

Aggregate Income Tax Rates & Comparison of Income/Property Taxes

Prepared by Seán Sheehan for Tax Structure Commission, January 4, 2021

Calculating aggregate income tax rates

Commissioner Brighton asked how statewide aggregate income tax rates would be tallied (and compared to income tax rates in other states) given that the Commission's proposed education income tax rates would vary by town. National analyses of local income taxes provide insight into how an education income tax in Vermont might be viewed. While the education income tax wouldn't be a local tax per se, it would be similar in the sense that the rate would vary across towns.

The Tax Foundation reports that 4,964 taxing jurisdictions across 17 states imposed local income taxes in 2019.¹ Tax rates vary across their respective states, and the Tax Foundation determines the average local income tax rate by calculating the proportion of a state's adjusted gross income (AGI) captured by local income taxes.

In five states, local income taxes capture more than one percent of AGI: Maryland (2.3%), Ohio (1.6%), New York (1.5%), Kentucky (1.3%), and Pennsylvania (1.2%).

Vermont's average education income tax rate would presumably be higher than any of these states' average local rates.

Income tax rate comparison²

- Vermont's existing top marginal rate (8.75%) is one of the ten highest in the nation.
- Individuals earning \$200-\$500K pay a higher marginal rate in Vermont (8.75%) than in any other state in the Eastern United States (i.e. the 28 states east of the Mississippi River).
- Individuals earning \$96-\$200K also pay a higher marginal rate in Vermont (7.6%) than in any other state in the Eastern United States.
- Individuals earning \$40-\$96K pay a higher marginal rate in Vermont (6.6%) than in every northeastern state except Maine.
- Vermont's marginal rates are higher than the marginal state income tax rate plus average local rates of the states with the highest local rates (except NYC, see table below).

¹ <https://taxfoundation.org/local-income-taxes-2019/>

² <https://taxfoundation.org/state-individual-income-tax-rates-and-brackets-for-2020/>

Vermont's income tax rates compared to neighboring states

2020 rates for single filers ³	Marginal rate on \$40K-\$96K	Marginal rate on \$96K-\$200K	Marginal rate on \$200K-\$1M	Average local rate
CT	5.0-5.5%	5.50-6.00%	6.90-6.99%	0
ME	6.75-7.15%	7.15%	7.15%	0
MA	5.0%	5.0%	5.0%	0
NH	5% applies only to interest and dividend income			
NY excl. NYC	6.09-6.49%	6.49%	6.85%	0
RI	3.75-4.75%	4.75-5.99%	5.99%	0
VT	6.6%	7.6%	8.75%	Proposed TBD?

Vermont's income tax rates compared to states with highest local income taxes

2020 rates for single filers ⁴	Marginal rate on \$40K-\$96K	Marginal rate on \$96K-\$200K	Marginal rate on \$200K-\$1M	Average local rate
KY	5.0%	5.0%	5.0%	1.29%
MD	4.75%	4.75-5.50%	5.50-5.75%	2.28%
OH	2.85-3.80%	3.80-4.41%	4.41-4.80%	1.56%
NY incl. NYC	6.09-6.49%	6.49%	6.49-6.85%	1.49% ⁵
PA	3.07%	3.07%	3.07%	1.21%
VT	6.6%	7.6%	8.75%	Proposed TBD?

Income tax burden comparison

Simply comparing marginal rates can paint an incomplete picture, particularly for taxpayers with low to moderate incomes, due to varying approaches to exemptions, deductions, and other policy decisions.

Indeed, Washington DC's report, *Tax Rates and Tax Burdens in the District of Columbia - A Nationwide Comparison*, shows that a family of three with income anywhere from \$25K to \$150K would enjoy lower income taxes in Burlington than in Boston or Portland. Those earning \$50-\$150K would pay higher income taxes in Burlington than in Manchester, as New Hampshire only taxes interest and dividend income, but those earning \$25K would pay the least in Burlington, thanks to Vermont's earned income tax credit.

³ Income rounded to nearest \$1000. <https://taxfoundation.org/publications/state-individual-income-tax-rates-and-brackets/>

⁴ Income rounded to nearest \$1000. <https://taxfoundation.org/publications/state-individual-income-tax-rates-and-brackets/>

⁵ New York's "local rate" is a New York City income tax with four brackets ranging from roughly 3.1-3.9%, per <https://smartasset.com/taxes/new-york-tax-calculator>. Taxpayers in the rest of the state, including the areas adjacent to Vermont, only pay the state rate.

Comparison of Income Tax Liability – from DC Report⁶

Income tax liability for family of 3 with income of:	\$25K	\$50K	\$75K	\$100K	\$150K
Portland, ME	-\$368	\$727	\$2,177	\$3,862	\$6,938
Boston, MA	-\$181	\$1,867	\$3,142	\$4,396	\$7,137
Manchester, NH	0	0	0	0	0
Burlington, VT	-\$4,207	\$718	\$1,510	\$2,711	\$6,029
51-city median	0	\$1,457	\$2,952	\$4,445	\$7,307

Assuming property ownership in line with income levels, the families earning \$50K, \$75K, and \$100K all paid higher property taxes in Manchester (NH) and Portland (ME) than in Burlington, but the family earning \$150K (not eligible for property tax credits) paid the highest property tax in Burlington.

Comparison of Property Tax Liability – from DC Report

Income tax liability for family of 3 with income of:	\$25K ⁷	\$50K	\$75K	\$100K	\$150K
Portland, ME		\$2,490	\$3,938	\$5,387	\$8,284
Boston, MA		\$1,665	\$2,510	\$3,356	\$5,047
Manchester, NH		\$2,772	\$4,157	\$5,543	\$8,315
Burlington, VT		\$2,136	\$3,204	\$5,006	\$8,839
51-city median		\$1,487	\$2,475	\$3,388	\$5,457

The report also notes the family earning \$25K had a lower total tax burden in Burlington than in any of the 50 other cities. Families earning \$50K and \$75K had a lower total tax burden in Burlington than in Boston, Portland, or the 51-city median but higher than Manchester. Families earning \$100K had a lower total tax burden in Burlington than all three neighbors and the 51-city median. Families earning \$150K had a lower total tax burden in Burlington than in Portland but higher than Boston, Manchester, or the 51-city median.

⁶<https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2018%20Nationwide%20Tax%20Burden%20Study%20033120.pdf>

⁷Study assumed family earning \$25K rented while other income-level families owned.

Property tax comparison

For most Vermonters, education property taxes are significantly higher than municipal taxes.

- The Vermont Department of Taxes reports the state's homestead education effective tax rate (ETR) was 1.48 in 2019 vs. 0.60 for municipal taxes.⁸
- Eliminating the homestead property tax could give Vermont homestead owners the lowest property taxes in the northeast and among the ten lowest states in the nation.⁹
- An infographic from the Vermont Department of Taxes shows that an ETR of 0.60 would give Vermont the lowest rates in the region.¹⁰
 - The infographic shows Massachusetts as currently having the lowest property taxes in the northeast, yet only 8 of 344 municipalities in Massachusetts have property tax rates under 0.60 (or \$6 per \$1000 of value).¹¹

Competitive advantage

A number of Vermont towns have municipal rates that are less than half the statewide average. If the homestead education property tax were to be eliminated, these towns could appeal to prospective residents throughout the region, particularly wealthy retirees and others with high wealth-to-income ratios.

These towns include: Buels Gore (ETR of 0), Coventry (0), Lowell (0), Brunswick (0.03), Victory (0.09), Stratton (0.12), Woodford (0.12), Rutland Town (0.18), Charlotte (0.20), Morgan (0.25), Peru (0.26), Fayston (0.27), Williston (0.27), Sheffield (0.28), Dorset (0.29), Grand Isle (0.29), Manchester (0.29), Mt. Tabor (0.10), St. George (0.29).¹²

A few Vermont towns with zero municipal property tax would be able to make a rare, but not unique nationally, appeal.

- Youngtown, AZ has no property tax, instead raising revenue through a 3% local sales tax (9.3% total, when adding in county and state sales taxes) as well as a hotel/motel tax and real estate rental tax.¹³
 - Youngtown was the country's first age-restricted community and had a municipality-wide ban on young people from 1954 until 1998 when the state ruled its age-restricted ordinance was illegal because it wasn't written into every home's deed.¹⁴
- Alabama, which exempts property owners over 65 years old from the statewide property tax (though they still may pay a county property tax).¹⁵

⁸ <https://tax.vermont.gov/sites/tax/files/documents/PVR%20Annual%20Report%202019.pdf> p7

⁹ <https://taxfoundation.org/how-high-are-property-taxes-in-your-state-2020/>

¹⁰ <https://tax.vermont.gov/content/infographic-comparison-vermont%E2%80%99s-property-taxes-property-taxes-peer-states>

¹¹ <https://patch.com/massachusetts/boston/2020-residential-property-tax-rates-344-ma-communities>

¹² <https://tax.vermont.gov/sites/tax/files/documents/PVR%20Annual%20Report%202019.pdf> p75-88

¹³ https://www.youngtownaz.org/our_services/finance_department/youngtown_tax_rates

¹⁴ <https://www.azcentral.com/story/money/business/consumers/2018/08/27/why-senior-communities-get-prohibit-young-people/1003080002/>

¹⁵ <https://revenue.alabama.gov/property-tax/faq/>

Competitive disadvantage

An in-depth data analysis would be needed to better determine the winners and losers of a particular proposal's rates and details. However, assuming level spending, it seems likely that if residents with a low income-to-property value ratio would tend to pay less education tax under the income tax proposal than under current law, residents with a high income-to-property value ratio would tend to pay more. Depending on how education income tax rates are set, Vermonters with relatively high incomes and relatively low property values could fare better in other states.