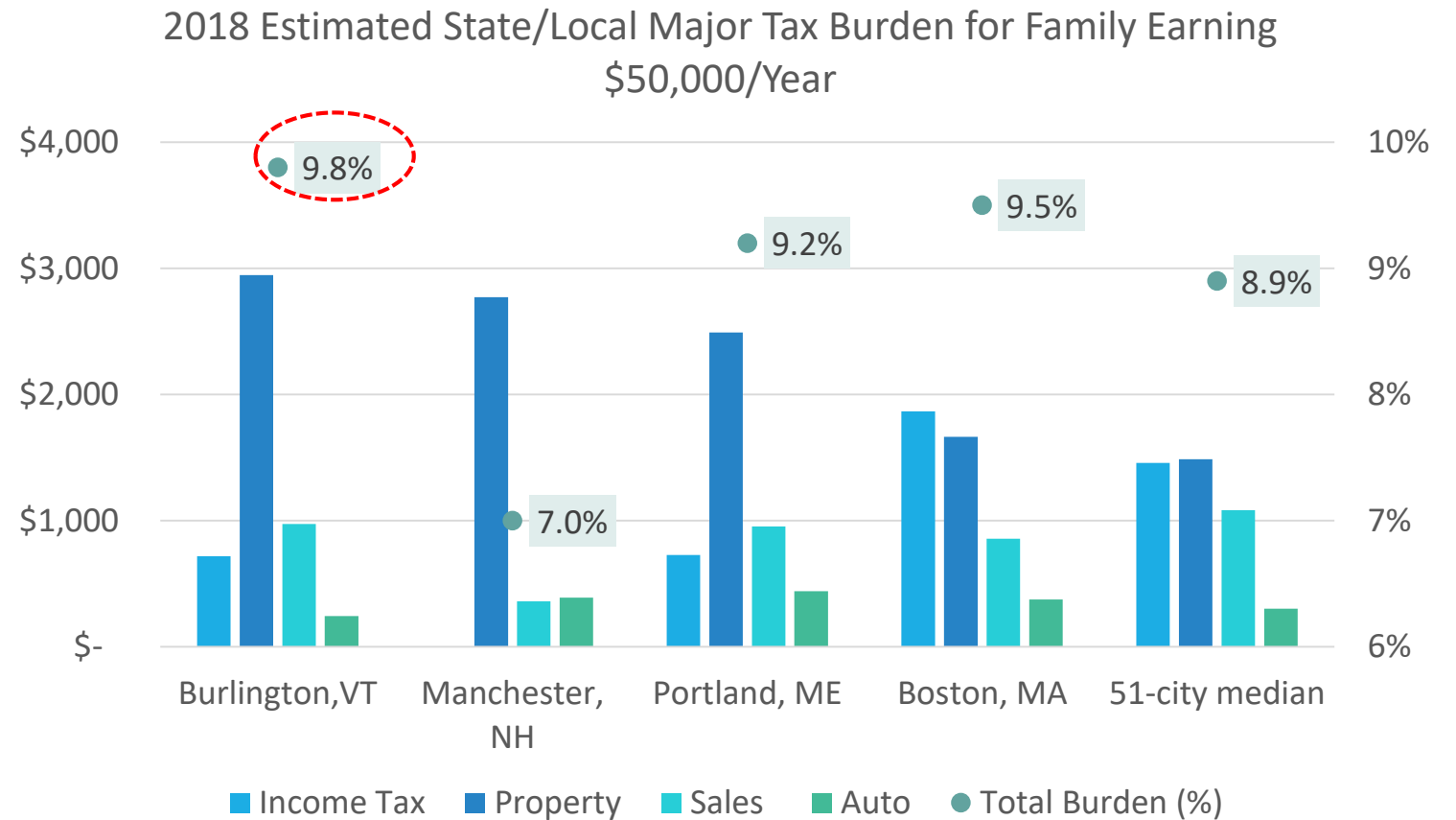
2018 Estimated State/Local Major Tax Burden for Family Earning \$25,000/Year



Family of 3 Earning \$50K (2.4x federal poverty level)

- The report calculates Burlington's state and local burden for \$50K income at 9.8%, a huge jump from the negative tax burden paid by those earning \$25K.
- The other 50 cities range from 3.8% to 15.0%, with the median at 8.9% -- meaning, unlike in Vermont, families at this income level typically have a lower tax burden than families earning less.
- In Vermont, refundable tax credits have phased out and the family is just over the \$47K property tax circuit breaker cliff.

For a Family of Three Earning \$50,000, Burlington has a Higher Tax Burden than the Largest City in All but 16 Other States – and the Highest in Northern New England



Other Income Levels from DC Report:

| Total Tax Burden by Income - Family of 3 | \$25K | \$50K | \$75K | \$100K | \$150K |
|--|-------|-------|-------|--------|--------|
| Burlington, VT | -5.6% | 9.8% | 10.2% | 7.1% | 11.5% |
| Manchester, NH | 8.4% | 7.0% | 7.1% | 4.6% | 7.3% |
| Portland, ME | 10.4% | 9.2% | 10.9% | 7.7% | 12.5% |
| Boston, MA | 13.0% | 9.5% | 9.9% | 6.5% | 10.3% |
| 51-city median | 10.8% | 8.9% | 9.4% | 6.4% | 10.0% |

>16 points less than median

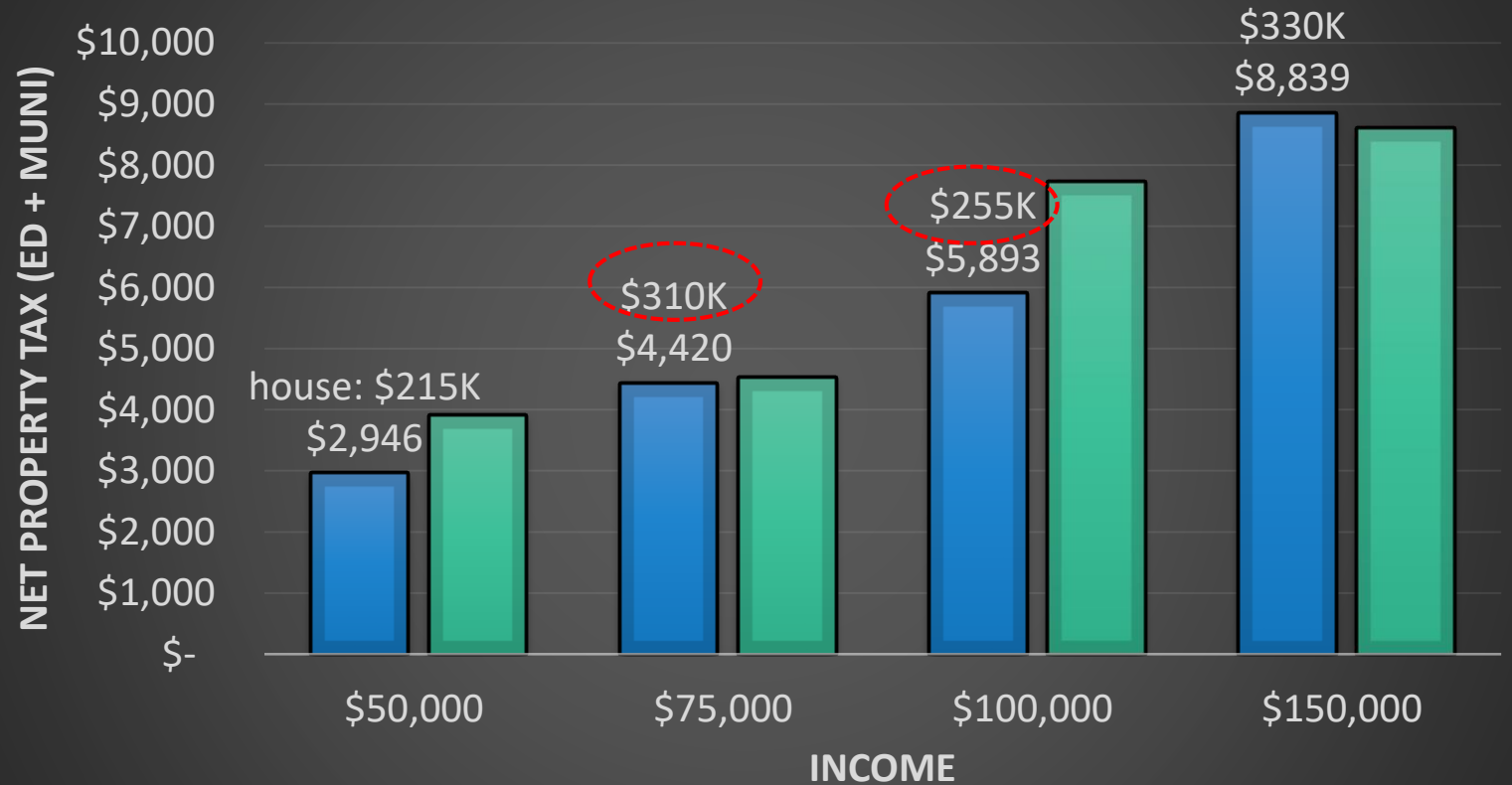
All <1 point more than median

1.5 points more than median

Vermont's Tax Burden May Be Even More Progressive than DC Report Shows

- DC Report's estimated property tax burden implies that Burlington family earning \$75K owns home valued at \$55K MORE than family earning \$100K.
- If the higher income earners were assumed to live in higher valued homes than lower income earners, the higher property tax payments – furthered by the \$90K property tax credit cliff -- would drive up their tax burdens.

DC Report May Underestimate Housesite Value (and thus Property Tax Paid) of Burlingtonians Earning \$100,000+



■ Report's Estimated Property Tax Burden (with implied housesite value)
 ■ Net Tax Paid by Burlington Resident with this Income on \$320K Home

How So Progressive?

FEATURES OF VERMONT'S TAX STRUCTURE

Vermont Tax Features

- ITEP's report calls out a long list of progressive features in Vermont's tax system.



Progressive Features

- Graduated personal income tax structure
- Provides a refundable Earned Income Tax Credit (EITC)
- Provides property tax “circuit breaker” to low-income taxpayers
- Many resident homeowners pay school taxes based on income rather than property value
- Provides a partially refundable dependent care tax credit
- Sales tax base excludes groceries
- Requires the use of combined reporting for the corporate income tax
- Levies a state estate tax



Regressive Features

- Provides a capital gains tax break
- Comparatively high cigarette tax rate

How Does Vermont's Top Individual Tax Rate Compare to That in Other States?

A Graduated Income Tax

- Vermont's top rate marginal tax rate is higher than most states and starts at a much lower threshold than New York's (Vermont also has fewer ultra-high-income-earners)

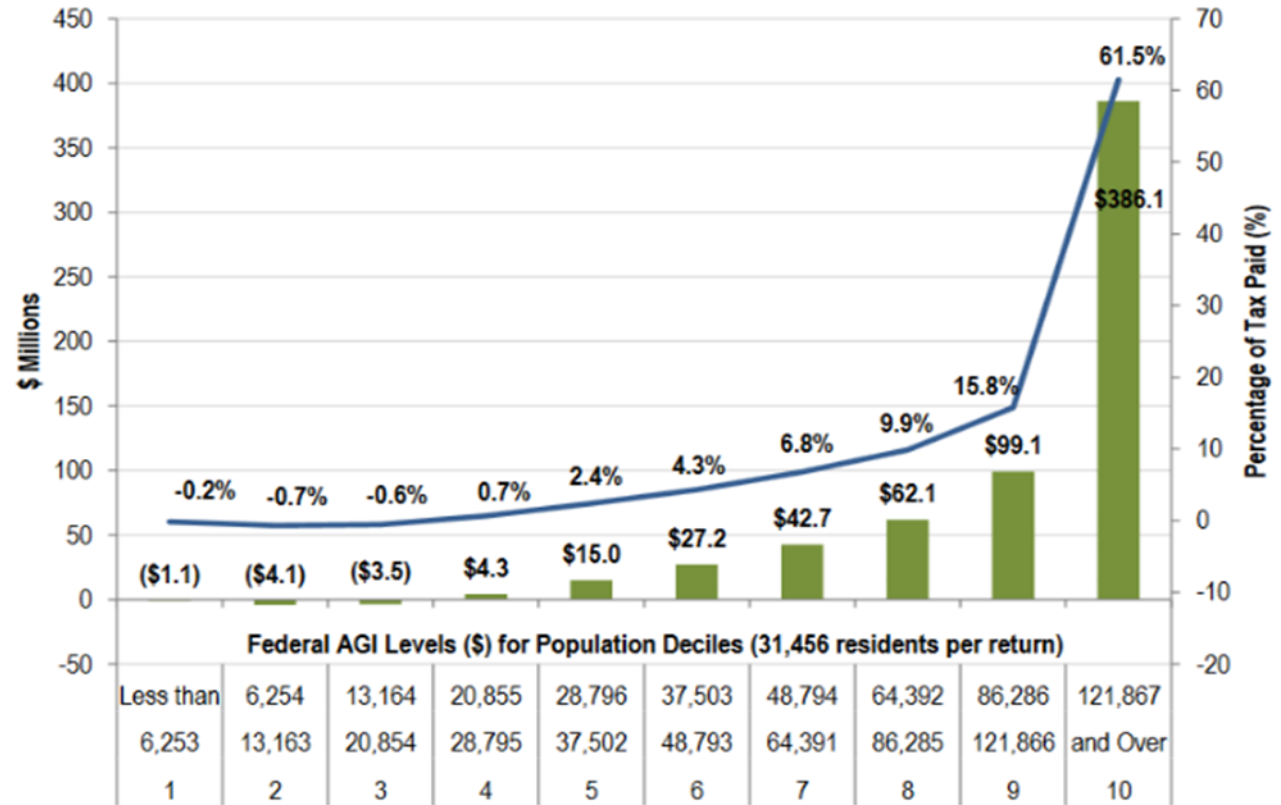
| Top Tax Rate Comparison, MFJ -- NE States, Tax Year 2018 | | |
|--|--------------|-------------------------------|
| State | Top Rate (%) | On Taxable Income (\$) Above: |
| Connecticut | 6.99 | 1,000,000 |
| Maine | 7.15 | 100,000 |
| Massachusetts | 5.1 | 0 |
| New York | 8.82 | 2,155,350 |
| Rhode Island | 5.99 | 139,400 |
| Vermont | 8.75 | 237,950 |

Source: Manchester, Joyce. Tax Workshop- Principles of a High-Quality Tax System (2019)

Low bottom brackets, deductions, and credits benefit low-income earners

- The top decile of income earners contribute more than 60% of personal income tax revenue.
- The bottom 30% of income earners receive a net refund.

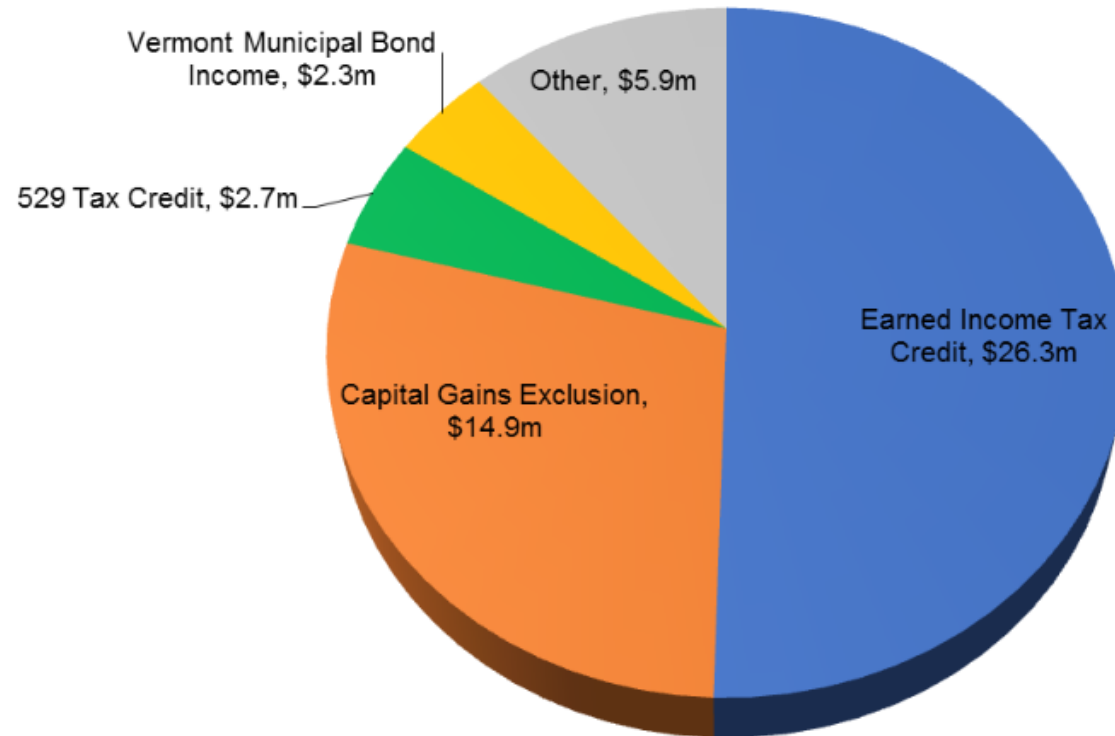
Figure 12. Income Tax Revenue and Percentage of Total Tax Paid by Decile of Resident Tax Filers, Tax Year 2015



Source: Vermont Joint Fiscal Office, Vermont Tax Study 2005-2015

Vermont's Earned Income Tax Credit (EITC) is a key feature, more generous than most state EITCs and accounting for just over half of Vermont's personal income tax expenditures.

FY2017 Vermont-Specific Personal Income Tax Expenditures: \$52.09 million



Note: These Vermont-specific tax expenditures do not include personal income tax expenditures that flow through from federal income tax, most notably deductions for pension contributions and employer-sponsored health insurance premiums.

Pie Chart Source: Tax Workshop: Income Taxes and Federal Reform, Graham Campbell and Peter Griffin (2019)

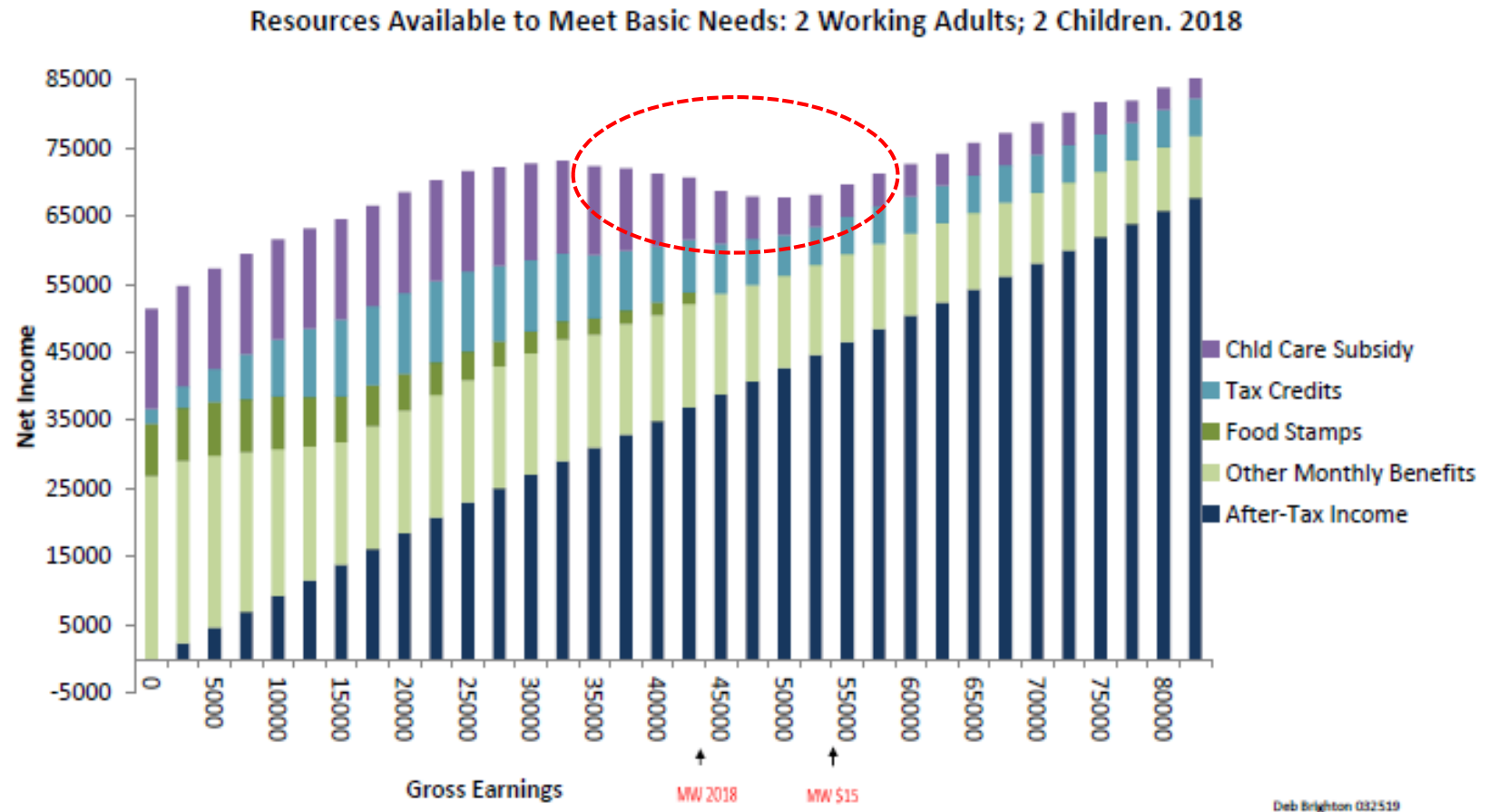
Why the Cliff?

VERMONT'S BASIC NEEDS DATA SHEDS LIGHT ON REASONS WHY THE STATE'S TAX BURDEN SPIKES FOR FAMILIES EARNING LOWER TO MIDDLE INCOMES.

A Disincentive to Earn More?

- A family of four could have more resources if they earn \$30,000 than if they earn \$40,000 or \$50,000.
- In addition, at \$30,000, all four members would qualify for Medicaid; at \$40,000, the parents would buy subsidized insurance while the children get Dr. Dynasaur.
- In other words, the family would be better off financially with gross earnings at poverty level than they would be if they earned twice the poverty level.

Beyond facing a steeply higher tax burden, lower-middle income Vermonter families also lose benefits, meaning that they lose more than a dollar of resources for each additional dollar they earn



Other Considerations

Conflicting Aims? Keeping Progressivity, Aligning Economic Incentives, and Sharing the Burden.

- While the Institute on Taxation and Economic Policy criticizes consumption taxes for falling most heavily on low-income earners, the Tax Foundation praises taxes on consumption and immovable property for causing less economic distortion than taxes on income.
- Advocates of environmental sustainability have long called for “Tax Waste, Not Work” – reducing payroll and/or income taxes and replacing the revenue with taxes on energy and material consumption and pollution.
- In addition, states that have the opportunity to shift the tax burden away from state residents – either through resource extraction or tourism – often do so.

Vermont: A Tourism-dependent Outlier

- Vermont is one of only five states in which the Accommodations and Food Services sector accounts for over 4% of Gross State Product.
- The other four states all rank in the top 10 for widest state sales tax breadth. Vermont ranks 42nd (fourth to last among states with statewide sales tax).
- General Sales Tax accounts for over a third of state and local tax collections in three of the states, a fifth in Maine, but only 10% in Vermont.

Tourism-dependent states tend to lean more heavily on sales taxes in order to alleviate the tax burden on state residents.

| | Accommodation and Food Services as % of GSP | Acc. and Food Services Rank | State Sales Tax Breadth | Breadth Rank | State & Local General Sales Tax Collections per Capita | Sales Tax Collect. Rank | General Sales Tax as % of State & Local Tax Collections |
|---------|---|-----------------------------|-------------------------|--------------|--|-------------------------|---|
| Nevada | 11.9% | 1 | 54% | 4 | \$ 1,846 | 4 | 41% |
| Hawaii | 8.4% | 2 | 105% | 1 | \$ 2,431 | 2 | 37% |
| Vermont | 4.8% | 3 | 25% | 42 | \$ 627 | 45 | 10% |
| Maine | 4.1% | 4 | 44% | 8 | \$ 1,080 | 27 | 20% |
| Florida | 4.1% | 5 | 43% | 9 | \$ 1,323 | 16 | 36% |

Source: GSP Share from U.S. BEA. Tax collections from Tax Foundation Facts and Figures 2020.

Vermont: An Outlier Among States with Large Retail Trade

- Vermont is one of only five states in which Retail Trade accounts for over 8% of Gross State Product.
- General Sales Tax accounts for 20-46% of state and local tax collections in the other four states, but only 10% in Vermont

Likewise, states with economies dependent on retail trade tend to lean more heavily on sales taxes for state revenue.

| | Retail Trade as % of GSP | Retail Rank | State Sales Tax Breadth | Breadth Rank | State & Local General Sales Tax Collections per Capita | Sales Collections Rank | General Sales Tax as % of State & Local Tax Collections |
|-------------|--------------------------|-------------|-------------------------|--------------|--|------------------------|---|
| Washington | 9.0% | 1 | 39% | 16 | \$2,476 | 1 | 46% |
| Maine | 8.8% | 2 | 44% | 8 | \$1,080 | 27 | 20% |
| Mississippi | 8.7% | 3 | 46% | 6 | \$1,180 | 20 | 32% |
| Idaho | 8.3% | 4 | 40% | 14 | \$ 984 | 33 | 26% |
| Vermont | 8.2% | 5 | 25% | 42 | \$ 627 | 45 | 10% |

Source: GSP Share from U.S. BEA. Tax collections from Tax Foundation Facts and Figures 2020.

Resources:

- Government of the District of Columbia – [Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison](#)
- ITEP – [Who Pays?](#)
- Tax Foundation – [Facts and Figures 2020](#)
- Vermont Joint Fiscal Office – [The Vermont Tax Study, 2005-2015](#)