Your breaks for corporations are...

Permanent, but the cuts for the middle class...

...expire in 2026.

That gives you 8 years to become a corporation!

GOP

TAX PLAN

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FY18 Revenues by Fund Through October 2017
Actual Revenues (Green) vs. Targets (Red), Percent Variance by Fund in Box, Source: VT Joint Fiscal Office

- General Fund: -0.7%
  - Actual: $457.5
  - Target: $460.5

- Transportation Fund: +0.7%
  - Actual: $93.6
  - Target: $92.9

- Education Fund: +1.4%
  - Actual: $67.8
  - Target: $66.9
Year-To-Date FY18 Revenues Are Close to Target, but No Obvious Upside

- Total Revenues through October (General, Transportation and derived Education Funds) are about two tenths of one percent (0.2%) below targets (about $1.5M on a base of about $620M), with most tax sources at or near expectations.

- Major consumption taxes (Sales & Use and Motor Vehicle Purchase & Use) were at or slightly above targets through the first four months of the fiscal year, with indications seasonal shopping this month and next may be above trend. Tax receipts from major e-commerce companies represented a significant boost to Sales & Use revenues, as anticipated.

- Total Transportation Fund revenues through October were about $0.7 million above targets (+0.7%), with every revenue category within about a half million of projections, as fuel prices remain relatively low and stable and the economy gradually strengthens.

- Personal Income taxes were volatile through the first four months of the year, with weakness in withholding taxes in September and October causing some concern. Steep year-to-date declines among a small number of companies and large VEPC award payments, however, that caused these variances may not persist through the balance of the fiscal year - as should be evident in November receipts. Large potential capital gains from equity market growth in tax year 2017 offer substantial upside Personal Income revenue potential, however, uncertainty in federal tax law changes could delay the realization of taxable gains.

- Characteristically volatile Corporate Income tax revenues have also been affected by high levels of refunding. While most of the pending refunds have been cleared, there are still some refunds being contested that represent downside risk.
Economic Expansion Continues Unabated…

• Now in its 101st month, the current economic recovery is now the third longest expansionary period in business cycle history. If it continues through May of 2018, it will be the second longest, and if it lasts until July of 2019, would be the longest ever.

• Despite significant vulnerabilities, especially uncertain federal trade, immigration and fiscal policies, major imbalances that could lead to recession in 2018 are not evident

• The continuing recovery in home prices and recent strong equity market performance will bolster household wealth and along with continued low energy prices in 2018, should support robust consumer spending - which represents about 70% of the economy

• More than 17 million jobs have been added since February of 2010, pushing the U.S. unemployment rate to 4.1% in October, its lowest level since December of 2000. Virtually every labor market metric has shown improvement over the past year, including leading indicators, such as initial unemployment insurance claims, that suggest a continuation of these trends in the near-term.

• Tightening labor markets have finally begun to exert some upward pressure on wages and incomes, resulting in some of the first real household income gains across all income strata in 2016, however, this remains among the most pressing economic issues, as income gains continue to be increasingly concentrated among the highest income groups

• The still emerging economic policies of the Trump Administration - especially trade - will probably be the most significant factor affecting the continuation of the current economic expansion
After 85 Consecutive Months, 17.3M New Jobs Underpin a Strengthening Economy
The Current Economic Expansion Could End Up Being the Longest on Record
(Source: National Bureau of Economic Research)

- Months from Peak to Trough
- Months from Trough to Peak

As of December 2017

2018? 2019?
December 2007
March 2001
July 1990
July 1981
January 1980
November 1973
December 1969
April 1960
August 1957
July 1953
November 1948
February 1945
May 1937
August 1929
October 1926
May 1923
January 1920
August 1918
January 1913
January 1910
May 1907
September 1902
June 1899
December 1895
January 1893
July 1890
March 1887
March 1882
October 1873
June 1869
April 1865
October 1860
June 1857
Stocks Soar to New Highs, but When is the Exuberance Irrational?
(S&P 500 Index, Daily Average)

+16.2% since December 30, 2016
Ratio of Average U.S. Household Income of Top 5% to Lowest 20%
(Source: U.S. Census Bureau)
Growth In Real Household Income, By Income Class
1980 to 2016 (Orange) and 1990 to 2016 (Grey)

Source: U.S. Census Bureau
2018 Recession Risks Remain Subdued, Now at About 1 in 7
(Risk of Recession In the Next 12 Months - Source: Wall Street Journal Survey of 75 Economists)
Energy Prices Remain Tame
(West Texas Intermediate Crude Oil, PPB in October 2017 Constant Dollars)

Sources: Wall Street Journal, Moody's Analytics, KRA

(Feb 20209 - $45 per Barrel)

(April 2011 - $121 per Barrel)

(June 2008 - $152 per Barrel)

(Feb 2016 - $31 per Barrel)
Real Retail Sales Growth Remains Steady at About 2%
Total Constant Dollar U.S. Retail Sales - Percent Change from Year Ago, Source: U.S. Census Bureau
Elevated Consumer Sentiment Augurs Well for 2017 Shopping Season

(University of Michigan Survey, Index of Consumer Sentiment)

Nov-2017 Level
23% of State Sales and Use Tax Revenues are collected in December and January Filings.
E-Commerce Share of Total U.S. Retail Sales

Trendline
\[ y = 0.0008x^2 + 0.0523x + 0.8532 \]
\[ R^2 = 0.9964 \]
Inflation is Still Subdued, but Could Rise with Proposed Trump Policies

CPI-U - All Items, Source: U.S. Bureau of Labor Statistics
Corporate Profit Growth Resumes, But Recent Dip Generates Refunding

U.S. corporate profits with inventory valuation and capital consumption adjustment; Source: US BEA; Data in bubbles indicate number of consecutive quarters of growth and percent change, tr

RECESSIONS

Nope...
U.S. Corporate Profits Are 27% Above Their Pre-Recession Peak
(U.S. corporate profits with inventory valuation and capital consumption adjustment; Source: US BEA)
Labor Markets Improve, but Job Quality and Wage Growth Remain Concerns

- Vermont is tied with Idaho with the 6th lowest unemployment rate in the nation in October at 2.9%, its lowest level in nearly 17 years
- Regional unemployment continues to reflect disparities between the Burlington metropolitan area and the remainder of the state, with pockets of consistently higher long-term unemployment in the NEK
- Demographic constraints will shape labor force and employment growth, even with low unemployment rates
- Job “quality” and related income and wage growth continues to be a concern, although improvement has occurred in the last year
- For example, real household income for the bottom 60% of the population grew more than 3% in 2016, but was still below real earnings in 1999. For the lowest 20%, earnings were below 1989 levels. Meanwhile, real income among the top 40% of the population hit record highs in 2016, with the top 5% now earning more than $375,000 per year - about 29 times that of the lowest 20%.
- Initial claims for unemployment insurance in Vermont, a leading indicator of labor markets, dropped to near record lows in recent quarters
Vermont Employment Growth Lags U.S. as Population Growth Stalls
(Total Nonagricultural Employment, Percent Change vs. Year Ago, Seasonally Adjusted Data)

Vermont Unemployment Rate Continues to be Well Below U.S. Level
(Seasonally adjusted data, Source: Bureau of Labor Statistics, U.S. Department of Labor)
Unemployment Rate by State - October 2017
Seasonally Adjusted Data, Source: U.S. Bureau of Labor Statistics

The chart shows the unemployment rates for various states in October 2017. The rates range from 2.2% in Hawaii to 7.2% in Alaska. For example:
- Alaska: 7.2%
- District of Columbia: 6.6%
- Kentucky: 5.1%
- New York: 4.8%
- Utah: 3.3%
- Vermont: 2.9%

The chart provides a visual representation of the unemployment rates across different states in the United States.
Unemployment rates by county, 2012 annual averages

(U.S. rate = 8.1 percent)

SOURCE: Bureau of Labor Statistics
Local Area Unemployment Statistics
Unemployment rates by county, 2016 annual averages

(U.S. rate = 4.9 percent)
Unemployment rates in New England by Minor Civil Division, October 2016 – September 2017 averages
(U.S. rate = 4.5 percent)

SOURCE: Bureau of Labor Statistics
Local Area Unemployment Statistics

[Map of New England with color-coded regions indicating unemployment rates]
No Recession in Sight:
Vermont Initial Unemployment Insurance Claims Drop to Near Record Lows
(3 Month Centered Moving Average - Seasonally Adjusted Average Weekly Initial Unemployment Claims)
Real Estate Markets Strengthen, with Vermont and Massachusetts Finally Exceeding Prior Peak Levels

• Real estate markets are characterized by pronounced cyclicality and regional variation.

• For the thirteenth consecutive quarter, housing prices increased on a year over year basis in virtually every U.S. state. As of the second quarter of 2017 (the most recent available), 36 states equaled or exceeded their pre-recession peak levels.

• Massachusetts (+3.8%) and Vermont (+0.4%) are the only regional (New England + NY) states to exceed their pre-recession home price levels. Continued housing price weakness in surrounding regional states, especially CT, which has one of the worst-performing real estate markets in the country, will affect second home markets in Vermont, via wealth effects.

• Real estate markets in Western states, such as CO, WA, OR and ID, have experienced the strongest recent growth, while ND, TX, SD, NE and DC have had the highest peak to peak growth in the recovery thus far.

• The Vermont Property Tax base (Grand List) is still expected to exceed 2009 peak levels next year, however, on an inflation-adjusted basis, will not reach 2009 levels until 2024, putting continued pressure on tax rates to cover rising education costs.
Massachusetts Real Estate Markets Often Lead Those in Vermont
(Percent Change Year Ago in Home Prices, FHFA All Transactions Index)
Home Prices: The State of Burlington vs. the Rest of the State...

- 8.6% since prior peak
- 6.5% since prior peak

FHFA Home Price Index, 1995Q1 = 100

- State Indexes for Houses not in Metropolitan Statistical Areas
- Burlington-South Burlington, VT MSA
Vermont Real Estate Update: Housing Values Relative to Last Peak (pink) and Trough (grey)

Percent Change, 2016 vs. Peak Price by County Reached in 2007 or 2008 - Pink and 2016 vs. Trough Price Reached Between 2009 and 2016 - Grey

Source: FHFA Home Price

- Chittenden: 4.8% pink, 8.2% grey
- Grand Isle: -0.3% pink, 3.1% grey
- Washington: -0.3% pink, 6.9% grey
- Franklin: -1.9% pink, 5.5% grey
- Addison: -3.0% pink, 2.5% grey
- Lamoille: -7.4% pink, 4.1% grey
- Orange: -9.2% pink, 3.1% grey
- Orleans: -10.7% pink, 3.1% grey
- Caledonia: -11.3% pink, 0.0% grey
- Windsor: -14.0% pink, 0.1% grey
- Windham: -14.7% pink, 0.0% grey
- Rutland: -16.9% pink, 0.6% grey
- Essex: -17.1% pink, 6.2% grey
- Bennington: -19.4% pink, 0.0% grey

80.6%
2016 VT Home Prices vs. Prior Peak by County
2016 FHFA Home Price Index versus Peak Price During 2007-2008
Source: FHFA Home Price Index - All Transactions, Developmental Index
Vermont Housing Price Declines in This Cycle Are Over, but E-Fund Tax Base Impacts Linger

(FHFA Vermont Housing Price Index Percent Change Vs. Year Ago, Historical Data - Red, Forecast Data - Green)
Vermont Demographics: More of the Same...

- The movement over time of the “baby-boom” population bulge continues to dominate VT and U.S. demographics, and is responsible for the aging profile of both. The children of this large cohort, referred to as the “baby-boom echo,” represents a much more diffuse wave, as families have fewer children and at older ages.

- Significant declines in fertility rates in the past 20 years have dropped Vermont births from about 8,000 per year in the early 1990’s to about 6,000 per year at present.

- Migration flows slowed dramatically during the last recession as employment opportunities declined throughout the country and region, home prices dropped, mortgage lending tightened and real estate markets froze. They are still below pre-recession levels in much of New England, from which Vermont receives most in-migration, but growth in large urban areas in Massachusetts has been strong in recent quarters and now exceeds prior peak levels.

- In addition to the large declines in enrollments experienced in the State over the past 20 years, these demographic events have (since 2011), and will continue to, combine to create declines in the prime working age population, ages 25-64 over the next decade or more. This, in turn, will affect employment, earned income and selected tax revenues in the State.
2011 Vermont Income by Age
(Average AGI per Single Age of Primary Filer, Source: Vermont Department of Taxes)
Working Age Population Growth vs. Total Population Growth in Vermont

- Total Population
- Ages 25 to 64
- Age Weighted Labor Force
Vermont Population - Age 0 (Births)

Source: U.S. Census Bureau, Vermont Legislative Joint Fiscal Office Estimates
Vermont Public School Enrollment Declines Not Likely to be Reversed Soon...

18% Decline in Enrollments Between 1997 and 2016

20% Enrollment Decline Expected Between 1997 and 2020, With Little Prospect of Any Significant Reversal Through 2025

Sources: Vermont AOE and Consensus Administration and Joint Fiscal Office Projections - October 2016
The US Dollar Weakens, Though Remains 30% Above 2011 Levels, Maintaining Competitive Export Disadvantages
(Source: U.S. Federal Reserve Board)
Strong Dollar and Weak Canadian Economy Hammer Vermont Exports
(Source: World Institute of Strategic Economic Research, Federal Reserve Bank of Boston)

Total Vermont Exports Share of Exports to Canada

Strong Dollar and Weak Canadian Economy Hammer Vermont Exports
(Source: World Institute of Strategic Economic Research, Federal Reserve Bank of Boston)
Exports Are More Important to the Vermont Economy Than to Most States

Merchandise Exports as a Percentage of Gross Domestic Product - 2015
(Source: World Institute of Strategic Economic Research, Boston Federal Reserve Bank)
Simplifying the U.S. Tax Code...
The Trump Tax Plan, which sped through the House and is now out of committee in the Senate, with virtually no testimony, debate or economic or fiscal impact analysis, is a massive tax overhaul which includes some tax reform - though, notably, not revenue neutral - and a reduction in tax payments for many, via increased federal borrowing and greater national debt.

While details associated with this legislation are changing by the hour, most likely versions direct the largest benefits to corporations and wealthy individuals, with broader middle class impacts mixed, with most (about 75%) receiving some near-term benefit, but in aggregate paying more in the long run due to the expiration of many of the benefits, but not the offsets, in later years. Virtually no benefits are directed to low income individuals or the working poor.

The Plan is centered around a large and permanent reduction in the Corporate Income tax, a shift from a “worldwide” to “territorial” corporate tax regime, a reduction in some “pass-through” entity and most personal income tax rates, an increase in the standard deduction and child tax credit, elimination of the AMT and Estate tax, the elimination or reduction of many tax deductions, such as state and local taxes, mortgage interest, corporate charitable donations, etc., the elimination of the ACA individual mandate, a lowering of the inflation measure used to adjust tax brackets (lower inflation = higher taxes) and a multitude of other changes.

The Vermont Joint Fiscal Office and Tax Department will be performing more in-depth analyses in connection with this Plan as it progresses through the Congress. If not offset with specific legislation or tax policy, some could raise Vermont revenues, others lower it.

Stay tuned...
While Most Economists Expect that the Proposed Tax Plan Would Increase the Federal Deficit...

"If the U.S. enacts a tax bill similar to those currently moving through the House and Senate...the U.S. debt-to-GDP ratio will be substantially higher a decade from now than under the status quo."

Based on a University of Chicago panel of 42 ideologically diverse economists, chosen to include distinguished experts with a keen interest in public policy from the major areas of economics, to be geographically diverse, and to include Democrats, Republicans and Independents as well as older and younger scholars. The panel members are all senior faculty at the most elite research universities in the United States. The panel includes Nobel Laureates, John Bates Clark Medalists, fellows of the Econometric society, past Presidents of both the American Economics Association and American Finance Association, past Democratic and Republican members of the President's Council of Economics, and past and current editors of the leading journals in the profession. This selection process has the advantage of not only providing a set of panelists whose names will be familiar to other economists and the media, but also delivers a group with impeccable qualifications to speak on public policy matters.
...Few Believe it Would Substantially Improve the U.S. Economy in the Long-Term

"If the U.S. enacts a tax bill similar to those currently moving through the House and Senate...U.S. GDP will be substantially higher a decade from now than under the status quo."

<table>
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<th>Opinion</th>
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<td>33%</td>
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<tr>
<td>Strongly Disagree</td>
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</tbody>
</table>
Each dot represents one household in the middle class in 2018.

People on this side will get a **tax increase**

People on this side will get a **tax cut**

- Many households that currently itemize
- Childless married couples who take the standard deduction
- Families with two children who take the standard deduction
- Childless singles who take the standard deduction

Tax Plan Impacts Are Likely to Include:

• Near-term economic boost from deficit spending, but with attendant interest rate hikes and higher inflation. Wage growth is most likely in occupations and regions with labor shortages

• The largest benefits will accrue to the wealthiest households, with less certain secondary “trickle down” effects benefitting other income groups. This will likely exacerbate income and wealth inequality in the U.S.

• The U.S. deficit will increase, unless provisions for automatic tax or spending adjustments are built in and acted upon. Virtually no credible dynamically scored economic model shows the proposed tax changes to be revenue neutral or positive

• Most beneficial impacts for middle class taxpayers will decline and/or turn negative over a 10 year impact period, depending upon the extent to which corporate tax cuts accrue to workers. Other “losers” could include organizations dependent upon charitable giving, individuals who take state and local tax deductions, single family home-builders and related businesses, large universities and some small business owners.

• Guaranteed full employment for tax attorneys and other tax advisors for at least the next several years, if enacted

• Many corporate and individual behavioral impacts are uncertain at this time and could result in unintended effects at both the national and state levels
Forecast Risks

- Most forecast risks are associated with potential self-inflicted economic and fiscal policy missteps by the Trump Administration.

- Most prominently among these are trade policies. The instigation of tariffs that could lead to wider trade wars could have serious negative long term economic effects on both the U.S. and its trading partners.

- Vermont’s reliance on international trade could make it especially vulnerable to such policies. Vermont has already experienced a 39% decline in exports over the past five years, due to rising exchange rates and weakness in the Canadian economy amidst low commodity prices. The share of Vermont’s economy dependent upon exports is nearly twice that of any other state in New England.

- Proposed defense and possible infrastructure spending increases, along with the large proposed tax cuts will lead to expanding deficits, higher inflation and higher interest rates. While many of these proposals have yet to be fully analyzed, the proposed tax plan alone will add at least $1.4 trillion to the debt and deficit hawks in Congress seem to have disappeared.

- Widening income and wealth inequality in the U.S. could further dampen demand and slow growth relative to “normal” demographic-based indicators.
WE CAN MEET IN THE MIDDLE on INFRASTRUCTURE, RIGHT, GUYS?
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