

# More Gray, Less Green?

What Vermont's Population Trends Mean for State Revenues  
and the Goal of Making Taxes Sustainable, Appropriate and  
Equitable

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Vermont Tax Structure Commission

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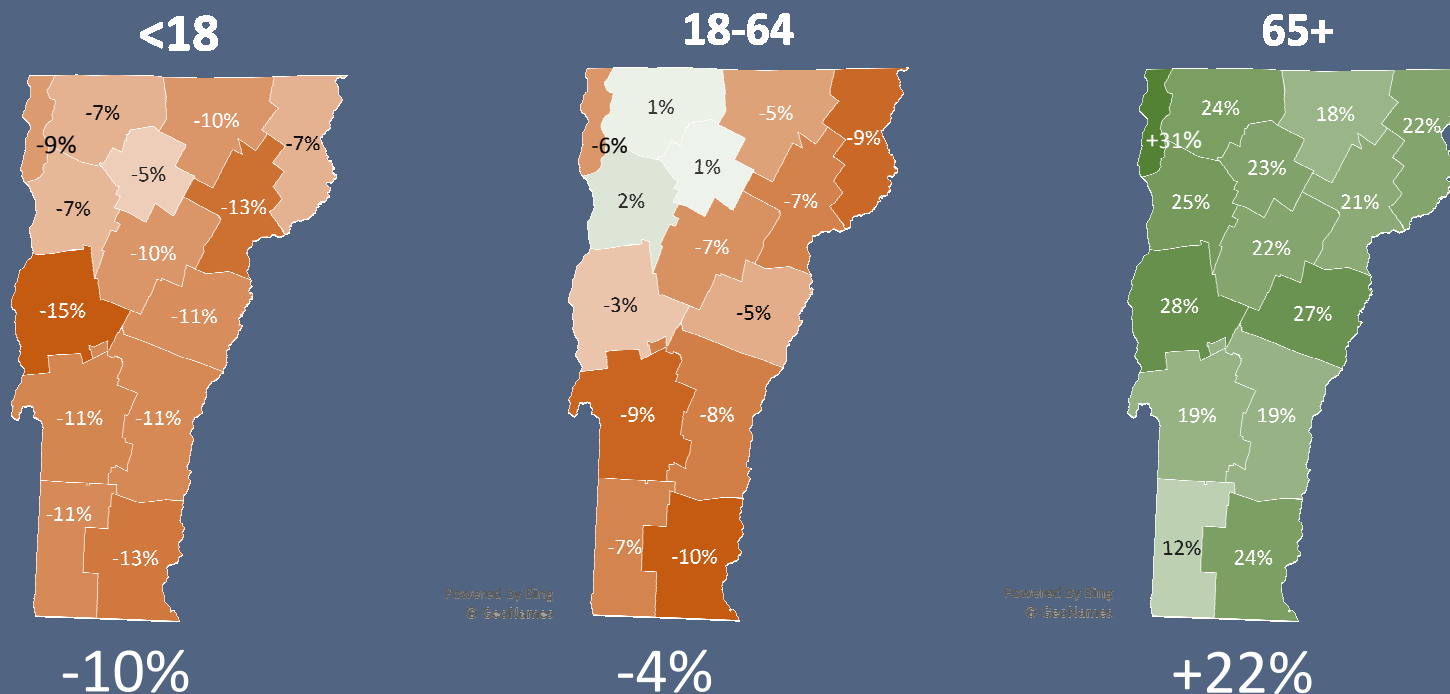
# The Aging of Vermont

## Vermont's Overall Population Has Not Changed this Decade...

	2010	2018	Change
Vermont Population	625,741	626,299	+0.09%

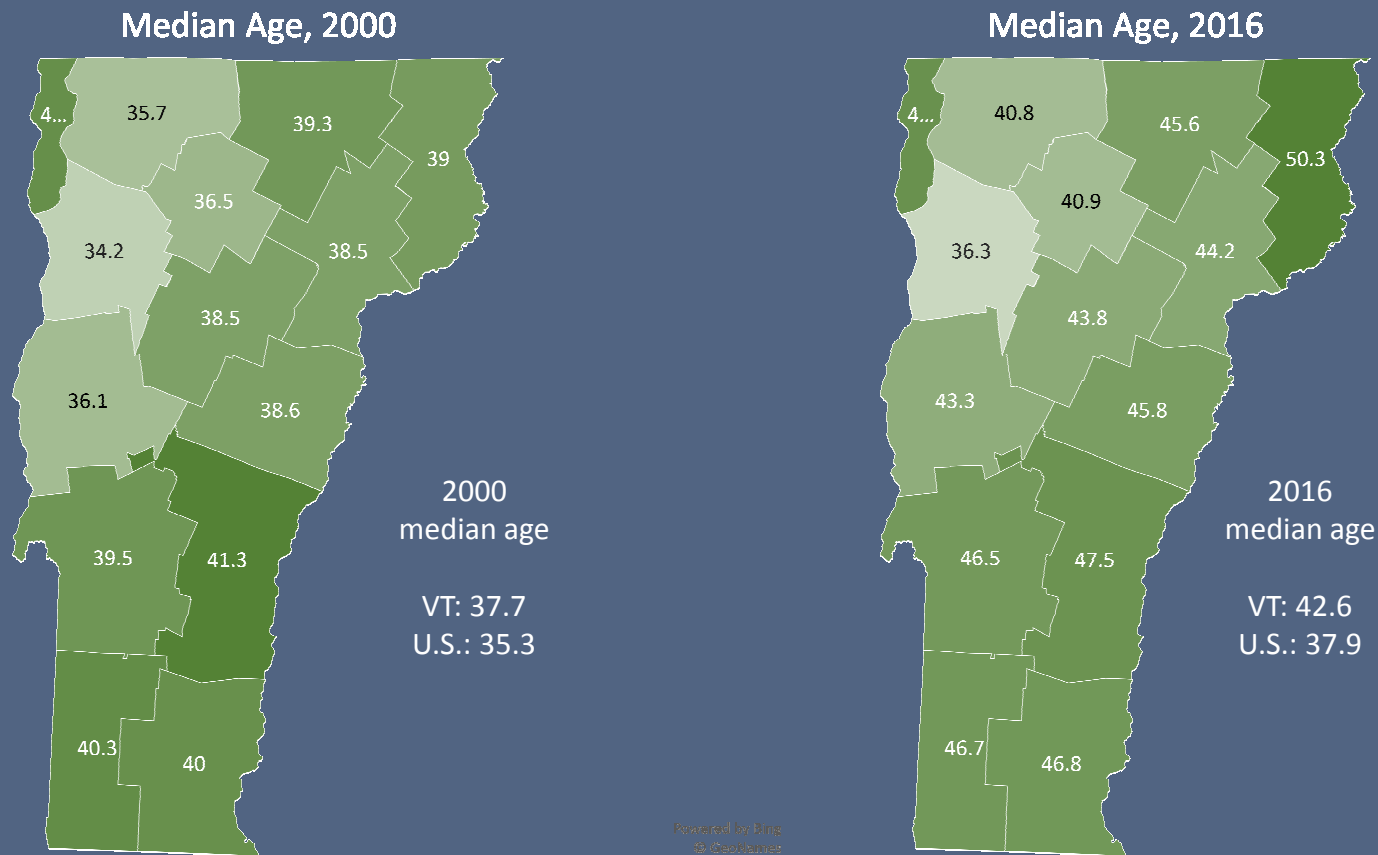
... But the Age Composition Has.

Change in Age Group Population by County, 2010 - 2017



Source: Population data from U.S. Census Bureau, Quick Facts, <https://www.census.gov/quickfacts/vt> and County Population by Characteristics: 2010-2017, <https://www.census.gov/data/tables/2017/demo/popest/counties-detail.html>

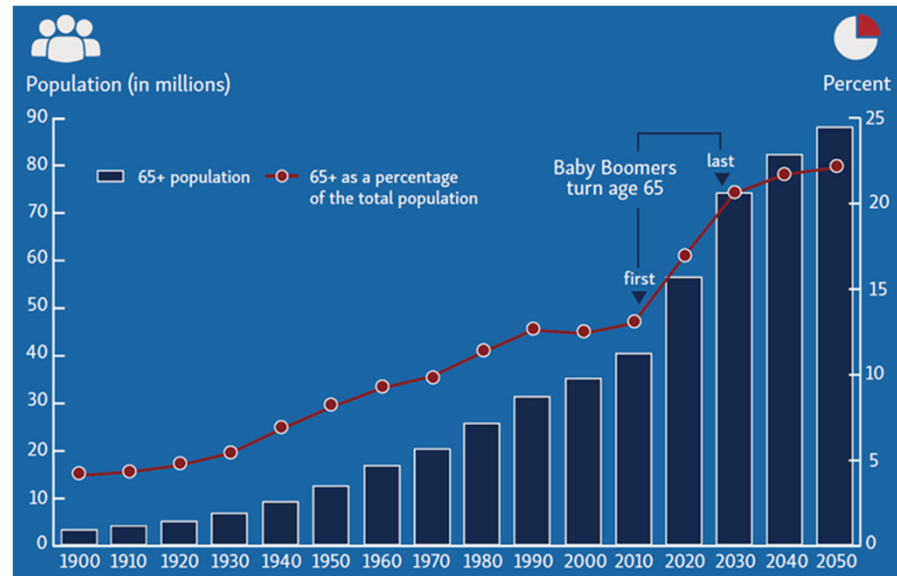
The typical (median) Vermonter was five years older in 2016 than in 2000



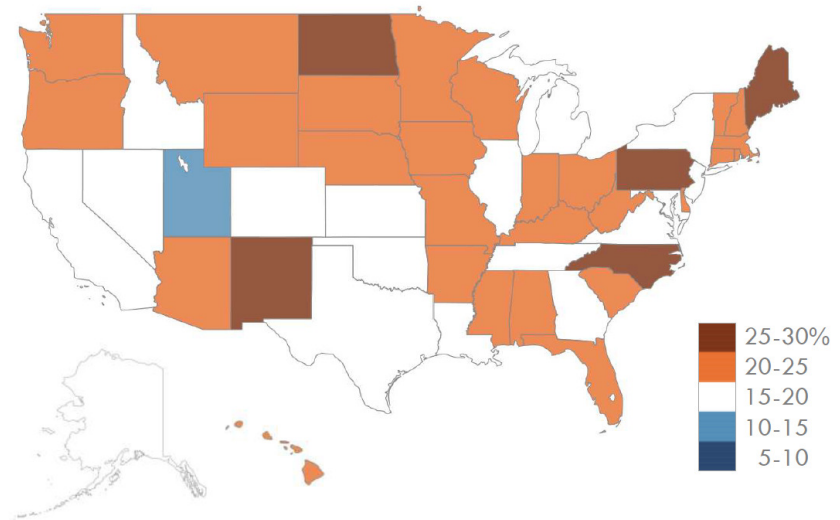
Every county except one (Chittenden) is older than the national median

Vermont is not alone

While Vermont is aging faster than the nation, Baby Boomers across the U.S. are turning 65... and will continue to do so for the next decade.

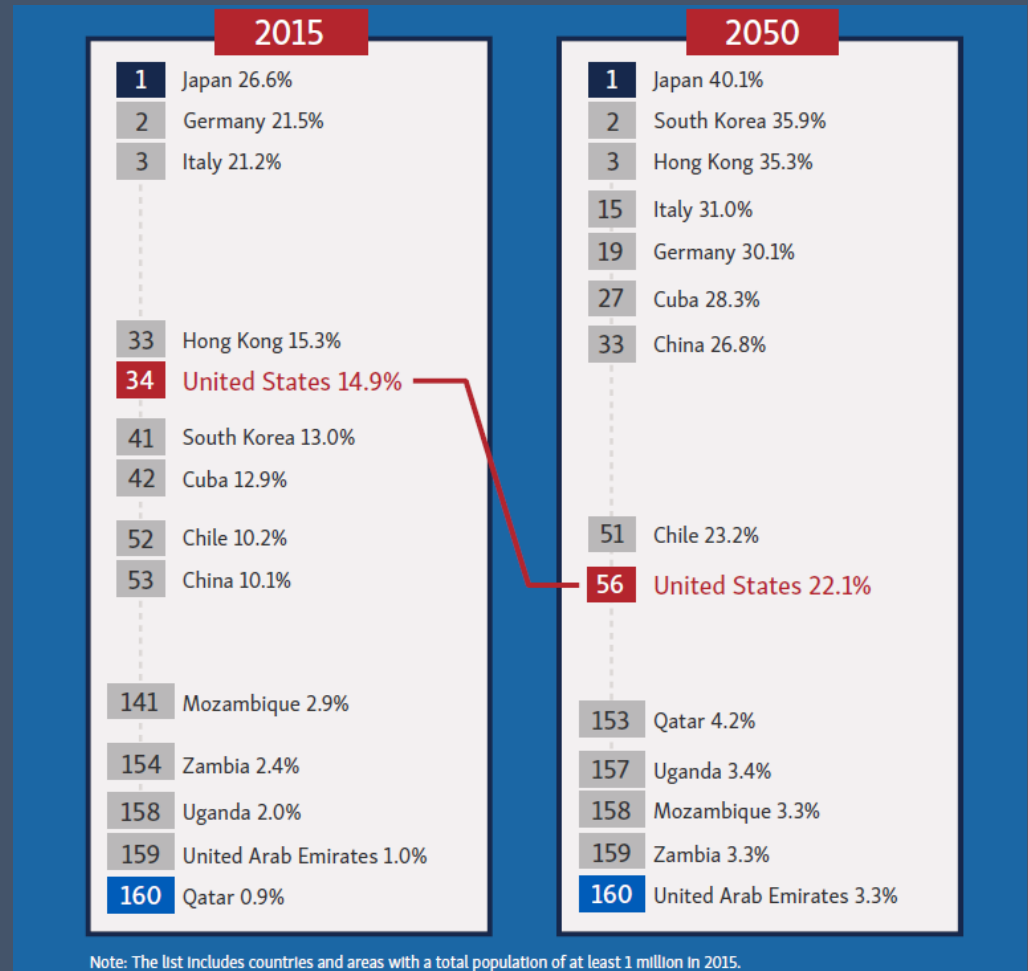


2030 share of population age 65+



The U.S. is not alone

In fact, even though the 65+ share of the U.S. will increase nearly 50% by 2050, seniors in 55 other countries will comprise a greater percentage of their countries' populations.



What does this trend mean for Vermont's revenue system?

Because people work, spend, and live differently at different ages, the aging of Vermont will likely impact:

1) Public spending – increasing demand in health care, long-term care and other senior-related services

2) Personal Income Tax

3) Sales Tax (and Meals and Rooms Tax)

4) Property Tax

*This presentation does not focus on spending pressures. Rather, the next three sections focus on the three taxes, that are the three largest sources of revenue in Vermont.*



# Impact on Income Tax

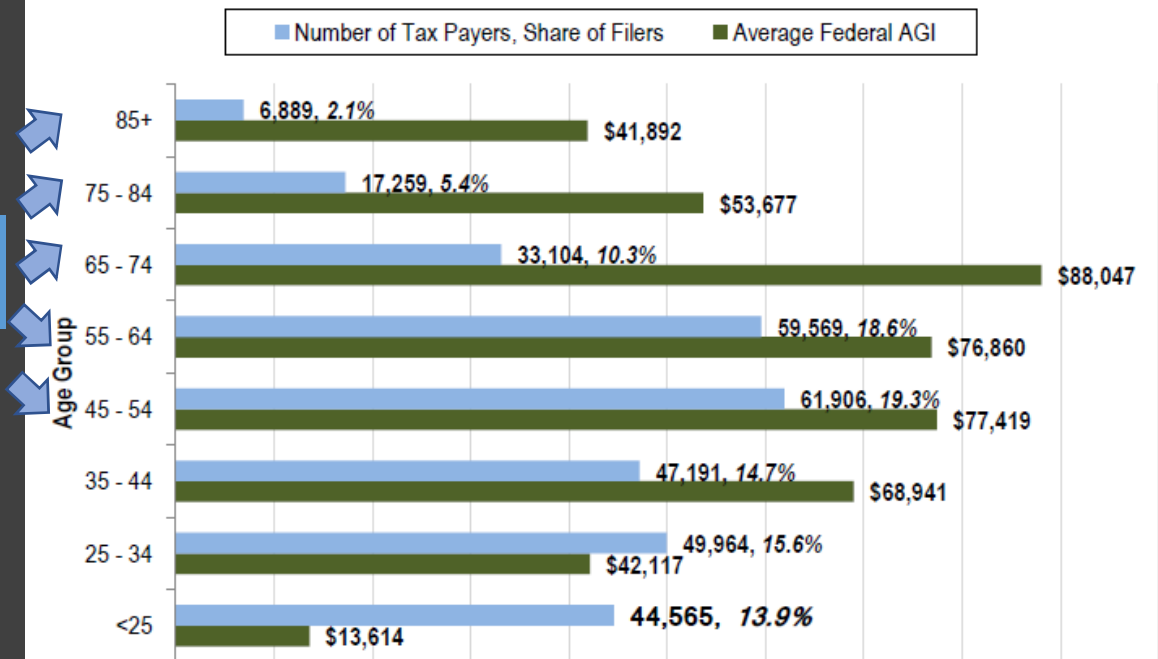
## Overall Income

*Income* tends to peak through people's 40s to 60s, then decrease

- A lower ratio of people in their peak years could result in lower total income
- Though younger seniors have a high average income

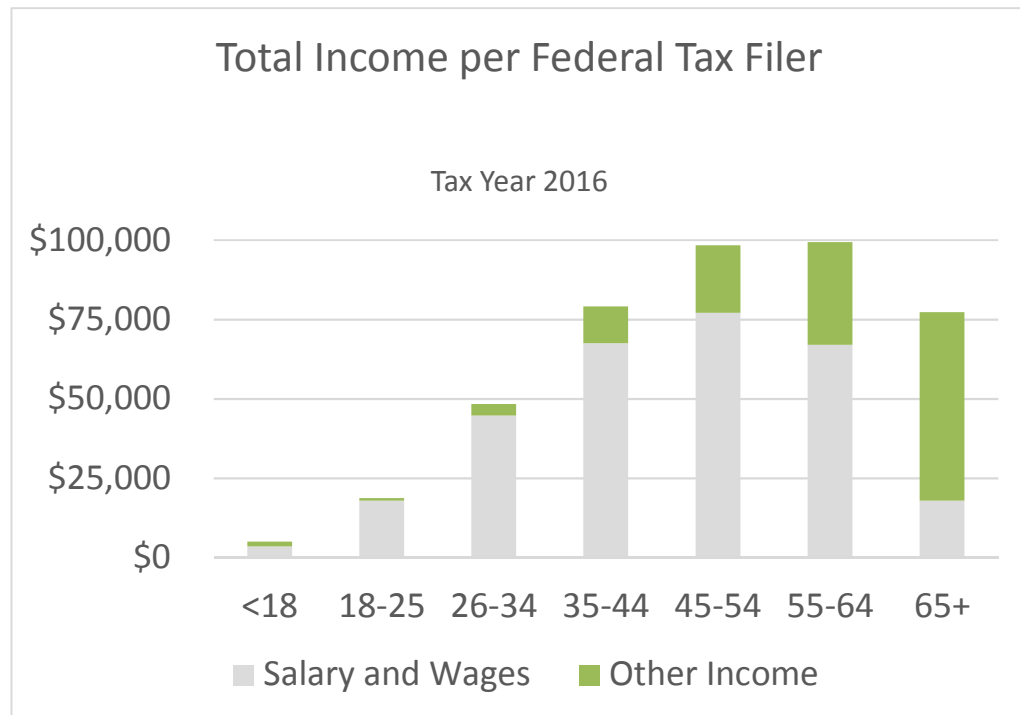
Vermont Tax Payers and Income by Age Group, 2014

Population  
Trends



## Deductions and Nontaxable Income

- **Wage income** comprises a decreasing portion of income with age
  - Deductions and nontaxable income tend to increase after 65
  - States with large additional tax breaks for seniors could see larger per-person revenue drops



## Observations of other states

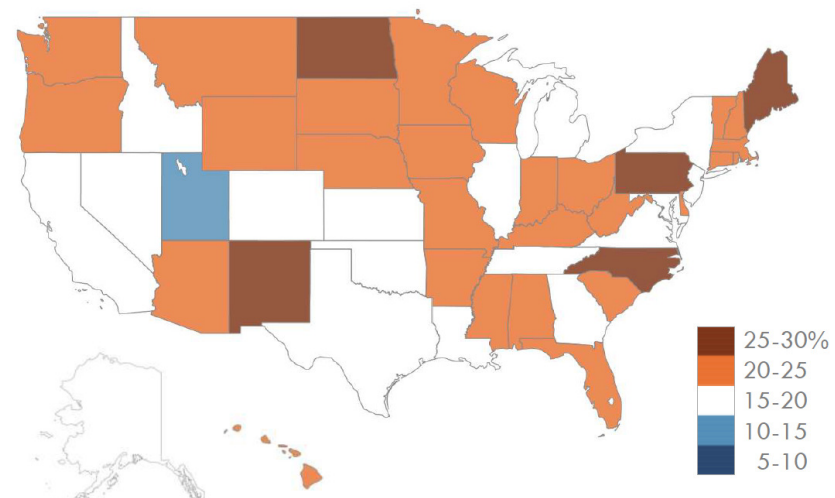
- NH and TN gain in % terms, as they only tax income from interest and dividends
- States with large deductions face larger drops
  - Average liability for Virginia seniors: 0%

2013 Projection from Federal Reserve Bank of Kansas City:

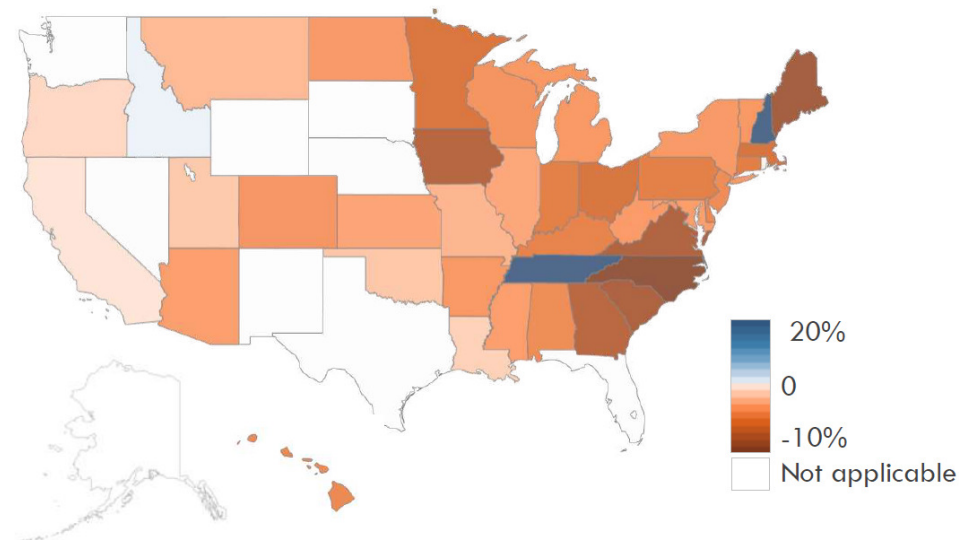
Change in VT Income Tax per Capita, 2011 to 2030: **-4%**

- Decrease could be smaller if seniors stay in the labor force longer, a trend that is likely to continue
- Decrease could be greater if in-migration to Vermont falls below projections

## 2030 share of population age 65+



## Income Tax per Capita Projected Percent Change, 2011 to 2030



# Impact on Sales Tax (and Meals and Rooms Tax)

## Sales, Meals and Rooms

- *Spending Levels* – Seniors, especially older seniors, tend to spend less than younger cohorts
- *Services* – Seniors' spending tends to shift away from taxable goods and toward non-taxable services
- *Travel* – On the other hand, an increase in early retirees could lead to an increase in tourism

### Consumer Spending by Age Cohort

	Allocation of Spending by Age Group					
	25-34	35-44	45-54	55-64	65-74	75+
<b>Generally Taxable</b>	<b>25.1%</b>	23.6%	23.7%	22.4%	<b>21.7%</b>	<b>15.2%</b>
Dining Out	6.4	6.3	6.0	5.3	5.5	3.9
Alcohol and Tobacco	1.9	1.5	1.8	1.8	1.6	0.9
Cell Phones	2.4	2.3	2.2	1.9	1.5	0.9
Home Furnishings	3.3	3.2	3.3	3.7	3.7	2.5
Car Purchase / Repairs	11.2	10.3	10.4	9.7	9.4	7.0
<b>Generally Non-Taxable</b>	<b>62.0%</b>	63.4%	61.4%	64.6%	<b>66.2%</b>	<b>73.1%</b>
Housing	39.9	39.3	36.1	36.7	35.3	37.3
Food At Home	8.4	8.7	8.5	8.5	8.4	8.4
Healthcare	5.5	6.7	7.5	9.5	12.5	15.4
Gasoline	5.9	5.8	5.6	5.5	4.9	3.6
Cash Contributions	2.3	2.8	3.7	4.4	5.1	8.4
<b>All Other</b>	<b>12.9%</b>	<b>13.0%</b>	<b>15.0%</b>	<b>13.0%</b>	<b>12.1%</b>	<b>11.7%</b>

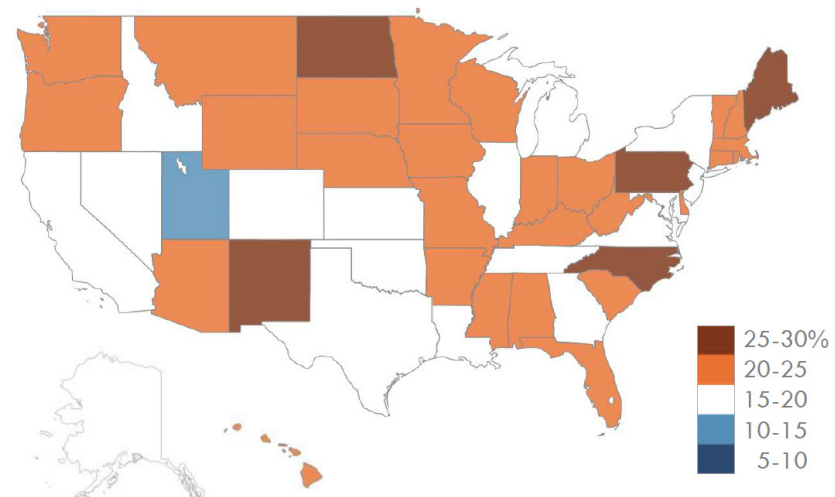
Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey.

2013 Projection from Federal Reserve Bank of Kansas City:

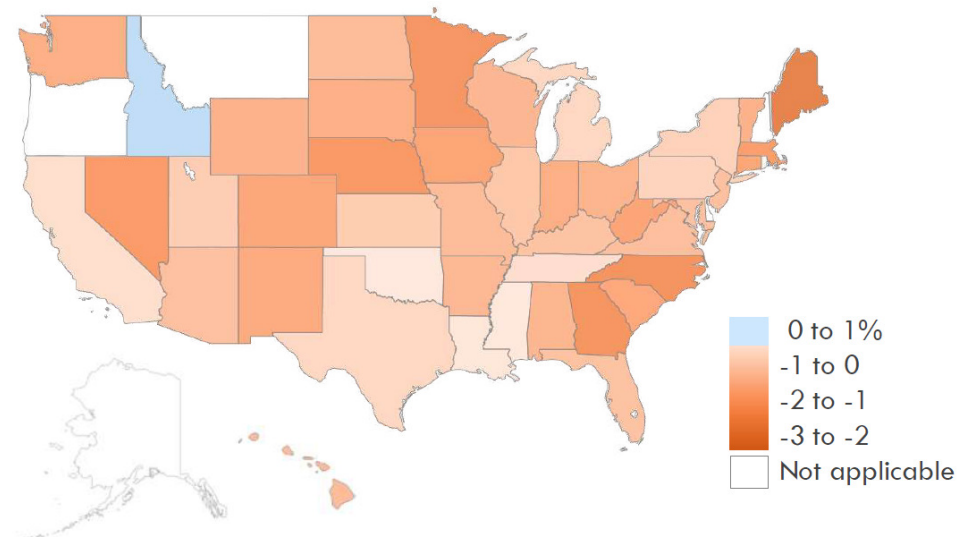
Change in VT Sales Tax per Capita, 2011 to 2030: **-1½%**

- Decrease could be smaller if seniors' consumption patterns extend alongside employment
- Decrease could be greater if in-migration to Vermont falls below projections

2030 share of population age 65+



Sales Tax per Capita  
Projected Percent Change, 2011 to 2030



# Impact on Property Tax

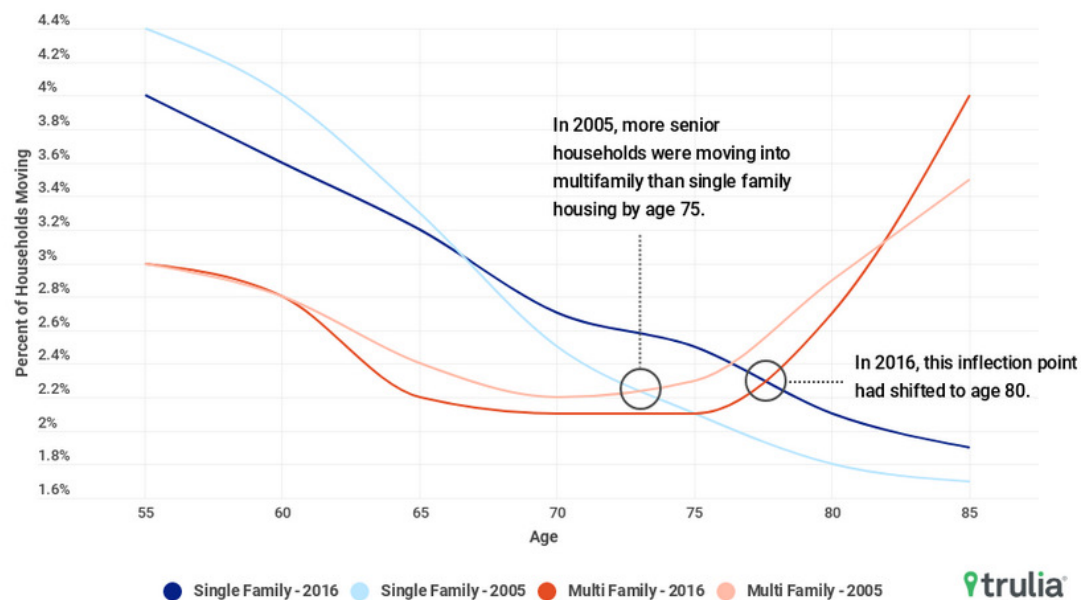


## Taxable Property

- Whether seniors stay in single family homes, downshift to apartments or condos, or move to assisted living impacts their property values
  - Nationally, seniors are waiting longer to downshift – and adult children are more likely to move home
  - The revenue impact is complex, as it depends on what choice a younger family might make when this housing is or isn't freed up

Americans are staying in single family homes longer

### Senior Household Moving Rates: Single Family vs. Multi Family

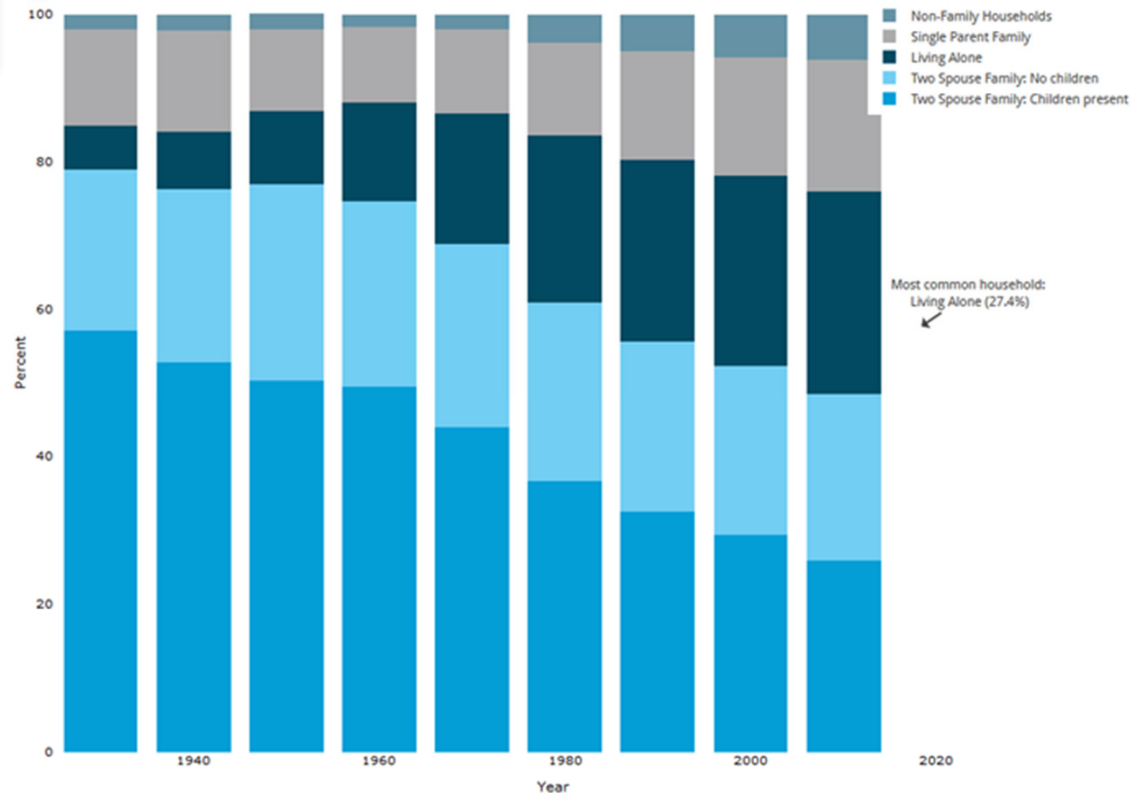


## Property Tax Adjustments

- Because Vermont's Property Tax Adjustments don't take household size into account, this tax expenditure is likely to grow as the proportion of single person households increases and incomes decrease

Nationally, one-person households are now the most common household

Senior Household Moving Rates:  
Single Family vs. Multi Family



Source: Joint Center for Housing Studies of Harvard University

# The Commission's Principles

The Principles of a High-quality State Revenue System can provide a frame to view the tax impacts of an aging population. Here are a few that stand out.

### “Rely on a balanced variety of revenue sources”

- Revenue systems that rely on a broad mix of taxes are likely to be more stable than those that rely heavily on wage income or the sale of goods

### “Minimize taxes on individuals with low income”

- Becomes more challenging when the highest income age groups shrink

### “Fairness, both actual and perceived”

- On the one hand, younger people could find it unfair to pay a higher effective tax rate than seniors with higher incomes
- On the other hand, seniors could find it unfair that other states offer larger tax breaks than their state

### “Responsive to interstate and international competition”

- Some states vie to attract high-income retirees
- Barry Bluestone, Dean of Northeastern University's School of Public Policy and Urban Affairs, predicts the "21st Century Civil War" will be a battle between states to attract and retain young working families to fill in the labor force gap