EXECUTIVE SUMMARY

Vermont's population has been remarkably stable for the last fifteen years, at least in terms of total numbers. The state had 620,000 people in 2004, 626,000 in 2010, and still 626,000 in 2018. In addition, at least two projections suggest little movement over the next decade (p5). However, a look beyond that total number reveals significant change. Three trends in particular stand out:

1) **More Seniors, Fewer Children, and Fewer Working-age Adults –** 2017 marked the first time that Vermont had as many seniors (65+) as children (<18). Proportionally Vermont has one of the nation's largest populations of baby boomers. When the youngest boomers turn 65 in 2029, more than one in four Vermonters will be seniors. Only Maine will have a higher proportion (p7).
2) **More Metropolitan, Less Rural –** Vermont is one of the most rural states in the nation, but its population is shifting from rural areas to its one metropolitan region. Since 2000, three counties around Burlington have grown by more than eight percent, while the other 11 counties have either lost population or are virtually unchanged (p11). The trend has accelerated since 2010.
3) **More Households with Fewer People –** The average Vermont household is statistically tied with North Dakota and Maine for smallest in the nation, having shrunk five percent since 2000 due to fewer families with children and more Vermonters living alone. Among owner-occupied housing units, one-person households are more prevalent in Vermont than in any other state in the Northeast (p15).

None of the trends are unique to Vermont. All three affect public finance. On the spending side, health care and retirement costs increasingly loom large. On the revenue side, the trends will impact Vermont's three largest revenue sources: personal income tax, consumption taxes, and education property tax. This paper explores the impact on personal income tax and consumption taxes. The effect on education property tax will be discussed in the Commission's next paper, which focuses on Vermont's education finance system.

None of the revenue impacts are unique to Vermont either, although Vermont's tax structure does play a role in determining the extent of the impacts.

Personal Income Tax is the largest source of revenue in Vermont, accounting for nearly two-thirds of General Fund dollars.

- **Less Taxable Income Puts Downward Pressure on Revenue –** An aging population portends a slowdown in taxable income, leading to a decrease or less growth in revenue from personal income taxes. Younger baby boomers (age 55-64) account for more than a fifth of tax returns and more than a quarter of personal income tax dollars. As this most populous age cohort retires, their decreasing incomes will no longer contribute as disproportionately high a share of revenue. The age cohorts following behind are smaller and a growing gap in income tax revenues is likely (p20).
- **Multiple Factors Could Temper Impact –** Revenue decreases could be partially offset for at least a decade to the extent workers retire later, higher salaries are paid to workers moving into more senior positions at a younger age, and the labor shortage attracts in-migrants to fill job vacancies, including jobs taking care of seniors (p21).
- **More Stability than Most States –** The federal government gives tax breaks to seniors and states typically give more, sometimes exempting retirement income that is taxable at the federal level. As a result, seniors in some states pay less than half as much income tax as non-seniors pay at similar income levels. Vermont is one of the top three states for parity however, thus positioning the State to

avoid the larger revenue drop-offs faced by states that treat retirement income dramatically different than the federal government. It should be noted that the trade-off for greater stability is a reduced comparative advantage for seniors, a relevant consideration as states compete for both wealthy seniors and workers (p22).

Consumption Taxes support both the Education Fund (100% of Sales and Use and 25% of Meals and Rooms revenue) and General Fund (75% of Meals and Rooms).

- **Somewhat Fewer Taxable Expenditures –** Seniors' spending tends to focus on mostly non-taxable categories, such as health care and cash contributions, rather than the taxable goods favored by younger cohorts (p24).
- **Multiple Factors Could Temper Impact for at Least a Decade –** First, the median senior is now wealthier than the median non-senior and has resources to support higher spending. Second, to the extent Vermont workers retire later and spend accordingly, a drop in revenue would be delayed. Third, newer retirees in surrounding states have the time and resources to travel and spend (p26).

In addition to examining population trends and their prospective impact on Vermont's revenue system, this report also calls for consideration that trends do change, some trends are less likely to change than others, and in-migration is critical on many levels (p28).

Both Vermont's legislative and executive branches have taken early steps to address demographic pressures on the budget. The Tax Structure Commission publishes this report with the hope its findings will contribute to other planning efforts in the state while also providing building blocks for the Commission's subsequent research and deliberations.