

# Vermont Tax Study

## Volume I Comparative Analysis

*January 16, 2007*

Prepared in accordance with  
Act 215, Sec. 271a  
of the 2006 Legislative Session

**PREPARED BY**  
Legislative Joint Fiscal Office

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Prepared by the Vermont Legislative Joint Fiscal Office

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**STATE OF VERMONT**  
JOINT FISCAL OFFICE

January 16, 2007

To the Joint Fiscal Committee:

Please find enclosed the 2006 Vermont Tax Study, Volume 1, prepared in accordance with Act 215, Sec. 271a, of the of the 2006 Legislative Session. Volume I is a comparative analysis. Volume II which will be released shortly is a case study comparative.

A principal goal of these analyses is to compare Vermont's tax structure to that of other states. Like the previous Joint Fiscal Office Vermont Tax Study of 1996, this version ranks Vermont's major taxes nationally and in relation to 11 other comparison states.

As you know, the Vermont tax system has changed markedly since our previous report. The most significant is the shift of education property taxes from the local to the state level. Education funding continues to evolve, but the establishment of the statewide education property tax has profoundly altered the overall tax structure of Vermont.

Also of note is that the organization of this report varies from the approach taken in the 1996 tax study. We believe you will find that this new presentation of data offers a more useful study and an enhanced view of Vermont's tax system.

Finally, any examination of tax types involves innumerable details that make accurate and meaningful comparisons among states fraught with difficulties and contingent on caveats. While this study will most certainly inform the Legislature and the general public, this is by no means a comprehensive examination of all tax issues. No single study can provide in-depth analysis of all vital fiscal issues relating to taxation. Indeed, at times, this report may raise as many questions as it answers.

Sincerely,

Sara Teachout, Fiscal Analyst, Principal Researcher

Stephen Klein, Chief Fiscal Officer



## STATUTORY CHARGE

### Act 215, Sec. 271a. VERMONT TAX STUDY

(a) The joint fiscal office, with assistance from the staff of the legislative council, under the direction of the joint fiscal committee, shall conduct a study of Vermont state taxes.

(b) The study shall:

(1) Analyze historical trends since 1995 in Vermont taxes as compared to other states, and compare the percentage of Vermont revenue from each state-level source to the percentage of revenue from each state-level source in other states;

(2) Analyze state tax burdens per capita, per income level, on typical Vermont families of a variety of incomes, and on typical Vermont business enterprises of a variety of sizes and types, and analyze trends in the taxpayer revenue base; and

(3) Review the simplicity, equity, stability, predictability and performance of the Vermont personal and corporate income tax, sales tax, meals and rooms tax, business franchise taxes, insurance premium taxes, and education property tax.

(c) Based upon the data resulting from the study in subsection (b) of this section, the joint fiscal office shall, as part of the study or separately, prepare a review of:

(1) alternative top personal income tax rates for Vermont, based upon possible changes to income brackets and tax rates below the marginal rate;

(2) taxes in which broadening the base would allow a reduction in rate or rates, and possible options for achieving this; and

(3) the future Vermont economic and demographic trends, and implications for Vermont's tax structure as regards revenue, equity, and competitiveness.

(d) The Vermont department of taxes shall cooperate with and provide assistance as needed to the joint fiscal office. The study, including recommendations for further research or analysis, shall be submitted to the joint fiscal committee by December 15, 2006. Funding of \$30,000 is provided in Sec. 272 of this act for consultant assistance, data analysis, and other expenses related to this study.



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## EXECUTIVE SUMMARY

The principal objective of this study is to review 10 years of changes to Vermont's tax system. The national and state-to-state comparisons included in this report are intended to put Vermont's system of taxes in perspective. Yet any examination of tax types involves numerous details that make accurate and meaningful comparisons fraught with difficulties and contingent on caveats. Each state's tax structure is a complex, layered system of local, county and state taxes that affect individuals and businesses in a variety of ways. While the analyses included here will most certainly inform policy-makers and the general public, this is by no means a comprehensive examination of all tax issues. In the end, this study highlights the core characteristics and issues for each tax source, but it cannot provide in-depth analysis of the many vital fiscal issues. Indeed, at times, this report raises as many questions as it answers.

Tax revenues and relative state tax rates should be understood in the context of the public services they fund and the economic and societal benefits derived from these expenditures. New England states in general, for example, have relatively high tax rates, but also provide their citizens with more extensive public services than most other states. As Vermont moves forward with new health care and education initiatives, the relationship between services and tax levels will continue to be an area for discussion.

### Key findings

The Vermont tax system has changed in a variety of ways since the 1996 Vermont Tax Study. The most significant is the shift of education property taxes from the local to the state level. Education funding continues to evolve, but the establishment of the statewide education property tax has profoundly altered the overall tax structure of Vermont. The single largest source of state tax revenue is now the education property tax, whose revenue continues to be dedicated entirely to education. Two other significant trends in Vermont taxation include the expanded use of tax credits and the growth of dedicated taxes; both of these trends merit further evaluation. Over the next ten-year period, the ageing population and how this demographic issue may affect the state tax system warrants additional analysis. The following are among the report's specific findings:

Total forecasted state revenues were \$2.1 billion in fiscal year (FY) 2005. The largest sources are the statewide property tax (30%), the individual income tax (24%), and the sales and use tax (24%). Vermont ranked 14<sup>th</sup> nationally in state and local revenue collections per capita and sixth nationally in state and local collections as a percent of personal income. Among the 12 key comparison states consistently analyzed throughout this report, Vermont ranked sixth in state and local taxes per capita. Vermont was ranked in the middle nationally at 25<sup>th</sup> in personal income per capita.

Approximately 77% of all revenue in Vermont is collected by the state, the remainder by local governments. In 1995 the state portion was 64%. This shift is largely the result of the state education tax implemented in fiscal year 1999. As the state share of taxes has grown in Vermont, it has declined during the past decade nationally and in the 11 comparison states from 60% of revenues to approximately 55%, largely due to growth in local property taxes. This makes state-to-state comparisons difficult for a variety of taxes.

## Specific Taxes

### Individual Income Tax

Among the 12 comparison states, Vermont's income tax revenue per capita ranked ninth in FY 2005, lowest among the comparison states that have an income tax and lowest among the New England states with an income tax.<sup>1</sup> Among 43 states with a general income tax, Vermont's per-capita revenue from the tax rose from 31st in FY 1995 to 19th in FY 2005. Vermont's climb in this ranking can be explained in large part by demographics and rising per capita income. Population growth in Vermont has lagged behind the national rate, while income growth has been above average. In addition, Vermont has a relatively higher population in its prime income-generating years (ages 40 to 60) while its population earning little if any income (ages 0-15) is lower compared to most states. These factors combined, among others, raised Vermont's comparative ranking in income tax revenue per capita.

Vermont's top marginal income tax rate, paid by the highest-income Vermont taxpayers on a portion of their income, is technically the second highest in the country at 9.5%. However, only one-half of one percent of Vermont taxpayers pay income taxes at this highest marginal rate. By comparison, 56.2% of all Vermont filers pay at the lowest marginal rate of 3.6% and an additional 20.2% do not pay any state income tax at all. Therefore, another approach is to examine Vermont's effective rate – the amount of actual taxes paid as a percentage of total income. The average effective tax rate for all in-state Vermont taxpayers was 4.8% of taxable income in 2004 and 3.1% of Adjusted Gross Income. Nevertheless, an increasing share of the individual income tax in Vermont is being paid by a relatively small percentage of the wealthiest taxpayers, which can potentially make individual income tax revenue increasingly volatile.

### Sales-Based Taxes

Vermont is among 12 states with a sales and use tax of 6.0%. Nine states have higher state sales tax rates. Of the 45 states with a general sales tax, Vermont's ranking for sales and use tax revenue per capita decreased from 32<sup>nd</sup> in FY 1995 to 41<sup>st</sup> in FY 2005. Vermont's per-capita ranking well below the national average is due to a number of factors, including: a number of substantial exemptions from the sales and use tax, alternative taxation schemes for meals and rooms and motor vehicles (which are subject to general sales taxes in some states), as well as sales tax loss to neighboring states. If all Vermont sales-based taxes were added together (sales and use, meals and rooms, and purchase and use taxes), the state revenues-per-capita ranking climbs to 14<sup>th</sup>.

### Property-Based Taxes

Vermont has several taxes based on the value of real property: the education property tax, the municipal property tax, the property transfer tax, and the land gains tax. The largest of these is the education property tax, which is the single largest source of tax revenues in Vermont. In FY 2005, the education property tax raised approximately \$655.8 million, or 31% of all state revenue. The tax raises more than 60% of the revenue used to finance public elementary and secondary education across Vermont. Vermont is eighth nationally in property taxes per capita – the same rank it held 10 years ago. Relative to the 11 other comparison states, Vermont ranked sixth in property tax revenue per capita in 2005; all other New England states ranked higher than Vermont. Property tax revenue has grown as non-property tax support for education continues to lag on both the state and federal level. From 2000 to 2005, total education spending grew an average of 5.4%. Non-property tax contributions to the education fund grew at 3.3%, meaning that the net education taxes have had to grow by 7.0%.

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<sup>1</sup> New Hampshire is the only New England state without an individual income tax.

## **Business Taxes**

The corporate income tax is the tax most commonly associated with businesses in Vermont. Yet most Vermont businesses do not pay the corporate income tax. Of the approximately 35,700 businesses in the state, 38% are C Corporations, whose earnings are subject to the corporate income tax. All other types of businesses – Subchapter S Corporations, Limited Liability Companies (LLCs), and partnerships – do not pay tax as a business entity, but rather the shareholders pay individual income taxes on their earnings from the business. Of the 12 comparison states, Vermont's taxes on business, including the corporate income and bank franchise taxes, ranked 10<sup>th</sup> per capita in FY 2005. Nationally, Vermont ranked 25<sup>th</sup> in state corporate income taxes per capita in 2005. A number of recent tax policy changes to the corporate income tax have yet to be implemented and their impact fully assessed. Vermont began applying unitary combined reporting for multistate corporations in 2006 while simultaneously lowering corporate income tax rates, among other changes. Computerization of corporate tax return information, similar to the individual income tax, will increase the ease for corporate taxpayers, improve collections, and facilitate policy analysis.

## **Excise Taxes**

All the state excise taxes together – cigarette, gasoline, diesel, beer, wine, liquor, and lottery – make up a small portion, approximately 8.0%, of total state tax revenue. With the exception of the liquor excise tax, which is based on retail sales, the other excise taxes are all unit-based (per pack of cigarettes, for example, or per gallon of gasoline), and the revenues from these sources do not always keep pace with inflation unless the tax rates are periodically adjusted. While the cigarette tax has been increased numerous times in recent years, other excise taxes have not been increased as regularly. An overall review of the role of excise taxes as part of the state tax system and how they complement sales-based taxes is warranted.

## **Other Revenue Sources**

Vermont has a number of minor taxes that contribute relatively little revenue to the tax system. In recent years, a few of these have been re-evaluated and eliminated if tax policy goals and the amount of revenue raised by these tax sources did not justify the administrative cost. (The Amusement Machine License, Musical Machine License, and the Freight Lines and Transportation Companies Tax were repealed recently.) Periodic review of these tax sources is recommended.

## **Revenues and State Funds**

Vermont has seen a steady trend away from general revenues toward dedicated revenues. In the past 10 years, portions of the sales tax, the purchase and use tax, and tobacco taxes, among others, have all been dedicated. During this period, average annual growth in the General Fund has been 4.7%, the Transportation Fund 3.0%, and special funds 10.1%. Further analysis is warranted on the efficacy and impact on public expenditures of special and dedicated funds. Such funds can serve to obscure important revenue collection and expenditure metrics and may create a competitive advantage for special fund supported programs.



# INTRODUCTION

In Act 215 Sec. 271a (H.881) of the appropriations bill, the legislature authorized the Joint Fiscal Office (JFO) to conduct this study of Vermont's state taxes to provide information to be used during legislative deliberation. This study is a follow-up to a study completed in 1996. Its aim is to provide a basic understanding of Vermont's revenue system and the level of taxation relative to other states.

## Study Organization

The study comes in two volumes. Volume I, Comparative Analysis, is an examination of the historical trends in Vermont's tax system and comparisons of tax levels to those of other states. Volume II, Case Studies, reviews the hypothetical tax for 24 individual case studies and for two business taxpayers in Vermont and in 11 other comparison states. That analysis assumes each individual and business has the same income and expenses in each state.

Volume I begins with a **State Tax System Overview and Comparisons** – a broad look at Vermont's tax system, its components and their relative contributions to state revenues. In this section, and throughout the report, Vermont's per capita tax burden is compared to that in all 50 states and more specifically to 11 selected states. The 11 states were chosen to provide consistency with the 1996 study and to allow direct comparisons with the results from that time. Several broad measures are used in the comparisons, including total state and local revenues per capita or per \$1,000 of personal income, for example, or plain comparison of tax rates. The states were originally chosen based on a 1993 Vermont Business Roundtable study that identified key competitor states and areas in continental North America. The comparison states are:

Connecticut	Florida	Maine
Massachusetts	Minnesota	New Hampshire
New York	North Carolina	Oregon
<b>Vermont</b>	Washington	Wisconsin

Data were collected from the US Census Bureau, the Federation of Tax Administrators, the Bureau of Labor Statistics, and many other sources. Using various data sources can raise issues of compatibility in the state and national comparisons; every attempt was made to identify any such issues as they arose throughout the study. Three previous Vermont tax studies used for this analysis include: Vermont Tax Study, November 1996; Vermont Taxes: Goals and Recommendations, January 1987; and Vermont General Fund Taxes: A Study, October 1983.

Volume I continues with **Vermont Tax Sources**, detailed analyses of five major tax components: Individual Income Tax, Sales-Based Taxes, Business Taxes, Property-Based Taxes, and Excise Taxes as well as a section titled Other Taxes. For each tax source, the report includes analyses of tax base, tax rates, revenues, and national or state comparisons.

The next section, **State Funds**, is an overview of key state funds – General Fund, Transportation Fund, Special Funds, Fish and Wildlife Fund, Education Fund and other funds – with corresponding revenue data for each.

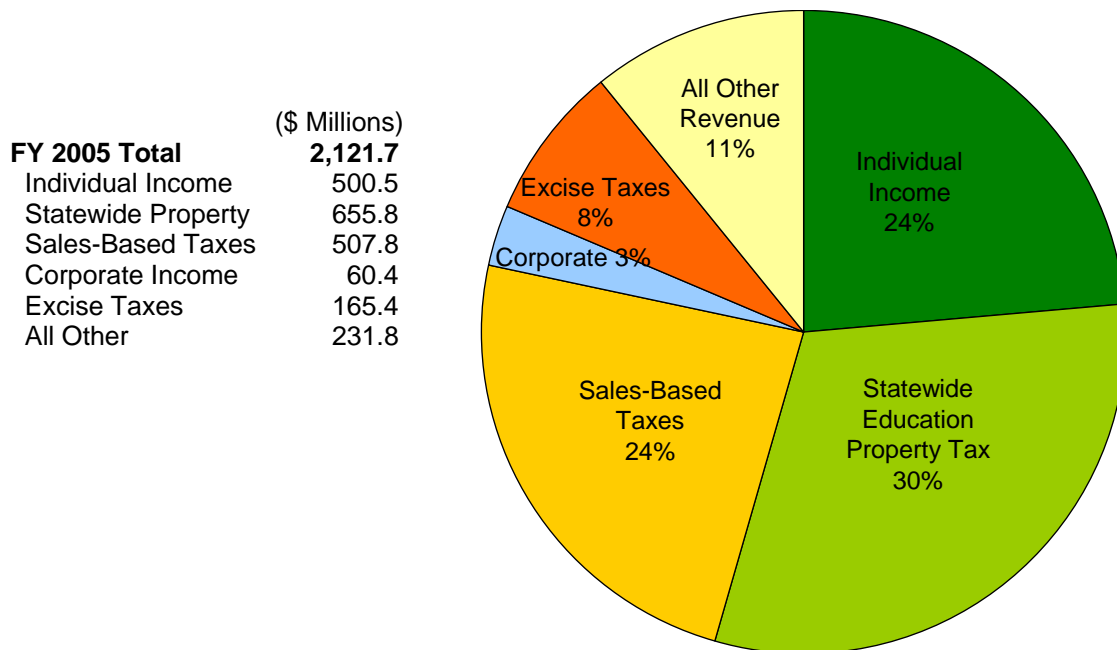
Volume I ends with a **Conclusions** section that outlines significant tax changes since the last tax study and suggestions for future investigation. **Appendices** contain supplemental data not included in the body of the report.



## STATE TAX SYSTEM OVERVIEW AND COMPARISONS

Vermont's forecasted state revenue amounted to \$2.1 billion in Fiscal Year 2005; 95% of it came from state taxes. The remainder came from a variety of sources including fees, licenses, fines, assessments, and interest. The three largest tax sources, accounting for 78% of state taxes, were the statewide education property tax, the individual income tax, and sales-based taxes.

**Total FY 2005 State Revenues<sup>2</sup>**



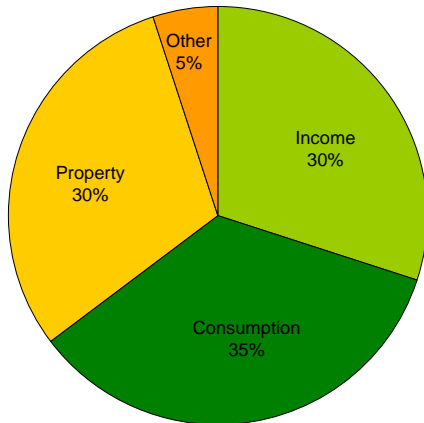
The statewide education property tax accounted for \$655.8 million of revenue in FY 2005, or 30% of total state revenues. This figure includes both the non-residential and net homestead taxes. The individual income tax accounted for \$500.5 million, or 24% of FY 2005 revenue. Sales taxes, including the sales and use tax, the purchase and use tax, as well as the meals and rooms tax, accounted for \$507.8 million, or 24% of total FY 2005 revenues. The remaining 22% of state revenues are from all other state tax and revenue sources, including the corporate income tax, insurance premiums taxes, excise taxes on gasoline and cigarettes, motor vehicle fees, and many others.

Total FY 2005 forecast of state revenue collections can also be grouped into three general categories for a broad overview of the system: income, consumption, and property-based taxes. The chart below shows the relative tax shares of these tax types in both FY 2000 and FY 2005.<sup>3</sup> The charts show that the percentage of revenue from property sources (the statewide education property tax, property transfer taxes, and telephone property tax) have increased from 30% of total collections in FY 2000 to 34% in FY 2005. Income tax sources (the individual income tax and the estate tax) have decreased from 30% in FY 2000 to 27% in FY 2005 while consumption taxes have remained a relatively constant component of the revenue picture.

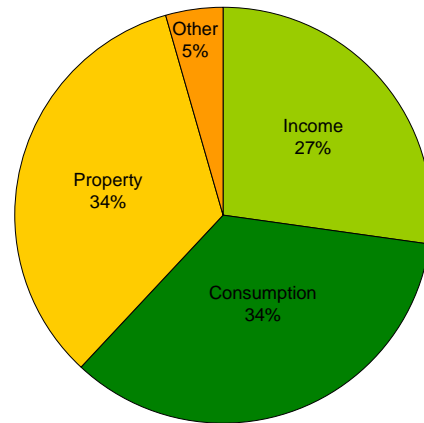
<sup>2</sup> State only, own-source revenue included in the biannual consensus forecast plus net statewide property taxes.

<sup>3</sup> FY 2000 is the first year of full implementation of Act 60 education funding.

**FY 2000 Revenue by Source**



**FY 2005 Revenue by Source**



**State Revenue Sources**

	<b>FY 2000</b>		<b>FY 2005</b>	
	<b>\$ millions</b>	<b>%</b>	<b>\$ millions</b>	<b>%</b>
<b>Taxes on Income &amp; Estate</b>				
Individual Income Tax	431.7	26	500.5	24
Corporate Income Tax	50.6	3	60.4	3
Estate Tax	13.6	1	18.9	1
<b>Income</b>	<b>495.8</b>	<b>30</b>	<b>579.7</b>	<b>27</b>
<b>Taxes on Consumption</b>				
Sales & Use Tax	231.3	14	310.8	15
Meals, Rooms & Alcohol	92.0	6	113.0	5
Purchase & Use Tax	71.1	4	84.1	4
Gasoline Tax	62.1	4	65.5	3
Insurance Premiums	30.3	2	50.3	2
Cigarette Tax	23.6	1	46.1	2
Diesel Tax	14.9	1	15.5	1
Liquor Tax	9.3	1	12.5	1
Bank Franchise	8.3	1	8.6	0
Beverage	4.8	0	5.3	0
Electric Generating	3.5	0	2.6	0
Lottery	18.9	1	20.4	1
<b>Consumption</b>	<b>570.3</b>	<b>35</b>	<b>734.7</b>	<b>34</b>
<b>Taxes on Property</b>				
Net Statewide Property Tax	467.4	28	655.8	31
Property Transfer Tax	20.9	1	45.2	2
Telephone Property Tax	10.3	1	10.5	0
<b>Property</b>	<b>494.3</b>	<b>30</b>	<b>706.9</b>	<b>34</b>
<b>Other</b>				
Motor Vehicle Fees	42.9	3	56.1	3
General Fund Other	29.3	2	23.7	1
Transportation Fund Other	12.2	1	15.9	1
<b>Other</b>	<b>84.5</b>	<b>5</b>	<b>95.7</b>	<b>5</b>
<b>TOTAL</b>	<b>1,649.2</b>		<b>2,121.7</b>	

## State and Local Revenue Collections

Most revenue in Vermont, approximately 77%, is collected at the state level of government. In many states a considerable amount of government taxation and the delivery of government services are at the county or local level. Nationally, 55% of revenues are collected at the state level, and 45% are collected at the local level. Vermont has no county or city income tax. Only a handful of communities have local option sales taxes of 1.0%. And the municipal portion of the property tax is a small part of the total property tax liability.

The most significant change in the makeup of state revenues since the last JFO tax study in 1996 was the creation of the statewide education property tax. Before 1999, the property tax was a local tax source. While the state share has grown in Vermont from 64% in 1995 to 77% currently, nationally and in the 11 other comparison states the state share has declined over the past 10 years from 60% to about 55%, largely due to the growth of local property taxes. For all of these reasons, national comparisons that focus only on state-level revenue collections are incomplete and misleading. More accurate national rankings must include both state and local taxes and other revenue sources.

### State and Local Revenue Collection Percentage Comparison <sup>[1]</sup>

	2004		1995	
	State %	Local %	State %	Local %
Vermont	77%	23%	64%	36%
National Average	55%	45%	60%	40%

[1] US Census data - State and Local Government Finances (<http://www.census.gov/govs/www/estimate.html>)

## Nationwide Comparisons

The following sections show state tax rankings and national comparison information published by the US Census Bureau. One of the goals of this study is to provide a more detailed analysis and to further refine these comparisons. The most recent census survey of state and local government revenue collections in 2004 ranked Vermont 14<sup>th</sup> nationally with \$3,681 in per capita state and local revenue collections. This places Vermont in the middle of the 11 other comparative states. These state and local data include revenue that is beyond the scope of this state tax study, such as school tuition, fees, fines, etc. In addition, some of the revenue transferred between government entities is double-counted.

### 2004 Total State and Local Taxes Per Capita <sup>[1]</sup>, 12 Comparison States

State	Total Taxes Per Capita	
	Amount	US Rank
OR	\$2,917	33
NC	\$2,929	32
FL	\$3,094	28
NH	\$3,133	27
WA	\$3,452	19
<b>VT</b>	<b>\$3,681</b>	<b>14</b>
WI	\$3,714	13
ME	\$3,789	11
MN	\$3,811	10
MA	\$4,217	6
CT	\$4,921	3
NY	\$5,260	2

[1] <http://www.census.gov/govs/www/estimate.html>

The five major components of these state totals include individual income taxes, property taxes, sales taxes, excise taxes, corporate income taxes, and other revenues. Among all 50 states, Vermont ranked third highest in excise taxes per capita, ninth in property taxes per capita, 18<sup>th</sup> in corporate income taxes per capita, near the middle at 26<sup>th</sup> in individual income taxes per capita, and 46<sup>th</sup> in sales taxes per capita. Vermont's purchase and use and meals and rooms taxes are not included in the sales tax rankings, but have been included in the total tax comparisons. Below is a chart of the 12 comparison states in this study and the per capita revenues and rankings.

### 2004 State and Local Taxes Per Capita 12 Comparison States

State	Individual Income Tax Per Capita		Property Taxes Per Capita		Sales Taxes Per Capita		Excise Taxes* Per Capita		Corporate Income Taxes Per Capita	
	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank
CT	\$1,235	5	\$1,944	2	\$894	18	\$507	10	\$109	14
FL	\$0	46	\$1,064	20	\$1,035	9	\$541	7	\$83	28
MA	\$1,378	4	\$1,532	8	\$584	42	\$312	40	\$203	7
ME	\$882	14	\$1,596	7	\$698	34	\$319	37	\$85	26
MN	\$1,120	7	\$965	28	\$810	22	\$478	13	\$125	11
NC	\$880	15	\$713	39	\$688	36	\$360	26	\$98	20
NH	\$42	43	\$1,940	3	\$0	48	\$519	8	\$314	2
NY	\$1,595	2	\$1,677	5	\$1,005	14	\$416	22	\$278	4
OR	\$1,217	6	\$963	29	\$0	48	\$282	43	\$89	25
<b>VT</b>	<b>\$692</b>	<b>26</b>	<b>\$1,531</b>	<b>9</b>	<b>\$417</b>	<b>46</b>	<b>\$699</b>	<b>3</b>	<b>\$100</b>	<b>18</b>
WA	\$0	46	\$1,029	23	\$1,577	1	\$517	9	\$0	48
WI	\$954	12	\$1,350	12	\$752	29	\$323	34	\$124	12

\* Excise taxes include: alcoholic beverages, tobacco products, motor fuels, public utilities, insurance premiums and other sales taxes (and in other states amusements and pari-mutuels)

The 2005 census survey of state-only government tax collections ranked Vermont the highest nationally in its comparison of state tax collections per capita. Vermont collected \$3,600 per person in 2005 and the national average was \$2,192. The high ranking is primarily the result of education property tax collections at the state level. Vermont is the only state with a significant statewide property tax, and therefore the state-level tax base appears artificially high by the amount collected for education at the state level, while the local tax base appears artificially low by an equivalent amount. An additional, contributing factor, to Vermont's high per capita rank is the large captive insurance industry. Vermont's insurance premiums tax collections per capita rank third highest nationally.

If property taxes are eliminated from the comparison, the Vermont rank of all other state-level taxes drops to 13<sup>th</sup> (see addition in blue below). In 1995, prior to the creation of the statewide education property tax, Vermont ranked 32<sup>nd</sup> in total state tax collections per capita and 18<sup>th</sup> in 1975.

#### State Tax Collections Per Capita <sup>[1]</sup>

Fiscal Year	US Average	Vermont	Rank
2005	\$2,190	\$3,600	1
2005 (adj)	\$2,154	\$2,405	13 <sup>[2]</sup>
1995	\$1,522	\$1,370	32
1975	\$377	\$397	18

[1] Nominal dollars [2] Excluding the property tax for all states

The charts below combine all state and local taxes (and state and local revenue) and show them for 1996 and 2004, as a percentage of personal income. 2004 is the most recent available data. This measure provides a snapshot of the relative size of the tax obligation, but it does not address the distribution of the tax obligation across various income classes. The third chart shows that Vermont's per-capita personal income was ranked 25<sup>th</sup> nationally in 2005.

**State and Local Taxes as a Percentage of Personal Income** <sup>[1]</sup>

Fiscal Year	US Average %	Vermont %	Rank
2004	11.0	12.2	6th
1996	11.3	12.2	9th

[1] US Census data - State and Local Government Finances  
 2004 ([http://www.taxadmin.org/fta/rate/04stl\\_pi.html](http://www.taxadmin.org/fta/rate/04stl_pi.html))  
 1996 ([http://www.taxadmin.org/fta/rate/96stl\\_pi.html](http://www.taxadmin.org/fta/rate/96stl_pi.html))

**State and Local Own Source Revenue as a Percentage of Personal Income** <sup>[1]</sup>

Fiscal Year	US Average %	Vermont %	Rank
2004	16.0	17.1	12th
1996	16.2	16.9	19th

[1] US Census data - State and Local Government Finances  
 2004 ([http://www.taxadmin.org/fta/rate/04stl\\_pi.html](http://www.taxadmin.org/fta/rate/04stl_pi.html))  
 1996 ([http://www.taxadmin.org/fta/rate/96stl\\_pi.html](http://www.taxadmin.org/fta/rate/96stl_pi.html))

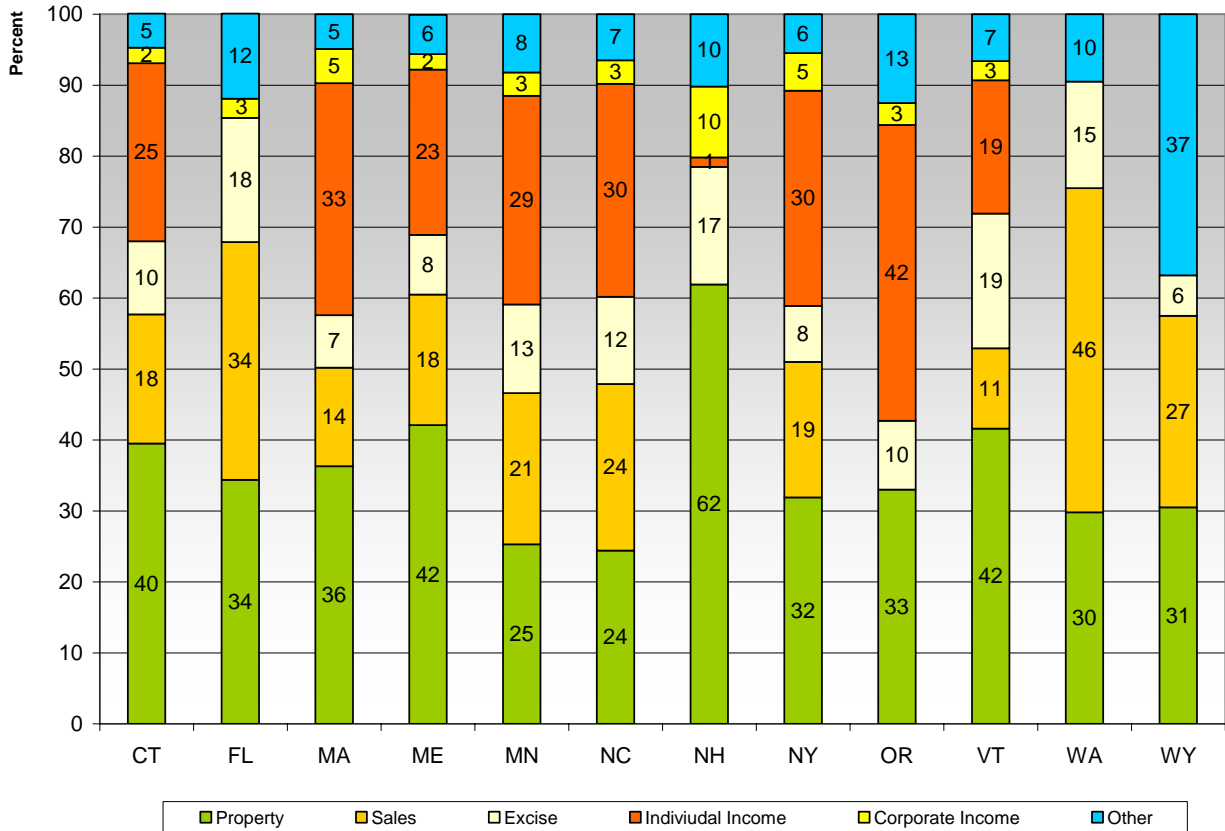
**Personal Income Per Capita** <sup>[1]</sup>

Fiscal Year	US Average (\$)	Vermont (\$)	Rank
2005	34,586	32,731	25
1995	23,208	21,231	29
1975	6,058	5,148	37

[1] Bureau of Economic Analysis ([http://bea.gov/bea/newsrel/spi\\_highlights.pdf](http://bea.gov/bea/newsrel/spi_highlights.pdf))

The chart below shows the percentage of total state and local tax revenue generated from the major tax sources. The property tax is a substantial portion of most states' total tax composition. New Hampshire had the heaviest emphasis on property tax revenue at 62% of total state and local tax collections, North Carolina the least at 24%. Vermont's reliance on the property tax was substantial at 42%, similar to Connecticut and Maine. A majority of state and local tax revenue in Washington was from the sales tax, 46%, much higher than the other comparison states. Vermont's reliance on the sales tax was relatively small at 11% but excludes the purchase and use and meals and rooms tax revenue, and New Hampshire and Oregon have no sales taxes. Every state has a moderate reliance on excise, or selective sales taxes. These include taxes on motor fuels, alcoholic beverages, tobacco products, public utilities and others. Oregon had the most reliance on individual income taxes at 42% of total tax collections. Vermont was less reliant than most of the states with an individual income tax at 19% of total state and local revenue. Florida, Washington and Wyoming have no individual income tax. New Hampshire's tax on business profits is minimal. Corporate income taxes are a minor component of state and local tax systems, and New Hampshire stands out at 10% of total tax collections. Other taxes were most significant in Wyoming and were likely severance taxes.

## 2004 State and Local Taxes as a Percentage of Total Collections



Source: Federation of Tax Administrators, US Census data (<http://www.taxadmin.org/fta/rate/slsources.html>)

## Evaluation of State Revenue Systems

The National Conference of State Legislatures (NCSL) has published several editions of a document entitled *Principles of a High-Quality State Revenue System*.<sup>4</sup> The goals of reliability, equity, compliance and administration, responsiveness to interstate and international competition, economic neutrality, and accountability are the standards for evaluating state tax systems.

### Reliability

Vermont has an overall state revenue system that is relatively balanced among income, consumption, and property tax bases (pie charts on page 8). The financial health of the three major state funds (General Fund, Transportation Fund, and Education Fund), however, is influenced by different aspects of the economy because of the different revenue sources for those funds.

### Equity

Vermont does not produce a tax incidence study that would demonstrate the share of taxes paid by residents of various income levels and by businesses. However, several national studies have found Vermont's tax structure to be relatively progressive. While finding that "Vermont taxes poor and middle-income families more than wealthy," the Institute on Taxation and Economic Policy's study entitled *Who Pays?* named Vermont one of the four

<sup>4</sup> Appendix A

least regressive state tax systems in 2003<sup>5</sup>. The *Tax Rates and Tax Burdens* study, produced by the government of the District of Columbia each year, ranks Burlington, Vermont, taxpayers at or below the national average in tax level by income group.<sup>6</sup> The study also shows that the “tax burden” as a percentage of income increases as income increases, a sign of a progressive tax system.

### **Compliance and Administration**

The three major tax sources – income, property, and sales taxes – have various complexities associated with their administration and compliance.

- The individual income, corporate income, and estate taxes are based substantially on the federal tax system and benefit from the compliance and administration efforts of the Internal Revenue Service. Numerous complexities have been added at the federal and state levels over time, and there has been an increasing amount of tax avoidance through legal and accounting measures.
- Property tax compliance is somewhat simpler and tax avoidance is difficult. The income sensitivity provisions in the property tax have added complexity. While it is considered a statewide tax, management and collection of the property tax is done largely at the local level with the exception of the equalization study.
- Sales tax collections and administration are expected to benefit from the federal Streamlined Sales and Use Tax Agreement (SSTA), explained later in this volume.

### **Competition**

Measuring the competitiveness of the state tax system is a difficult and often subjective endeavor. Vermont is ranked poorly in national comparisons of business climate, such as the 2007 *State Business Tax Climate Index* (46<sup>th</sup>)<sup>7</sup>; and the 2005 *Small Business Survival Index* (43<sup>rd</sup>)<sup>8</sup>. In contrast, however, other business indicators show a successful economy, such as the 10<sup>th</sup> highest average annual growth rate of real state Gross Domestic Product (GDP) between 1997 and 2004<sup>9</sup>, and the third lowest unemployment rate in the country in 2005.<sup>10</sup> One of the most important, and often debated, questions that is a crucial part of a competitive business analysis is how much state tax systems affect business decisions, state economies, and the quality of public services.

### **Accountability**

The centralization of tax collection in Vermont at the state level allows for a more comprehensive examination of total tax burden and allows for more scrutiny by the public. In many states the scattering of tax responsibility across multiple local jurisdictions makes a comprehensive evaluation of total taxes more difficult. Vermont’s system may lead to greater accountability by government to the citizens of the state.

### **Economic Neutrality**

In an ideal world, taxes would have little or no effect on a business’s or individual’s economic decisions. Increasingly, however, tax policies are being implemented in order to change behavior and explicitly influence economic decisions. Examples of these include:

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<sup>5</sup> Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, January 2003. The Institute on Taxation & Economic Policy (<http://www.itepnet.org>)

<sup>6</sup> 2004 Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison (<http://cfo.dc.gov/cfo/cwp/view,a,1324,q,612643.asp>)

<sup>7</sup> Tax Foundation ([www.taxfoundation.org](http://www.taxfoundation.org))

<sup>8</sup> The Small Business & Entrepreneurship Council ([www.sbsc.org](http://www.sbsc.org))

<sup>9</sup> Bureau of Economic Analysis (<http://bea.gov/bea/newsrelarchive/2006/gsp1006.xls>)

<sup>10</sup> Bureau of Labor Statistics (<http://www.bls.gov/lau/lastrk05.htm>)

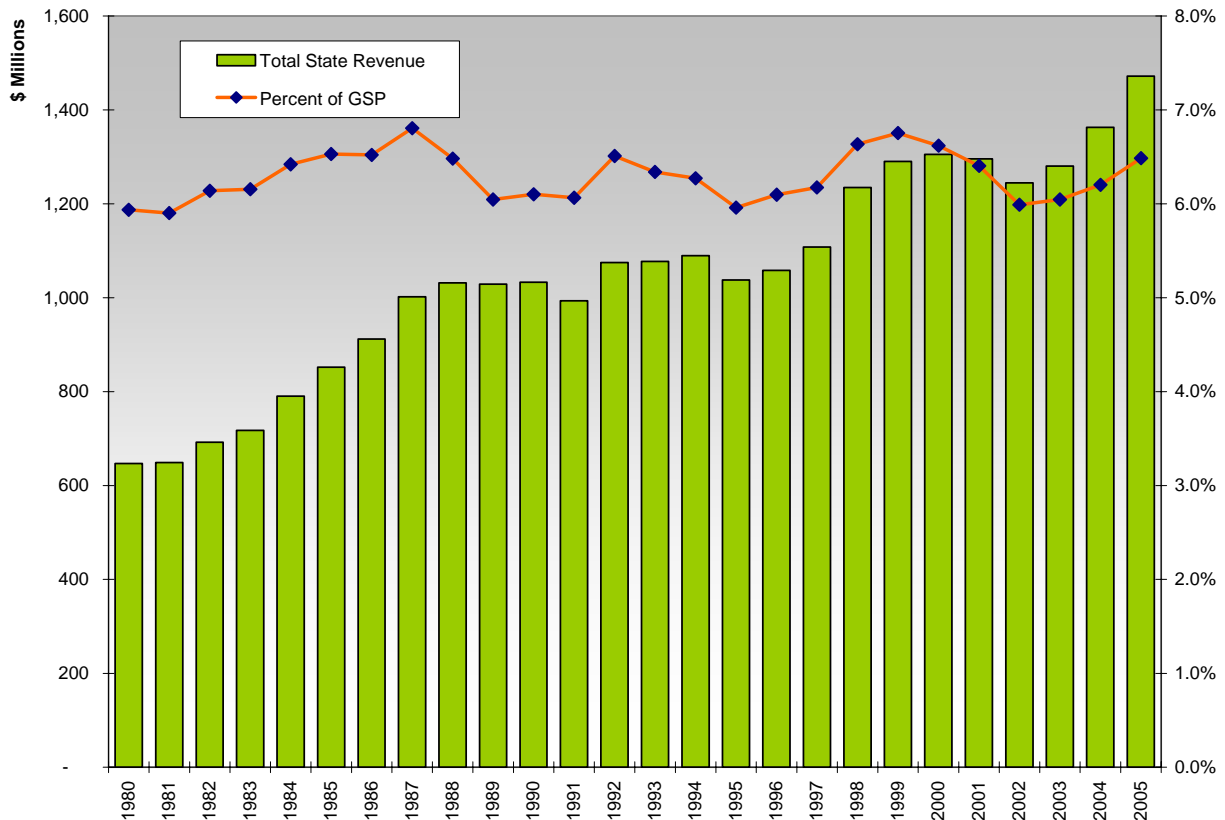
sales tax holidays (such as on personal computers); personal and corporate income tax credits (such as the higher education investment tax credits or the Economic Advancement Tax Incentives); purchase and use tax exclusions (for trade-in value); and the exemption from many taxes for not-for-profit organizations (credit unions from the bank franchise tax), to name only a few. Each of these tax policies distorts the economic decisions of individuals and organizations and can violate the principles of economic neutrality.

In summary, it would be highly unlikely for any tax system to satisfy all of these goals simultaneously. Generally, state taxes strike a balance between these tax principles. It would be nearly impossible to develop a tax system that treated every individual fairly without its being extremely complex and therefore difficult to understand.

### Vermont Revenue History

The chart below shows total state revenue between 1980 and 2005 in inflation-adjusted, or constant, 2005 dollars. None of these figures included the property tax. Total state revenue has approximately doubled in constant dollars over this 25-year period. In non-inflation-adjusted dollars, FY 1980 state revenue was \$272.9 million excluding the property tax and \$1,472.5 million in FY 2005.

**Total Inflation-Adjusted State Revenues FY 1980–FY 2005 and Total State Revenue as a Percent of Gross State Product <sup>[1]</sup>**



[1] Total state revenue in constant – or inflation-adjusted – 2005 dollars.

Also shown on the chart is total state revenue as a percentage of gross state product (GSP). Over this time period, total state revenues ranged from 5.9% to 6.8% of the economy with a 25 year average of 6.3%. FY 2005 is close to the long term average at 6.5%. The reductions in revenue in FY 1991, FY 1995, and FY 2002 match dips in the percentage of revenue to GSP

and corresponding economic downturns. Not surprisingly, the gross state product has also doubled since 1980 in inflation-adjusted dollars. Overall, using this measurement, state revenue has been an extremely stable percentage of the economy over this time period.

## VERMONT TAX SOURCES

The following pages explain and analyze Vermont's major taxes. A principal goal of these analyses is to compare Vermont's tax structure to that of other states. In an effort to develop and enhance those comparisons, and to make each tax more understandable, this report departs from and improves upon the approach taken in the 1996 Vermont Tax Study. Accordingly, in this report, each major tax begins with an explanation of the tax base (what is actually taxed), the tax rates (and who pays them), and the tax's revenue production (the amount of money the tax generates)<sup>11</sup>. The state and national comparisons follow these explanations and tend to focus on rates and the amount of revenue the given tax generates.

Vermont's tax sources have been grouped into five major areas: 1) the individual income tax, which includes estate taxes, 2) sales-based taxes, 3) property-based taxes, 4) business taxes, and 5) excise taxes. A final section summarizes various other taxes that are included in the consensus state revenue forecast.

The first three tax areas represent broad-based taxes. These are levied on a large sector of the population and are taxes that almost every citizen pays in some form. Most residents in Vermont pay income taxes, sales taxes, and property taxes (either directly or through rent). The business tax section includes the three major taxes levied at the business entity level: the corporate income tax, the bank franchise tax, and insurance premiums taxes. Excise taxes, in the last section, are more narrowly focused on a particular good and are often assessed per unit sold rather than as a percentage of the price.

Several minor tax types that are part of the accounting of total state revenues are not included in these detailed explanations. These include the electrical energy tax, the railroad tax, the alternative telephone tax, and various tax licenses, among others.

Various other taxes are not included as part of this study, such as the utility gross receipts tax that funds the Department of Public Service and the Public Service Board, health care provider taxes, the worker's compensation premium assessment that pays for the worker's compensation program, the portion of local-option sales taxes that are deposited into the state PILOT<sup>12</sup> fund, the energy efficiency surcharge levied on electric bills for the state's energy efficiency programs, the heating oil tax and the gasoline tax that are deposited into the Petroleum Cleanup Fund, and the hazardous waste generation and solid waste taxes, to name a few. The distinction is that most of these taxes are earmarked and deposited into special funds and pay for specific government programs. They historically have been excluded from the total state revenue base and are not part of the biennial revenue forecast. Inclusion of these taxes in the official revenue forecast and future studies would give a broader picture of the Vermont tax system.

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<sup>11</sup> Not every tax lends itself well to this method of presentation; however, this format is followed whenever possible.

<sup>12</sup> Payment in Lieu of Taxes

# INDIVIDUAL INCOME TAX

## Summary

Vermont is one of 43 states with a tax on individual income. Vermont's individual income tax rate structure is progressive, like the federal system, meaning the tax rate increases as taxable income increases. Like most states, Vermont derives a sizeable share of total tax revenue from the individual income tax. It is the second largest component of all Vermont state tax revenues, comprising approximately 24% of state revenues in FY 2005 (34% excluding statewide property tax revenue), or \$500.5 million. Overall, Vermont individual income tax revenue per capita was slightly above the national average of \$747 in FY 2005. Individual income tax revenues fluctuate based on a variety of economic factors and policy changes. However, the revenues generated from the income tax have historically experienced higher growth than other major state revenue sources. More recently, however, as an increasing share of this tax is paid by the wealthiest taxpayers, the individual income tax has become increasingly volatile.

## Tax Base

Vermont is one of 43 states with a tax on individual income. Ten of those states, including Vermont, use federal taxable income as the starting point for taxation; the remaining 33 use variations of federal adjusted gross income (AGI). Federal AGI includes more income than federal taxable income, mainly because federal taxable income is lower because of personal exemptions and standard or itemized deductions. The further up the federal individual income tax return form (Internal Revenue Service form 1040) a state chooses to apply the tax, the broader the income tax base and the more insulated the state is from changes to the federal tax code.

In Vermont, federal taxable income is adjusted to calculate state taxable income by adding back income from non-Vermont state and local bond obligations, subtracting interest from US government obligations, excluding 40% of long-term capital gains, and allowing for a Vermont deferral known as the Angel Venture Capital Tax Credit. The Vermont income tax base also includes: interest and dividends; unemployment compensation, Social Security, pension, retirement, and disability income that is also taxable at the federal level. Vermont eliminated the state impact of the alternative minimum tax (AMT)<sup>13</sup> in 2002.

The various components of individual income in Vermont have changed over the past decade. Salaries and wages, while still the largest part of the income base, are less significant sources of income than 10 years ago. Income from businesses, capital gains, rental real estate, royalties, partnerships, Subchapter S corporations<sup>14</sup>, trusts, taxable Individual Retirement Accounts (IRA), pensions, and Social Security are an increasingly important part of the individual income tax base.

The following chart and table show the percentage of the total Vermont income tax base that is from these various sources. Each 1.0% change on the table represents approximately \$10 million, as the total income tax base in Vermont is over \$1 billion. Wages account for the majority of income, 72.5% in 2004, down slightly from the early 1990s. Interest and dividend income has dropped steadily – from 7.8% of the tax base in 1992 to 4.1% in 2004. Capital gains, a more volatile income source, has grown from 3.2% in 1992 to 4.5% in 2004. Capital gains reached a high of 10.1% in 2000, coinciding with the dramatic growth in the stock market

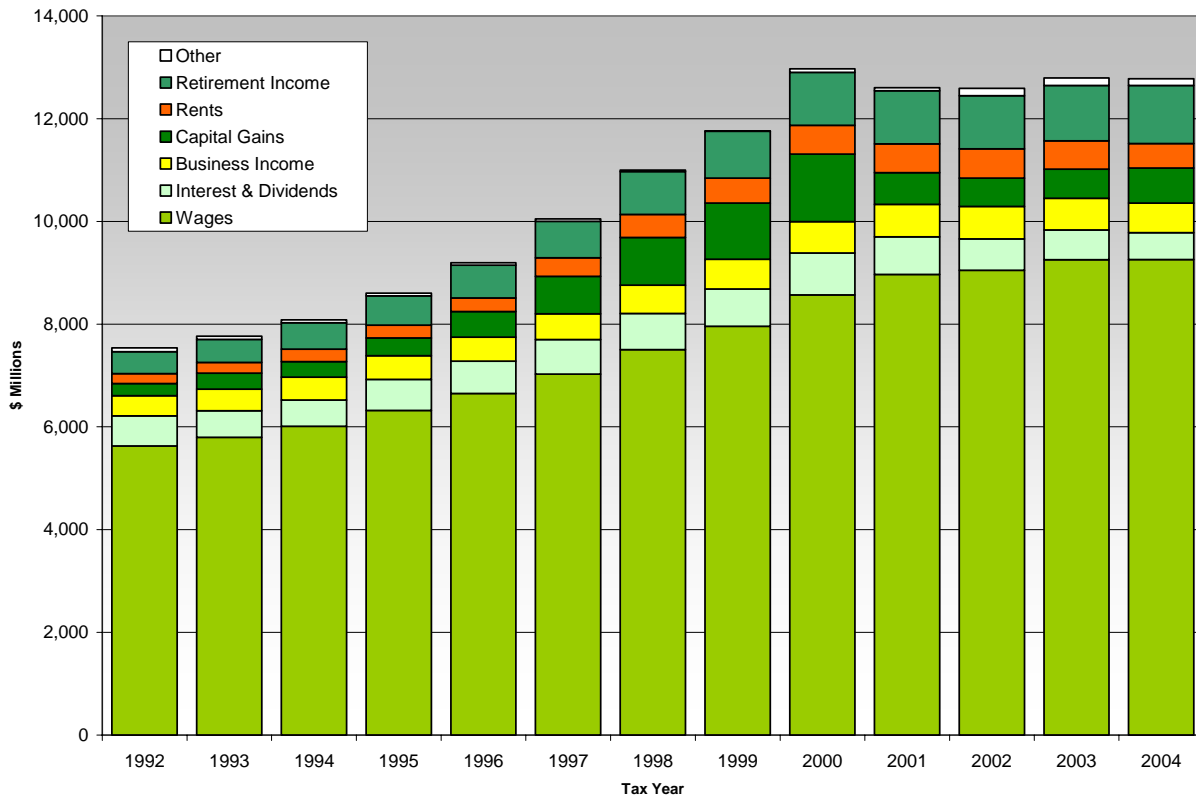
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<sup>13</sup> An income tax calculation designed to ensure that taxpayers with large deductions or credits do not escape federal tax liability.

<sup>14</sup> An S corporation generally pays no corporate income taxes on its profits. Instead, the owners or shareholders in the S corporation pay income personal taxes on their proportionate shares in the S corporation's profits.

at that time. Business income and farm income appear more stable in these charts because the totals shown are all business gains less all losses claimed, in aggregate, or net figures. Rents, which include rental real estate income, royalties, income from partnerships, S corporations, and trusts, have grown from 2.5% in 1992 to well above 3.0% in recent years. Retirement income has also grown steadily from 5.6% in 1992 to 8.9% in 2004.

### Components of Individual Income, Tax Year 1992-2004, Vermont Taxpayers



Tax Year	Wages (%)	Interest & Dividends (%)	Business Income (%)	Capital Gains (%)	Rents [1] (%)	Retirement Income (%)	Farm Income [2] (%)	Other Income (%)	Total Income (%)
1992	74.8	7.8	5.3	3.2	2.5	5.6	-0.2	1.0	100.0
1993	74.8	6.6	5.5	4.0	2.7	5.8	-0.2	0.8	100.0
1994	74.5	6.3	5.6	3.7	3.0	6.4	-0.2	0.7	100.0
1995	73.6	7.0	5.3	4.0	2.9	6.7	-0.2	0.6	100.0
1996	72.4	6.9	5.1	5.4	2.9	6.9	-0.1	0.5	100.0
1997	70.0	6.7	5.0	7.3	3.6	7.0	-0.1	0.5	100.0
1998	68.2	6.4	5.0	8.5	4.1	7.6	0.0	0.3	100.0
1999	67.6	6.2	4.9	9.3	4.1	7.8	0.0	0.1	100.0
2000	66.1	6.3	4.7	10.1	4.4	7.9	-0.1	0.5	100.0
2001	71.2	5.8	5.0	4.9	4.5	8.2	-0.1	0.5	100.0
2002	72.0	4.8	5.0	4.4	4.5	8.2	-0.2	1.1	100.0
2003	72.5	4.5	4.9	4.4	4.3	8.4	-0.2	1.1	100.0
2004	72.5	4.1	4.5	5.3	3.7	8.9	-0.1	1.0	100.0

[1] Rents include: rental real estate income, royalties, partnerships, S corporations, trusts, etc. from Federal 1040 Schedule E

[2] Farm income not included in the chart because the net amount of profits and losses is negative

Business Income, Capital Gains, Rents and Farm income are all NET of losses

Source: Vermont Department of Taxes

A number of federal tax changes have had a subtle, but substantial impact on the Vermont tax base. Many of these are “above-the-line” deductions that reduce federal taxable income. These include retirement, medical and dependent care savings accounts. Excluded from adjusted gross income on the federal tax return are deductions for health savings accounts, moving expenses, self employment taxes, IRA deductions, student loan interest and tuition, and fees deductions, to name a few. While masked by the enormous growth in income over the past decade, there has been a general erosion of the tax base both at the federal and state level as a result of these numerous tax policies.

### Economic Cycles

The personal income tax has evolved to become more highly cyclical, coincident with the general business cycle. Traditional wage and salary income is still a large portion of the individual income tax base and is pro cyclical and moves with the general economy. An ever-increasing share of income, however, is from other sources that are even more volatile than wage and salary income. The shift to pass-through business entities<sup>15</sup> has business profits and losses directly affecting the individual income tax base instead of indirectly through job growth and elimination. Widespread investment in the stock market, capital gains, bonuses and stock options dramatically increase the individual income tax base in good times, and decrease it as quickly during market downturns. More investments such as capital gains, bonuses, stock options and other non-wage and salary income are being taxed under the individual income tax and are considerably more volatile than ordinary income. In addition, the increasing disparity between taxpayers of enormous wealth and the “middle class” has shifted the dependency of the individual income tax system to fewer taxpayers whose incomes tend to reflect more volatile sources.

### Tax Rates

Vermont’s individual income tax rate structure is progressive, like the federal system, meaning the tax rate increases as taxable income increases. Vermont has established state-specific tax tables with five income brackets and rates (see table below). The state tax brackets are indexed at the rate of inflation.<sup>16</sup>

**2005 Vermont Individual Income Tax Rates and Brackets**

Taxable Income Amount				Tax Rate (%)
Married Filing Jointly		Single Individuals		
Amount over	But not over	Amount over	But not over	
0	49,650	0	29,700	3.60
49,650	119,950	29,700	71,950	7.20
119,950	182,800	71,950	150,150	8.50
182,800	326,450	150,150	326,450	9.00
326,450	and over	326,450	and over	9.50

Federal tax law changes have had an increasingly important impact on state income tax revenues. From 1968 to 2000, the Vermont income tax was calculated as a percentage of federal liability and every change in federal income tax law passed directly through to Vermont.

<sup>15</sup> S-Corporations, partnerships and limited liability companies (LLCs) are not separate taxpaying entities and therefore do not pay corporate income taxes. Profits and losses from these types of entities are passed through to the individual owners who pay individual income taxes on this income.

<sup>16</sup> Indexing means that income brackets increase with inflation, so that taxpayers don’t shift into higher brackets merely because their earnings rise to reflect the higher cost of living. In some states, with no adjustments for inflation, “bracket creep” flattens the income tax over time, making the tax less progressive.

In response, the state's percentage of the federal liability was periodically adjusted. But in 2001, the passage of tax reductions in the federal Economic Growth and Tax Relief and Reconciliation Act (EGTRRA) caused the Vermont Legislature to "decouple" from the federal liability or face a significant revenue loss. As a result, Vermont shifted to federal taxable income as the starting point for state individual income taxes and created the five state tax rates and brackets. Now Vermont is protected from changes to the federal rates and brackets. However, all tax law changes that affect the calculation of federal taxable income, including itemized deductions, continue to have an impact on the Vermont state tax system.

### Marginal and Effective Tax Rates

Vermont's progressive income tax structure is characterized by income tax brackets and tax rates that increase as income rises. The rate that a taxpayer pays on his or her last dollar of earnings is known as the marginal rate; it is the maximum rate a taxpayer pays on the highest and final portion of income. In the table above, for example, a Vermont taxpayer would pay the 9.5% tax rate only income exceeding \$326,450.

Vermont's 9.5% top marginal rate is the second highest in the nation after that of California.<sup>17</sup> This top rate, however, is applied to one-half of one percent (0.5%) of Vermont taxpayers because the top bracket begins at a relatively high level of taxable income. Below is a sample calculation for a taxpayer with \$400,000 of taxable income who would pay a portion of his or her taxes at the highest marginal rate.

**2005 Vermont Tax Example**  
*Married Filing Joint Taxpayer - \$400,000 Total Taxable Income*

	<b>Taxable Income</b>		<b>Tax Rate</b>		<b>Tax Liability</b>
First	\$49,650	x	3.6%	=	\$1,787
Next	\$70,300	x	7.2%	=	\$5,062
Next	\$62,850	x	8.5%	=	\$5,342
Next	\$143,650	x	9.0%	=	\$12,929
Next	\$73,550	x	9.5%	=	\$6,987
<b>Total \$400,000</b>					<b>Total \$32,107</b>

This is an atypical example because 56.2% of all Vermont filers pay at the lowest marginal rate of 3.6% and an additional 20.2% do not pay any state income tax. Therefore, while Vermont's top marginal rate is technically the second highest in the country, very few taxpayers actually pay income taxes at this rate. Only 3.6% of taxpayers pay taxes in the top three marginal rates combined. The table below shows the number and amount of Vermont returns categorized by the highest marginal tax rate they paid in 2004.

**2004 Vermont Tax Statistics – In-State Tax Returns Only**

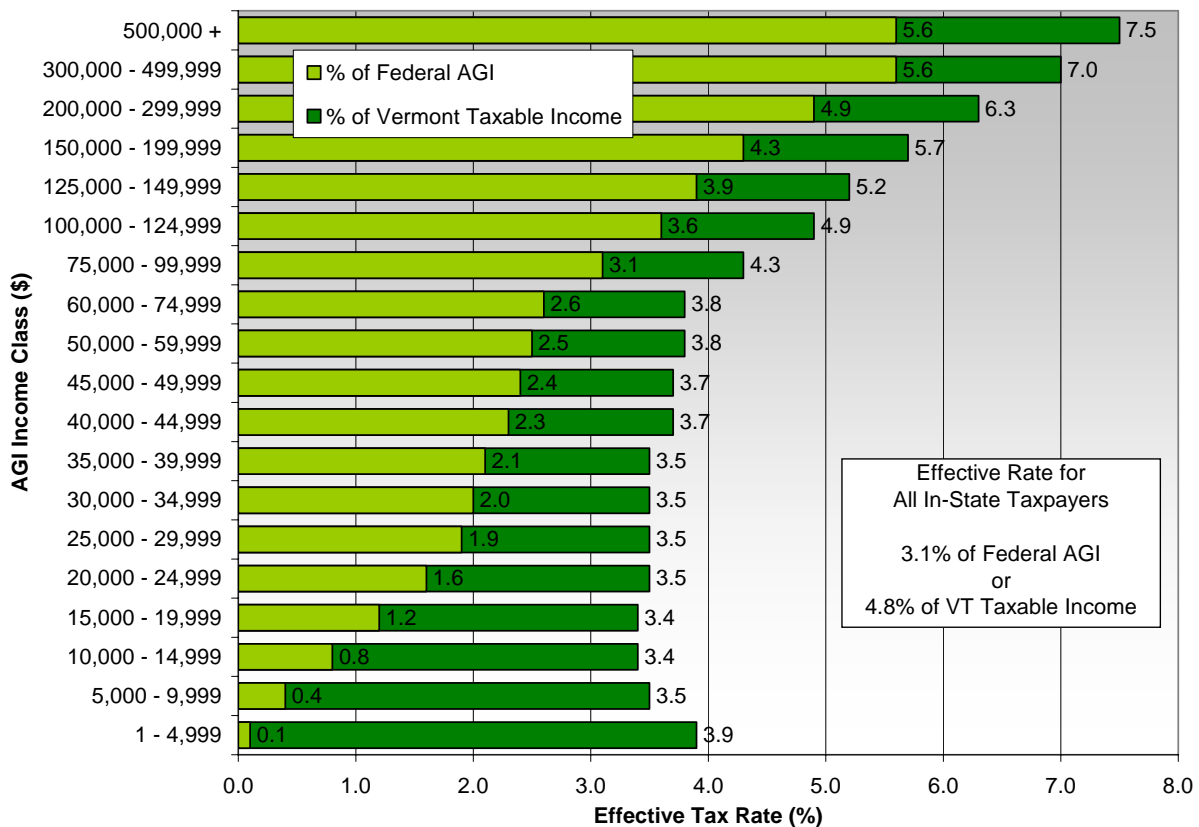
<b>Marginal Tax Rate</b>	<b>Number of Tax Returns</b>	<b>Percentage of Total</b>	<b>Average Federal Adjusted Gross Income</b>
"None"	59,954	20.2%	\$ 5,258
3.6%	166,985	56.2%	\$ 31,200
7.2%	59,524	20.0%	\$ 80,422
8.5%	6,576	2.2%	\$ 160,655
9.0%	2,707	0.9%	\$ 281,784
9.5%	1,456	0.5%	\$ 939,826
<b>Total</b>	<b>297,202</b>	<b>100%</b>	<b>\$ 45,423</b>

<sup>17</sup> California has a top marginal rate of 9.3% and a 1.0% surcharge on all income above \$1 million. This creates an effective top marginal rate of 10.3%. The New Jersey "Millionaire Tax" is 8.97% on all taxable income greater than \$500,000.

As explained earlier, the top marginal tax rate is applied to only a portion of a taxpayer's income; therefore the rate does not represent the actual percentage of total taxable income the individual pays. The effective tax rate, which is the amount of actual taxes paid as a percentage of income, better demonstrates overall tax obligation for the vast majority of taxpayers. While a married taxpayer with \$400,000 taxable income pays a portion of his or her taxes at the 9.5% marginal rate, this taxpayer's effective tax rate is 8.0% of his or her total taxable income.

The average effective tax rate for all in-state Vermont taxpayers was 4.8% of taxable income.<sup>18</sup> The effective tax rate may also be calculated as a percentage of federal adjusted gross income (rather than Vermont taxable income). The following chart demonstrates the progressive nature of the Vermont individual income tax system. As income rises, the average effective tax rate increases. Vermont's average effective tax rate for all taxpayers is 4.8% of Vermont taxable income, or 3.1% of federal adjusted gross income.

**Effective Vermont Income Tax Rates in 2004 by AGI Income Class**



### Tax Credits

A tax credit is a specific reduction in taxes owed; it differs from a tax deduction, which reduces a taxpayer's taxable income. For example, a taxpayer who owes \$10,000 in taxes and has a tax credit of \$500 would pay \$9,500 in taxes as a result. Tax credits are more valuable than tax deductions because they offset dollar for dollar actual tax liability while deductions offset taxes paid at the taxpayer's marginal rate. Vermont has a growing number of individual income tax credits. Some tax credits "piggyback" on federal tax credits, such as the Earned Income Tax Credit (EITC) and Child and Dependent Care Credit, while many others are unique to the state. Twenty-one Vermont tax credits were available to individual income tax filers on the 2005 state

<sup>18</sup> 2004 Vermont in-state tax returns only, net of the earned income tax credit.

income tax return, 19 of which had been added since the last JFO tax study in 1996. Vermont's first *Tax Expenditure Report* was published in January 2006 and quantifies the fiscal impact of tax credits applied to both the individual income tax and the corporate income tax. Included in the list of Vermont tax credits available against individual income tax listed below is the total amount claimed in tax year 2004.<sup>19</sup> The Economic Advancement Tax Incentive (EATI) tax credits were repealed effective December 31, 2006, and replaced with a new Vermont Employment Growth Incentive (VEGI) effective January 1, 2007.

In addition to the progressive structure of Vermont's tax rates and brackets, the state Earned Income Tax Credit, which is 32% of the federal Earned Income Tax Credit, significantly reduces tax liabilities for low income taxpayers. This is a refundable state tax credit. A refundable credit is not limited by the amount of a taxpayer's liability, but can be issued as a payment to taxpayers with no tax obligation. Seventeen other states have an earned income tax credit. Minnesota has the highest rate, up to 43% of the federal credit, followed by Vermont at 32% of the federal credit. Of the nine comparison states with an individual income tax, six states offer a state earned income tax credit: Maine, Massachusetts, Minnesota, New York, Oregon, and Wisconsin. The Maine and Wisconsin earned income tax credit are nonrefundable.

<b>Tax Credit</b>	<b>Date Enacted</b>	<b>Amount Claimed TY 2004<sup>[3]</sup></b>
Angel Venture Capital Tax Credit	2006	N/A
Charitable Housing Credit	1990	\$11,000
Affordable Housing Credit	2000	\$243,000
Commercial Film Production Credit	1998	\$0
Qualified Sale of Mobile Home Park Credit	1998	\$9,000
Employee Training Credit	1998	\$0
Rehabilitation of Certified Historic Buildings Credit	1998	\$70,000
Older or Historic Building Rehabilitation Credit	1998	\$140,000
Platform Lifts, Elevators, and Sprinkler Systems Credit	2002	\$71,000
Commercial Code Improvements Credit	2002	\$0
Financial Services Tax Credit <sup>[1]</sup>	1996	\$1,924,000
EATI Payroll Tax Credit <sup>[2]</sup>	1998	\$528,000
EATI Research and Development Tax Credit <sup>[2]</sup>	1998	\$641,000
EATI Capital Investment Tax Credit <sup>[2]</sup>	1998	\$1,812,000
EATI Workforce Development Tax Credit <sup>[2]</sup>	1998	\$110,000
EATI Export Tax Credit <sup>[2]</sup>	1998	\$116,000
EATI High-Tech Business Credit <sup>[2]</sup>	2002	\$301,000
EATI Sustainable Technology R&D Tax Credit <sup>[2]</sup>	2003	\$0
EATI Sustainable Technology Export Credit <sup>[2]</sup>	2003	\$0
Low Income Child and Dependent Care Credit *	2002	\$80,000
Earned Income Tax Credit *	1988	\$17,811,000
VEGI Payroll Incentive	2007	N/A

[1] Due to expire July 1, 2007.

[2] All of the EATI (Economic Advancement Tax Incentive) tax credits have been repealed and are replaced with a new Vermont Employment Growth Incentive (VEGI).

[3] This is the total amount of tax credits claimed against individual income taxes, corporate income taxes and bank franchise taxes.

\* Refundable Tax Credit

<sup>19</sup> This is the total amount of tax credits claimed against individual income taxes, corporate income taxes and bank franchise taxes.

## Tax Revenue

The individual income tax is the second largest component of all Vermont state tax revenues. It constituted approximately 24% of total state revenues in FY 2005, or 34% excluding statewide property tax revenue. Vermont individual income tax revenues were \$500.5 million in FY 2005. This represented a 56.0% inflation-adjusted increase over the past decade, or an average compounded growth rate of 4.5%. Between 1995 and 2000, revenues grew at a compounded rate of 8.8%. Since 2000, the compounded growth rate has slowed to four-tenths of one percent (0.4%).

As the chart below demonstrates, individual income tax revenues have grown steadily over the past 30 years, with the exception of the period between 1990 and 1995.

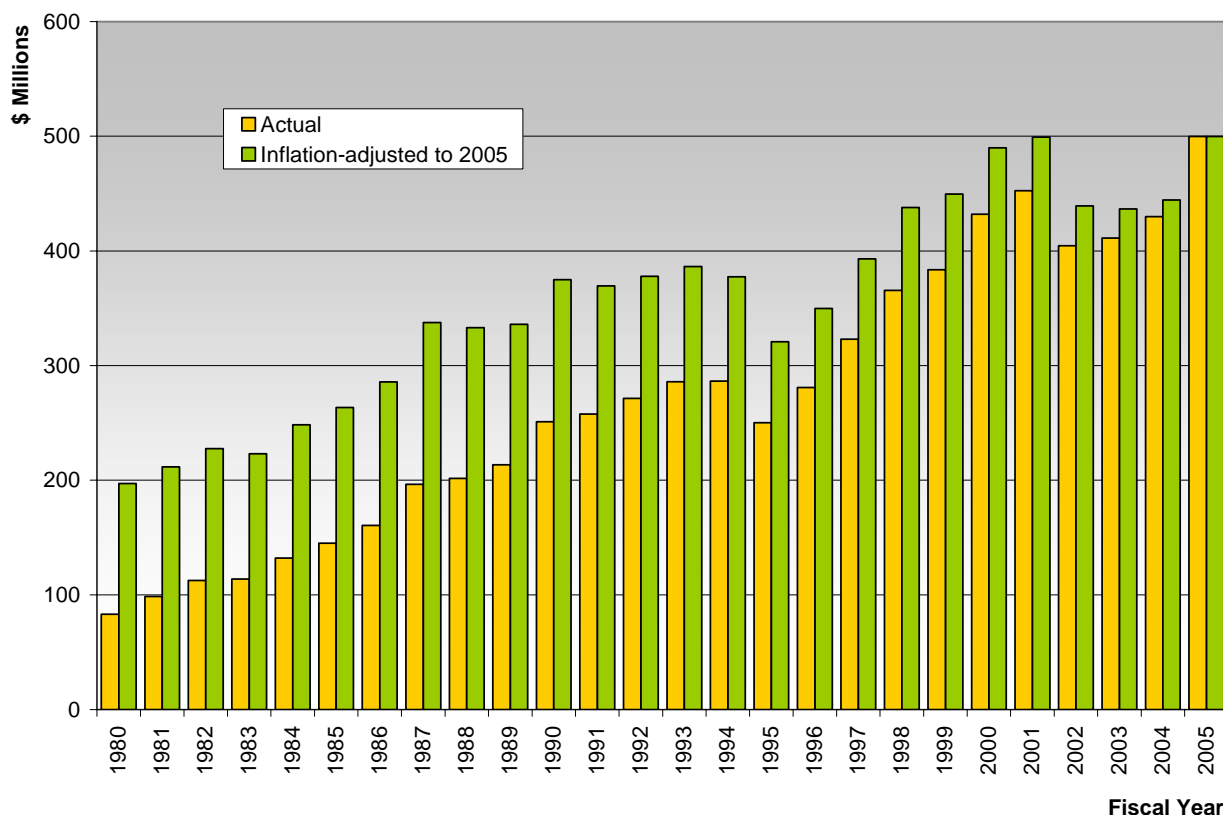
**Vermont Individual Income Tax Revenue Growth<sup>[1]</sup>**

Fiscal period	Average annual growth (%)	Average annual inflation-adjusted growth (%)	Total inflation-adjusted growth (%)
1975-1980	8.6	-0.3	-1.5
1980-1985	11.8	6.0	33.7
1985-1990	11.6	7.3	42.3
1990-1995	0.0	-3.1	-14.5
1995-2000	11.5	8.8	52.6
2000-2005	3.0	0.4	2.2
<hr/>			
<i>1975-2005</i>	<i>7.6</i>	<i>3.1</i>	<i>60.3</i>

[1] Compounded growth rates.

Revenues from the individual income tax fluctuate based on a variety of economic factors and policy changes – most obviously the income base subject to taxation and the tax rates themselves. However, revenues generated from the Vermont individual income tax have historically been more stable than other major state revenue sources. Recently, as an increasing share is paid by the wealthiest taxpayers, who themselves rely on income that is increasingly volatile (such as capital gains, bonuses, stock options and other non-wage and salary income), state revenues from the individual income tax have become increasingly volatile as well. As this trend continues, it is likely to be subject to wider annual variation and cyclical sensitivity.

## Individual Income Tax Revenue FY 1980 – FY 2005



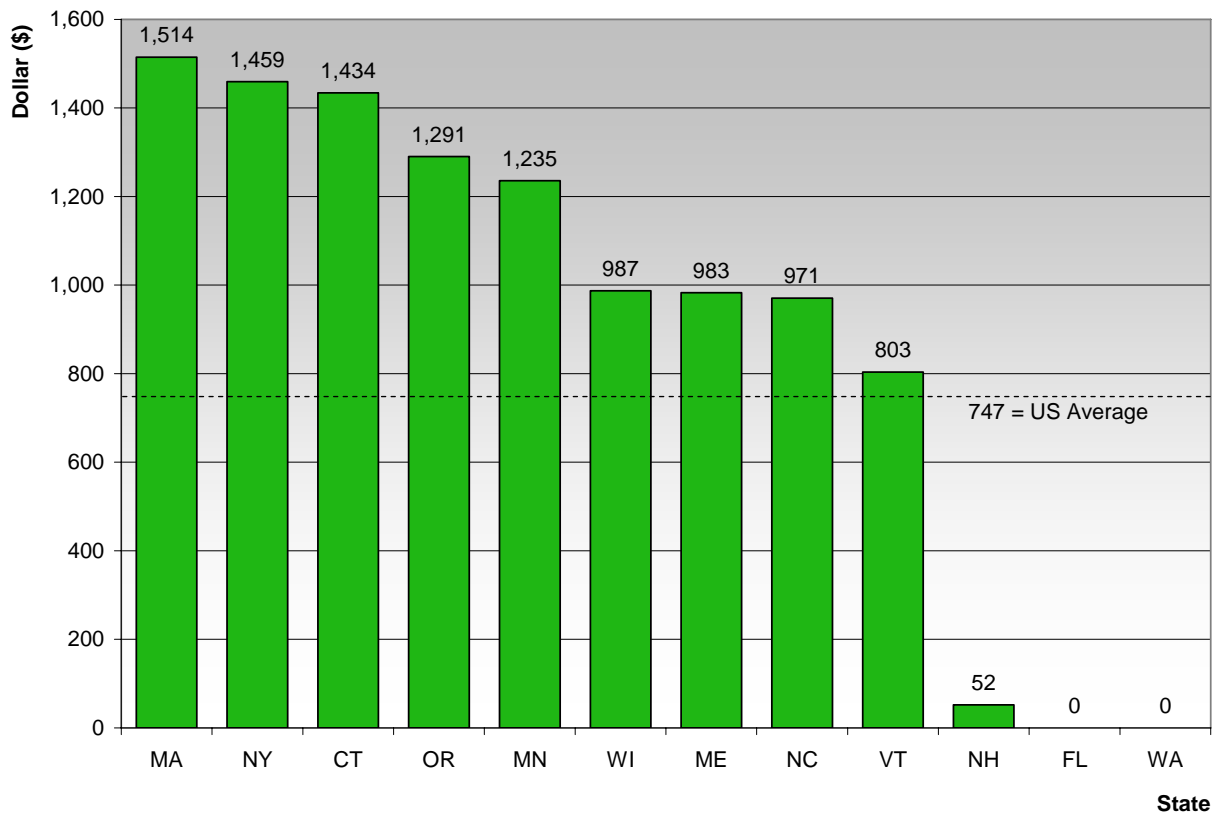
This chart shows actual and inflation-adjusted individual income tax revenue over the past 25 years. A trend line would show steady growth by both measures, but the individual income tax has experienced several significant downturns in FY 1994 and 1995 and again in FY 2002 and 2003.

### Nationwide Comparison

Vermont's 2005 individual income tax revenue was \$803 per person, according to US Census Bureau data. Among the 12 comparison states, Vermont's income tax revenue per capita ranked ninth in FY 2005, lowest among the comparison states that have an income tax and lowest among the New England states with an income tax.<sup>20</sup> Among 43 states with a general income tax, Vermont's per-capita revenue from the tax rose from 31st in FY 1995 to 19th in FY 2005. Vermont's climb in this ranking can be explained in large part by demographics and rising per capita income. Population growth in Vermont has lagged behind the national rate, while income growth has been above average. In addition, Vermont has a relatively higher population in its prime income-generating years (ages 40 to 60) while its population earning little if any income (ages 0-15) is lower compared to most states. These factors combined, among others, raise Vermont's comparative ranking in income tax revenue per capita. Overall, Vermont individual income tax revenue per capita was slightly above the national average of \$747.

<sup>20</sup> New Hampshire is the only New England state without an individual income tax.

## 2005 Individual Income Tax Revenues Per Capita, 12 Comparison States



Eight of the 12 states detailed in this study have higher per-capita income than that of Vermont. Of those states, Connecticut and Massachusetts lead the nation in per capita income. (Connecticut's per capita income is 45% higher than Vermont's.)<sup>21</sup>

Some states, such as Massachusetts and Pennsylvania, have a flat income tax in which one rate is applied to every dollar of taxable income. Others have narrow income tax brackets and apply the highest marginal rates at much lower levels of taxable income. For comparison, Maine has a top marginal rate of 8.5%, but this rate is assessed on all taxable income above \$17,700 for single filers and \$35,450 for married couples filing jointly. Oregon's top rate of 9.0% applies to all income greater than \$6,651 for single filers and \$13,301 for married couples filing jointly. The impact of these tax policies is a higher effective tax rate on middle-income and even low income taxpayers. Only New Jersey, California, and New York have higher income thresholds than Vermont for their top marginal rates. The threshold for New Jersey and New York's top marginal rates is \$500,000. Including the 1.0% surcharge, California's effective top marginal rate of 10.3% applies to income above \$1 million. The following table summarizes, for the 12 comparison states, state income tax brackets and marginal tax rates.

<sup>21</sup> Bureau of Economic Analysis (<http://bea.gov/regional/statelocal.gov>)

**2005 Marginal Rates and Tax Bracket Comparisons for Single Filers  
12 Comparison States <sup>[1]</sup>**

State	2005 Taxable Income		Marginal Rate (%)
	Single	Married Filing Joint	
Connecticut	0 - 10,000	0 - 20,000	3.00
	10,001 and over	20,001 and over	5.00
Florida	No state income tax		N/A
Maine	0 - 4,449	0 - 8,899	2.00
	4,450 - 8,849	8,900 - 17,699	4.50
	8,850 - 17,699	17,700 - 35,449	7.00
	17,700 and over	35,450 and over	8.50
Massachusetts	No Brackets		5.30
Minnesota	0 - 19,890	0 - 29,070	5.35
	19,891 - 65,330	29,071 - 115,510	7.05
	65,331 and over	115,511 and over	7.85
New Hampshire	No state income tax		N/A
New York	0 - 8,000	0 - 16,000	4.00
	8,001 - 11,000	16,001 - 22,000	4.50
	11,001 - 13,000	22,001 - 26,000	5.25
	13,001 - 20,000	26,001 - 40,000	5.90
	20,001 - 100,000	40,001 - 150,000	6.85
	100,001 - 500,000	150,001 - 500,000	7.38
	500,001 and over	500,001 and over	7.70
North Carolina	0 - 12,750	0 - 21,250	6.00
	12,751 - 60,000	21,250 - 100,000	7.00
	60,001 - 120,000	100,001 - 200,000	7.75
	120,001 and over	200,001 and over	8.25
Oregon	0 - 2,650	0 - 5,300	5.00
	2,651 - 6,650	5,301 - 13,300	7.00
	6,651 and over	13,301 and over	9.00
Vermont	0 - 29,700	0 - 49,650	3.60
	29,701 - 71,950	49,651 - 119,950	7.20
	71,951 - 150,150	119,951 - 182,800	8.50
	150,151 - 326,450	182,801 - 326,450	9.00
	326,451 and over	326,451 and over	9.50
Washington	No state income tax		N/A
Wisconsin	0 - 8,840	0 - 11,780	4.60
	8,841 - 17,680	11,781 - 23,570	6.15
	17,681 - 132,580	23,571 - 176,770	6.50
	132,581 and over	176,771 and over	6.75

[1] 50 states with more detailed chart in the Appendix

## Estate Tax

Vermont has an estate tax that is equal to the amount of the federal allowable state estate tax credit in effect on January 1, 2001. EGTRRA<sup>22</sup> phased out the federal state estate tax credit between 2002 and 2005 and, in response, Vermont froze the estate tax amounts to the level prior to the federal changes. The remaining federal provisions to diminish the impact of the estate tax were passed through to Vermont and include increasing the exemption amount from \$675,000 in 2000 to \$3.5 million by 2009. Any taxable estate smaller than this amount does not pay any estate tax. In 2010, the federal estate tax will be repealed and then would revert to prior federal law in 2011 unless changed by Congress.

Very few people pay the estate tax. In 2006, it is estimated that 0.27% of all estates in the United States will pay estate tax, meaning 99.73% can pass 100% of their estates to heirs tax free.<sup>23</sup> In order to get a sense of scale, there are approximately 5,000 deaths per year in Vermont and in 2005 only 74 estates owed an estate tax amount. (It is important to note that estate tax may be owed to the state even when the decedent was not a Vermont resident.) As the federal exemption amount rises, even fewer estates will be liable for an estate tax. In Vermont, farm businesses have been exempt from the estate tax since 2001.

In a partial analysis of FY 2005 Vermont estate tax returns, a large number of taxable estates, (48.6%) are less than \$2.0 million in taxable value and would be exempt beginning in 2006, shrinking the number of estates that pay the tax even further. A majority of the estate tax revenue in Vermont comes from a handful of very large estates.

<b>Partial FY 2005 Vermont Estate Tax Returns<sup>[1]</sup></b>	
<b>Taxable Estate Value</b>	<b>Number of Estates</b>
Less than \$2.0 million	36
Between \$2.0 and \$10.0 Million	32
Greater than \$10.0 million	6
<b>Total</b>	<b>74</b>
<b>Tax Paid</b>	<b>\$15.4 million</b>
<b>Average Tax Paid Per Estate</b>	<b>\$208,604</b>

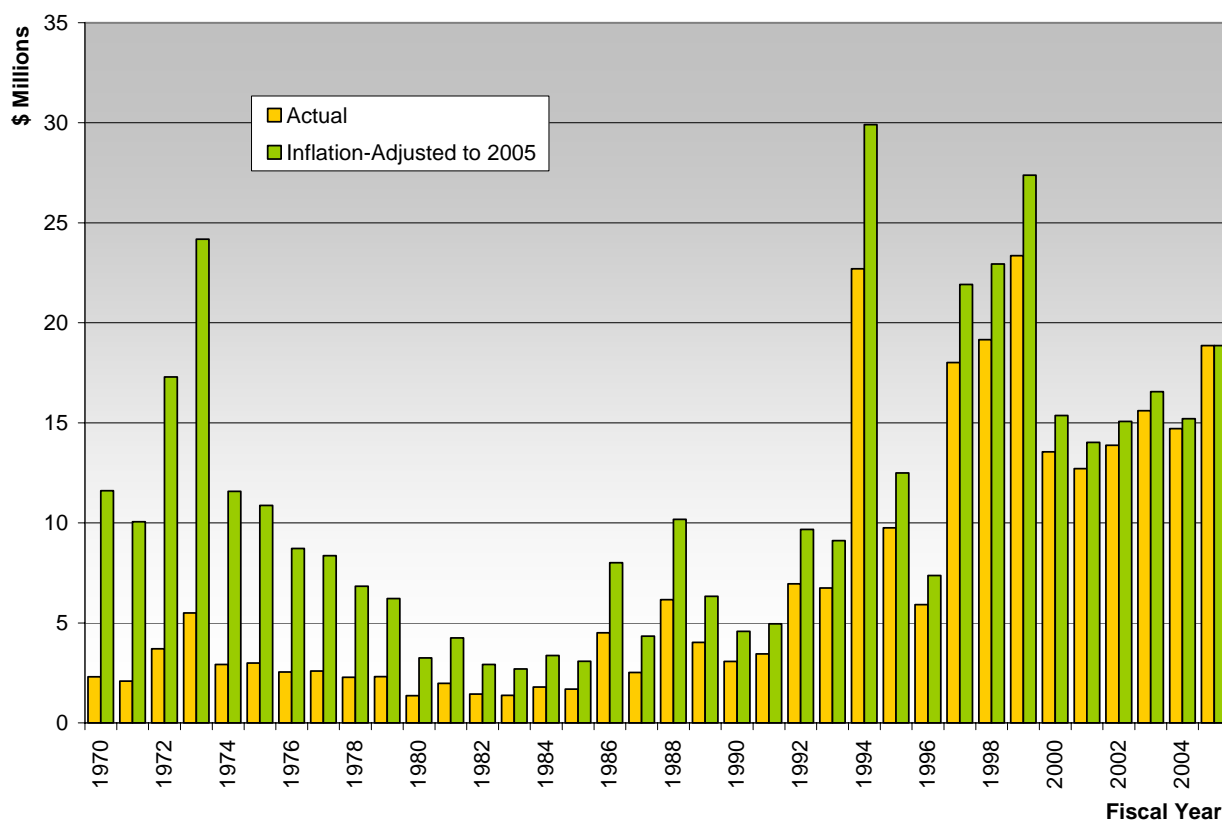
[1] Extension filers not included, Vermont Department of Taxes

The average annual amount of estate tax revenue over the past 10 fiscal years was \$17.6 million. Estate taxes are a highly irregular source of revenue and among the most unpredictable; they may be disproportionately influenced by one or two substantial returns. For example, in FY 2006, the estate tax revenues were \$26.2 million, the highest ever collected, but FY 2005 collections were only \$18.7 million, closer to the most recent 10-year average. Estate tax revenues increased significantly in recent years, mostly in response to strong growth in the stock and real estate markets. Yet the estate tax is a relatively small component of overall state tax revenues, between 1.0% and 2.0%.

<sup>22</sup> Economic Growth and Tax Relief Reconciliation Act of 2001

<sup>23</sup> [http://www.responsiblewealth.org/press/2006/millionaires\\_estate\\_tax.html](http://www.responsiblewealth.org/press/2006/millionaires_estate_tax.html)

### Vermont Estate Tax Revenue FY 1970 - FY 2005



In 2000, prior to the passage of EGTRRA, all 50 states had an estate tax that was equal to the amount of the allowable state credit against the federal estate tax, commonly referred to as a “pick-up” tax; some states imposed additional taxes on estates. In 2006, 24 states had an estate or inheritance tax. Of the 12 comparison states used in this study, two, New Hampshire and Florida, do not have inheritance or estate taxes. A detailed list of the states is in Appendix C, Supplemental Tax Rates and Other Data.

## SALES-BASED TAXES

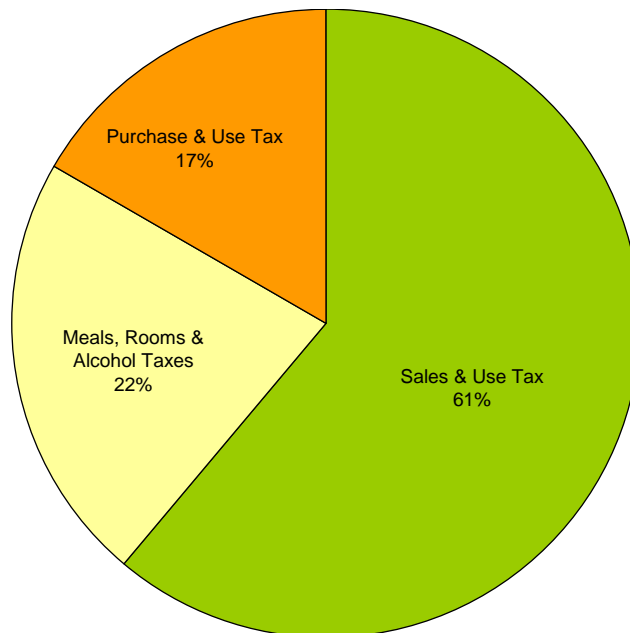
### Summary

Three major sales-based taxes, assessed largely at the retail level, constitute a sizeable portion of Vermont state revenues:

- **Sales and Use Tax** – Vermont’s 6.0% sales and use tax on consumer goods is by itself the third largest component of all Vermont state tax revenues (after the statewide education property tax and the individual income tax). It constituted 12.8% of total state revenues in FY 2005, or \$310.1 million.
- **Meals and Rooms Tax** – The Vermont meals and rooms tax is applied to prepared and restaurant meals and to short-term lodging (hotels, motel, inns, etc.). The meals and rooms rate is 9.0%; the rate is 10.0% for served alcoholic beverages. Revenues from taxes on meals and rooms constituted 5.3% of total state revenue in 2005, or \$113.0 million.
- **Purchase and Use Tax** – Vermont taxes motor vehicle sales under a separate purchase and use tax of 6.0%. Purchase and use tax revenue in FY 2005 amounted to 4.0% of total state revenue, or \$84.1 million.

Together these three taxes generated \$507.8 million in revenue.

**FY 2005 Revenue from Sales Taxes**



## SALES AND USE TAX

### Tax Base

The Vermont sales tax is assessed on the retail price of goods and collected at the “point-of-sale,” or when the purchase takes place. The compensating use tax, at the same rate, applies

to items purchased out of state that are brought back for use in Vermont. Use taxes are enacted to prevent tax avoidance by purchasing goods outside of the state taxing jurisdiction; they are the responsibility of the consumer – not the retailer. Telecommunications services are also taxed as part of the sales and use tax in Vermont.

Vermont maintains more than 75 exemptions from the sales and use tax. The exemptions, growing in number, are grouped roughly into the following categories: 1) items simply exempt from the sales and use tax, 2) exempt transactions, 3) exempt organizations, 4) definitional and special exclusions from the tax. The most significant exemptions include food,<sup>24</sup> clothing and footwear, prescription medicine, over-the-counter medicine, utilities, and services.

**Streamlined Sales and Use Tax Agreement (SSTA)** – The Streamlined Sales and Use Tax Agreement is a multi-state endeavor to simplify and streamline sales and use taxes in 45 states and the District of Columbia; its goal is to improve revenue collections from out-of-state vendors. Vermont joined SSTA in 2003 and has amended state sales and use tax statutes to adopt definitions and procedures that conform with the agreement. SSTA became law in Vermont on January 1, 2007, and the state will begin collecting sales taxes paid to out-of-state vendors. New revenues are not initially expected to be substantial because the program is voluntary for out-of-state sellers and will remain so unless Congress adopts authorizing legislation.

Some of the major sales and use tax changes in Vermont that became law when the streamlined agreement was implemented were: 1) all clothing and footwear is now exempt from the sales and use tax, 2) both beer and wine will be taxed, and 3) destination sourcing rules will go into effect for the local option tax. Destination sourcing requires the tax to be applied based on the rules of the jurisdiction where the product is delivered rather than the location of the store. If a purchaser walks out of the store with the merchandise, the “delivery” occurs at the store. If the item is shipped for delivery beyond a location with a local option tax then the local tax does not apply. In addition, both the state sales and use taxes and the local option taxes are required to have the same tax base under SSTA. This will require Manchester, Williston, and Stratton with pre-streamlined local option taxes to conform their tax base with these changes as well.

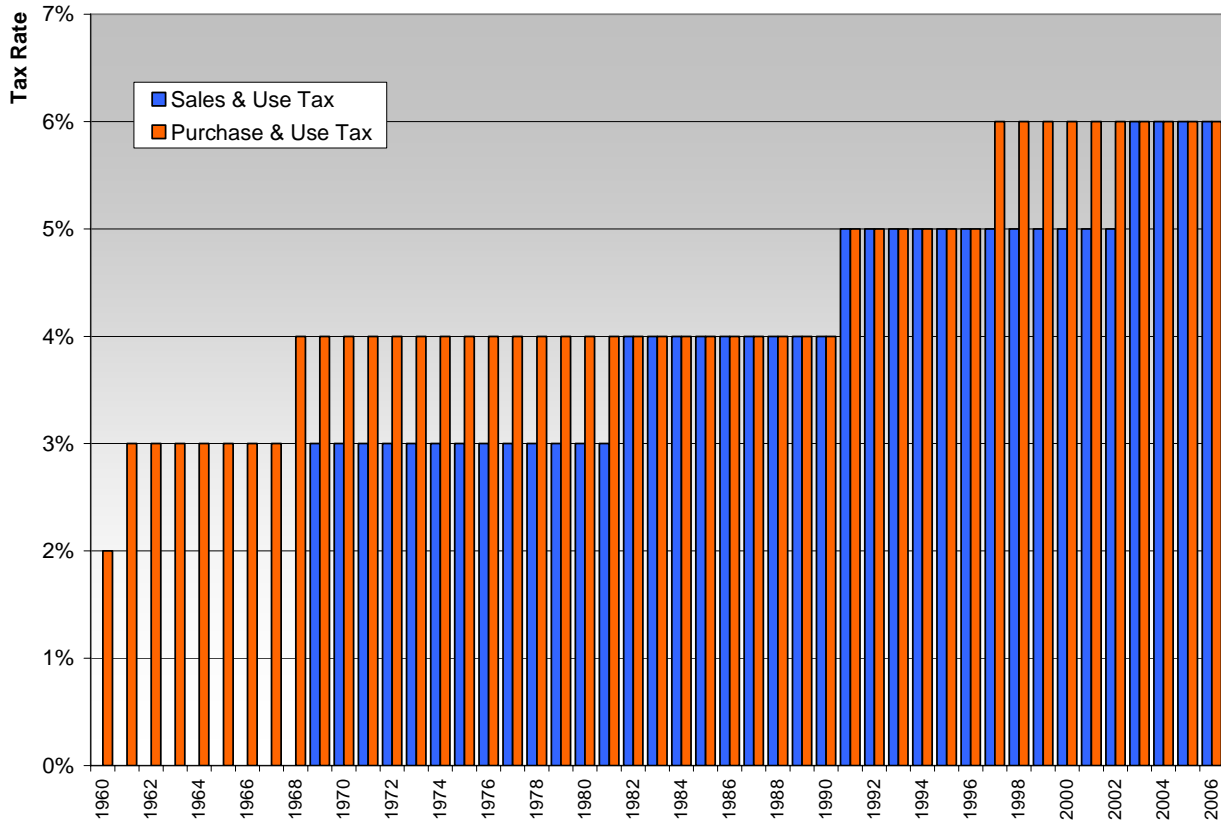
## **Tax Rates**

The Vermont sales and use tax was first implemented in 1969 at a 3.0% rate on retail sales. The motor vehicle purchase and use tax (discussed in detail below) began in 1960 at 2.0% but was frequently capped at a maximum amount. The chart below shows these two tax rates over time: they were each 4.0% from 1982 until 1991, 5.0% from 1991 to 1997, and have been 6.0% since the sales tax was increased in 2003.

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<sup>24</sup> Food prepared away from home is assessed through the Vermont meals and rooms tax at 9%

## Vermont Sales and Use Tax and Purchase and Use Tax, 1960 – 2006



The table below shows the sales tax rate changes as well as significant additions or exemptions from the tax base.

### History of the Sales and Use Tax in Vermont

Year	Change
1969	Sales tax implemented at 3.0% of transaction
1982	Rate increased from 3.0% to 4.0%
1991	Rate increased from 4.0% to 5.0%. Tax extended to wine and tobacco
1997	Limited 1.0% local options tax authorized
1999	Clothing and footwear less than \$110 exempt
2003	Rate increased from 5.0% to 6.0% Telecommunications tax rate increased from 4.36% to 6.0%
2007	Streamlined Sales and Use Tax Agreement begins; significant changes include the elimination of sales tax from all clothing and footwear, sales tax added to beer, elimination of the \$20 telecommunications exemption, change from origin to destination sourcing rules, among others.

### Local Option Taxes

Local option taxes were authorized in 1997 in an effort to mitigate the impact of new education property taxes during the passage of the Equal Educational Opportunity Act of 1997, more commonly known as Act 60. In order to qualify for the local option tax, towns meeting one of three qualifying criteria<sup>25</sup> may vote to enact one or all of the following local taxes: a 1.0% sales

<sup>25</sup> 24 V.S.A. §138. Qualifying Criteria: the education property tax rate in 1997 was less than \$1.10 per \$100 of equalized value; the equalized value of personal property, business machinery, inventory, and equipment is at

tax, a 1.0% meals and alcoholic beverages tax, or a 1.0% rooms tax. Revenue from these taxes is divided between the municipality (70%) and the state, which applies the remaining 30% toward the PILOT<sup>26</sup> program. A number of towns qualify, but to date only Manchester, Williston, Stratton and Stowe have enacted these local option taxes. Stratton and Williston have enacted all three taxes, while Manchester only applies the sales tax and Stowe only the meals and rooms tax. The local option taxes were scheduled to sunset after a few years but the sunset date was extended and eventually repealed.

No other town may institute a local option tax without legislative approval except the cities of Burlington, Rutland, and St. Albans, which previously had a different authority in their municipal charters for food, lodging, and entertainment. Burlington recently received additional authority for a local option sales tax through a charter change, rather than as an addition to the 1997 Act 60 exception made for the other towns. A 1.0% local sales tax went into effect in Burlington in July of 2006.

### Tax Revenue

The sales and use tax is the third largest component of all Vermont state tax revenues. It constituted 12.8% of total state revenues in FY 2005, generating \$310.1 million. This is an increase from \$173.0 million in revenues in 1995 and \$26.5 million in 1975.

Sales and use tax revenues vary based on what items are taxed, the level of taxation, and consumer expenditures. The sales and use tax is directly tied to local retail consumption, and revenues are sensitive to downturns in the economy. As an example, sales tax revenues remained virtually unchanged between FY 2000 and FY 2002 as the economy entered a brief recession, then increased an average of 13% in the three years from 2003 to 2005 primarily as the result of a rate increase and the inclusion of telecommunications in the sales tax base (previously<sup>27</sup> tax revenue from telecommunications services were accounted for separate from the general sales and use tax).

**Vermont Sales and Use Tax Revenue Growth** <sup>[1]</sup>

Fiscal Period	Average annual growth (%)	Average annual Inflation-adjusted growth (%)	Total inflation adjusted growth (%)
1975-1980	9.0	0.1	0.6
1980-1985	16.6	10.5	64.9
1985-1990	9.1	5.0	27.3
1990-1995	5.0	1.8	9.5
1995-2000	4.5	2.0	10.3
2000-2005	7.5	4.8	26.6
<b>1975-2005</b>	<b>7.6</b>	<b>4.0</b>	<b>223.0</b>

[1] Compounded growth rates

Sales tax revenue per penny of tax is a measure that allows a direct comparison of the effectiveness of the tax at different times if the results are adjusted for inflation. In 1985, the

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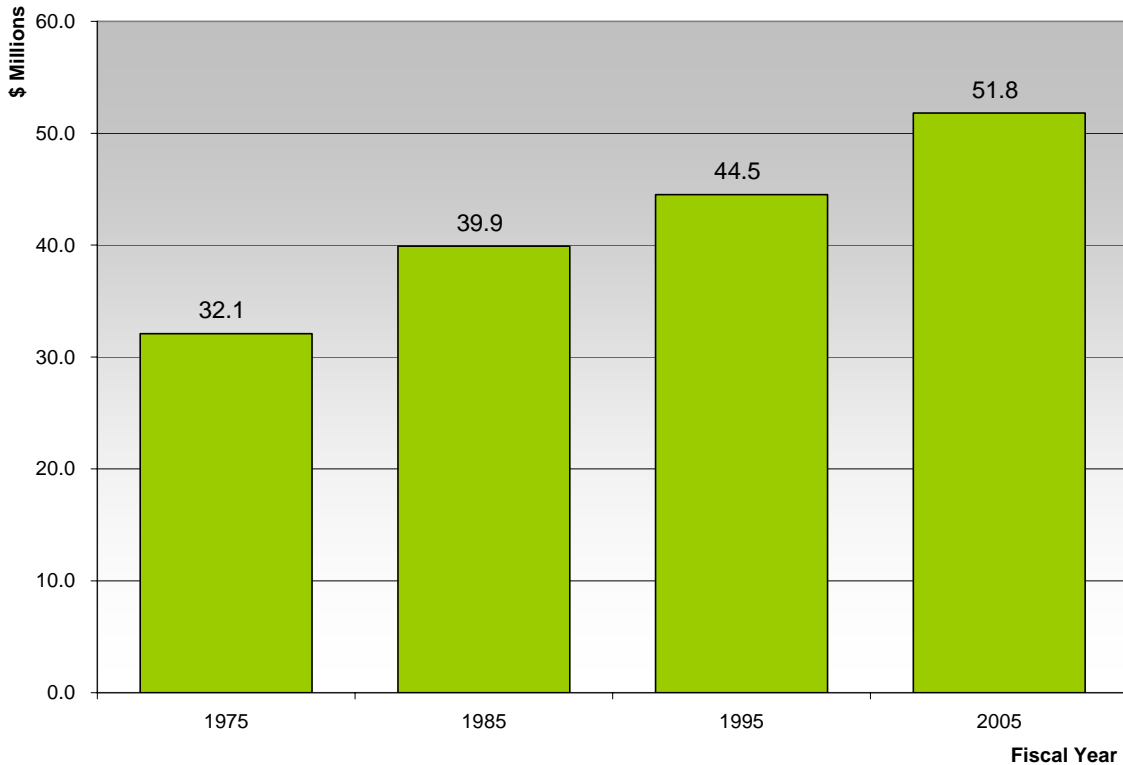
least 10% of the EEGL in the 1998 PVR annual report; the combined education tax rate will increase by 20% or more in FY1999 or in FY2000 over the rate in the previous fiscal year.

<sup>26</sup> Payment In Lieu of Taxes

<sup>27</sup> October 1, 2003 the telecommunications tax rate increased from 4.36% to 6.0% and was included in the sales and use tax base.

sales tax rate was 4.0% and the tax generated \$159.67 million in constant (2005) dollars. Each penny of tax per dollar therefore generated \$39.9 million dollars. By 2005, with the tax rate at 6.0%, each penny of sales tax was generating \$51.8 million dollars, for a total \$310.8 million in revenue. This represents about 1.3% real growth per year over this period – considerably less than the 3.1% real compound average annual rate experienced by the Vermont economy at large. Most of this gap is the result of tax base erosion due to growth in mail order and, later, internet sales as well as a growing number of exclusions to the sales tax. Also, higher tax rates usually yield less per penny in tax revenues owing to price elasticity of demand.<sup>28</sup>

**Sales and Use Tax Revenue Per Penny**  
(Inflation-adjusted to 2005 dollars)



### Economic Cycles

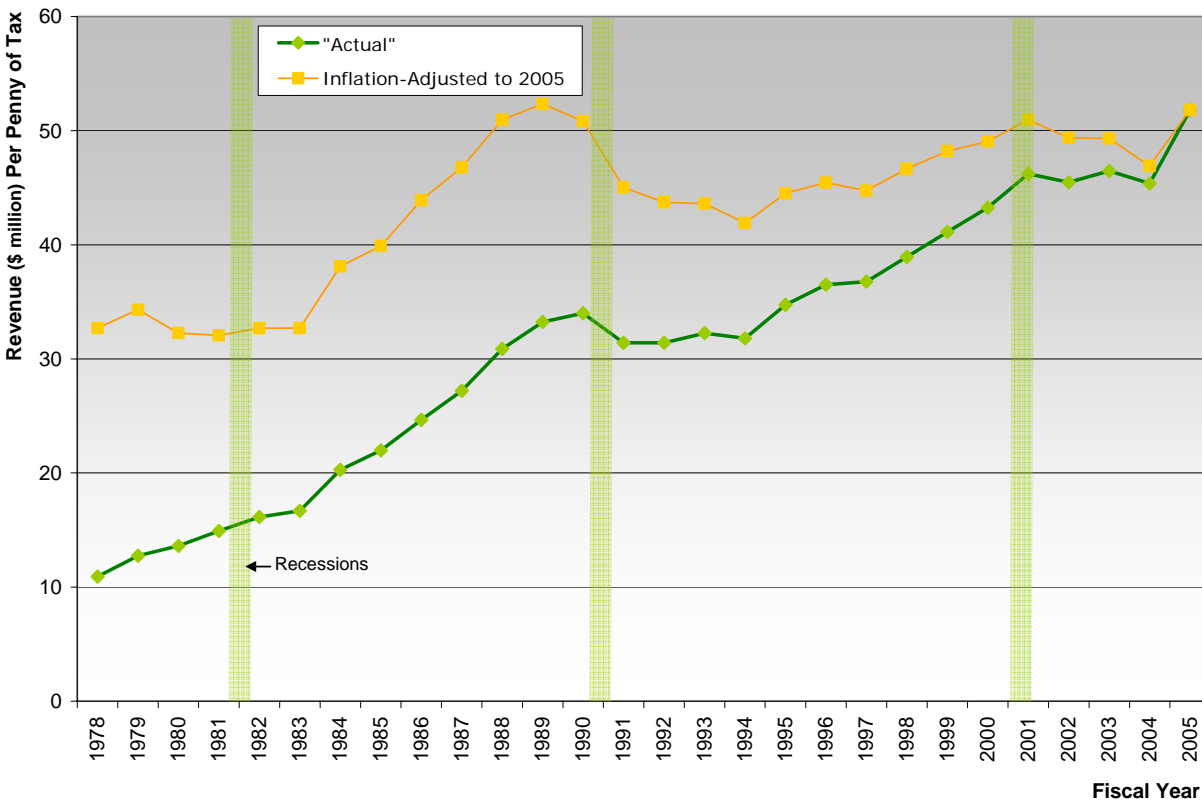
A variety of economic and policy changes influence sales and use tax revenues. In Vermont, the revenue growth is attributable to growth in the economy, but a large portion is obviously due to increases in the sales tax rate itself. Since its implementation in 1969, the Vermont sales tax rate has been increased three times. Other factors that may affect the growth and stability of Vermont sales and use tax revenues include:

- **Population growth:** As both the resident and non-resident (including tourist) population increases, consumption of taxable goods increases.
- **A growing share of total sales in the service sector:** Like most states, Vermont does not levy sales taxes on most services. If services continue to comprise a growing part of the general state economy the sales and use tax will not keep pace.
- **Continued growth in mail order and online shopping:** The Vermont sales tax is likely underpaid, despite the legal obligation to do so by resident online and mail order purchasers.

<sup>28</sup> Price elasticity of demand is the change in demand as a result of a change in price for a product or service.

- **Cross-border sales:** The lack of a sales tax in New Hampshire attracts some sales across the border. In addition, sustained periods in which the Canadian dollar is particularly weak or strong relative to the US dollar can also effect Vermont retail sales.
- **Participation in the Streamlined Sales and Use Tax Agreement:** With the passage SSTA, some tax base recovery is expected to occur. With full remote sales tax collection, the tax base would increase substantially.

**Vermont Revenue per Penny of Sales Tax, 1978 - Present**



### Nationwide Comparison

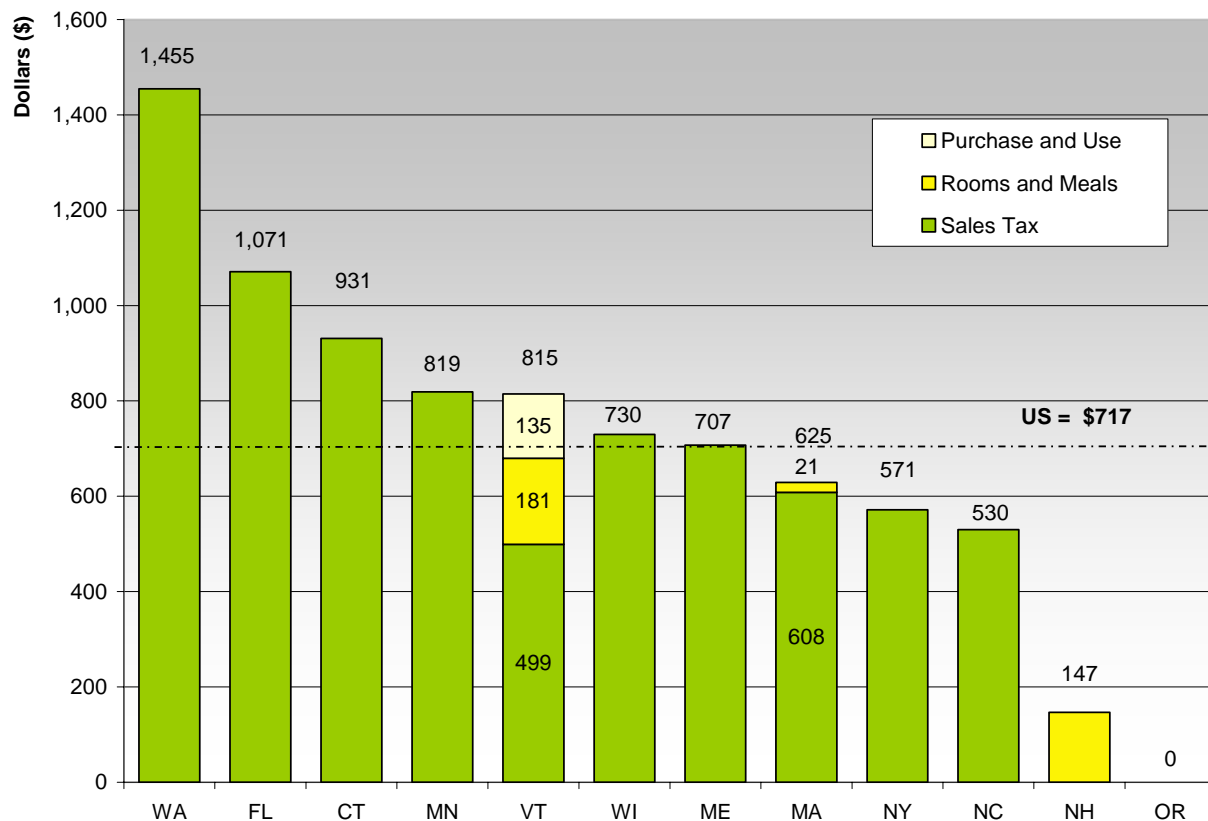
Direct comparison of sales tax revenues among states is complicated by a variety of exemptions and exclusions that vary considerably from state to state. State sales and use tax revenue per capita in Vermont was \$499 in FY 2005. This was well below the national average and the lowest among the 10 comparison states that levy such a tax (New Hampshire and Oregon do not have sales tax). Vermont's sales tax revenue per capita ranked 41<sup>st</sup> nationally in 2005, a move from 32<sup>nd</sup> in 1995. This relatively low per capita yield, despite Vermont's relatively high nominal rate, reflects lower-than-average personal income in Vermont. But Vermont's ranking among states is low for a variety of other reasons:

- Vermont exempts a variety of items from the sales tax. These include: all unprepared food (true in all but 17 states), all footwear and clothing items (several states have various thresholds for clothing exemptions) and prescription and over-the-counter drugs (prescription drug exemptions apply in most other states; exemptions for over-the-counter medications exist in 10 other states).

- The service industry is a growing component of consumption in Vermont and the nation. Because Vermont does not tax services, less sales tax revenue is generated compared to other states that tax some services.
- These rankings are state-level sales taxes only. Many other states allow local sales taxes, a portion of which are shared with the state, and some county and municipal governments rely heavily on local sales tax revenues. Vermont's local option sales tax rate of 1.0% is among the lowest, and it is currently used in only four municipalities, not statewide. Vermont's rank drops further to 45<sup>th</sup> in FY 2004 when measuring state and local sales taxes per capita.
- The lack of a general sales tax in New Hampshire attracts Vermont sales across the border; and to a much lesser extent, sustained periods in which the Canadian dollar is weak relative to the US dollar can also negatively impact Vermont retail sales.
- Vermont imposes a separate tax on meals and rooms and vehicle purchases.

When the Vermont meals and rooms tax and the state purchase and use tax revenues are included in the chart below, per capita revenues climb to \$815. Vermont is the only state among the 12 study states that excludes meals from the general sales tax and one of two that exclude rooms.<sup>29</sup> Similarly, Vermont is one of only a few states that accounts for vehicle purchases under a separate tax. Therefore, adding those taxes to the per capita figures allows a more similar comparison. This comparison only includes state-level taxes, therefore, local sales taxes that apply to meals and rooms in Oregon are not part of the comparison.

**2005 State Sales Tax Per Capita** <sup>[1]</sup>  
and other relevant sales-based taxes <sup>[2]</sup>

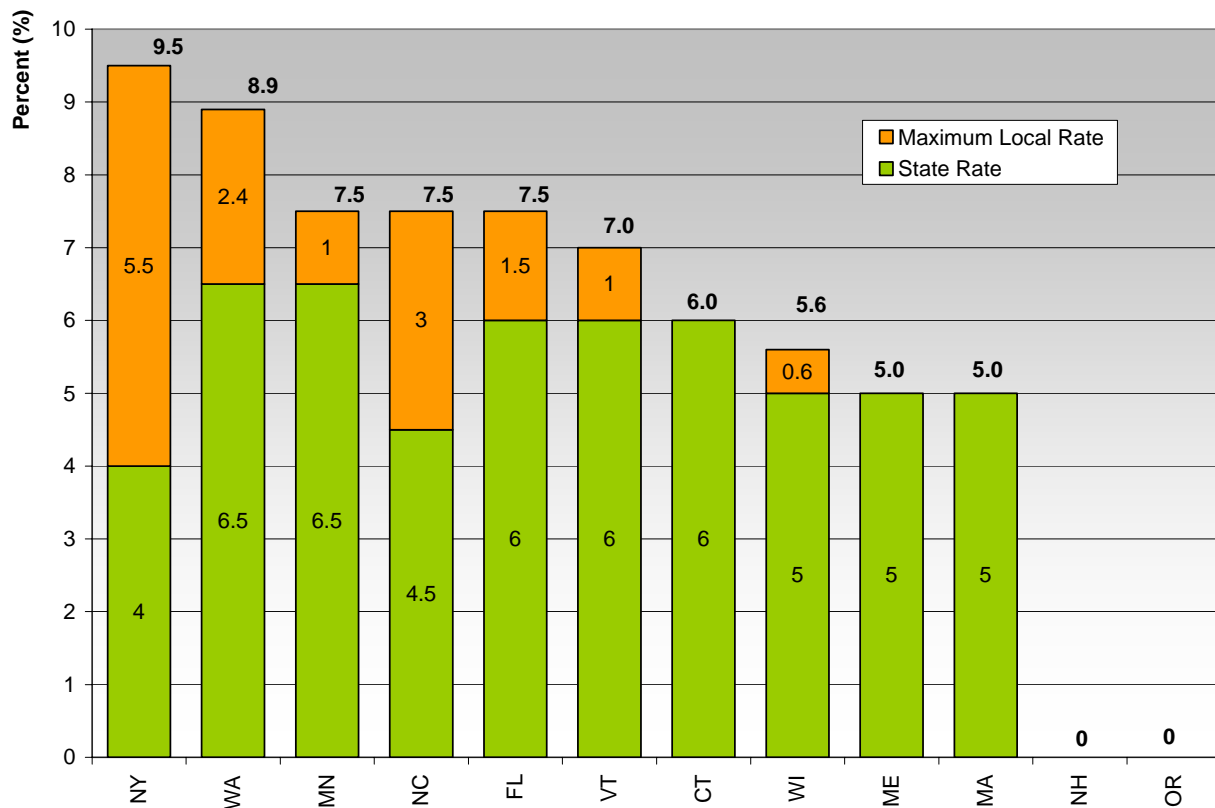


[1] Census <http://www.census.gov/govs/www/statetax05.html> [2] Additions made by JFO

<sup>29</sup> Massachusetts exempts short-term lodging from the general sales tax and applies a 5.7% occupancy tax. A local option of up to 4.5% is also allowed.

Vermont's statewide sales tax rate is 6.0%. The national median rate for statewide sales tax is 5.0%. Five states have no sales tax. Nine states have a higher statewide sales tax rate, with 11 others at the same rate as Vermont. If local sales taxes are also considered, however, Vermont's sales tax rate ranks lower in state comparisons. With the addition of local sales taxes, some municipalities within the comparison states have a higher combined rate than that of Vermont; other jurisdictions may not. Combined state and local rates in New York range between 7.0% and 9.5% (highest in Oneida County). According to a recent study, 85% of New York's population resides in areas where the combined sales tax rate is 8.0% or higher.<sup>30</sup> Washington has a 6.5% state sales tax, plus county sales taxes of up to 1.5% and local city sales taxes of up to 0.9%. Therefore, the highest sales tax rate in Washington may be 8.9%. Minnesota, Florida, and North Carolina<sup>31</sup> have combined state sales tax rates of up to 7.5%. Wisconsin has a state rate of 5.0%, county rates of 0.5% and in a few jurisdictions, stadium rates of an additional 0.1% for a total possible sales tax rate of 5.6%. A chart of all 50 states state and local sales tax rates is available in the Appendix C.

**2005 State and Local Sales Tax Rates – Comparison States**



### Sale Tax Exemptions

Of the major items not taxed, Vermont exempts food (food prepared away from home is assessed through the meals and rooms tax at 9.0%). Of the 10 states in this study that have a sales tax, all exempt food from the statewide sales tax. However, North Carolina allows local sales taxes on food. Vermont also exempts all items of clothing and footwear. (New York, Massachusetts, and Connecticut have exemptions with thresholds similar to the \$110 in

<sup>30</sup> *Local Government Sales Taxes in New York State*, Office of the New York State Comptroller, March 2006.

<sup>31</sup> The North Carolina state sales tax rate is schedule to decrease to 4.25% 12/1/06 and 4.0% on 7/1/07, thereby reducing the combined state tax to 7.0% next year ([http://www.dorn.com/downloads/E505\\_9-06.pdf](http://www.dorn.com/downloads/E505_9-06.pdf)).

Vermont prior to January 1, 2007). Further, Vermont exempts over-the-counter and prescription drugs. Of the 10 states with a sales tax, all exempt prescription drugs while four others (Connecticut, Florida, Minnesota, and New York) exempt over-the-counter drugs. Vermont also exempts services and residential electric and gas utilities. The table below outlines the major sales and use tax exemptions in the 10 comparison states with sales taxes.

**Selected Sales Tax Exemptions<sup>32</sup>**  
**Comparison States (X = Item is taxed)**

	CT	FL	ME	MA	MN	NY	NC	VT	WA(a)	WI
Food prepared at home							X <sup>(1)</sup>			
Prepared foods	X	X	X	X	X	X	X	X <sup>(5)</sup>	X	X
Rooms / Short term lodging	X <sup>(6)</sup>			X <sup>(7)</sup>				X <sup>(5)</sup>		
Clothing	X <sup>(2)</sup>	X	X	X <sup>(4)</sup>		X <sup>(3)</sup>	X		X	X
Prescription medicines										
Over-the-counter medicines			X	X			X		X	X
Alcohol(b)	X	X	X	X		X	X	X	X	X
Construction services	X								X	
Utilities(c)					X			X <sup>(c)</sup>	X	
Financial Services									X	
Personal Services	X				X				X	X
Business services									X	
Computer(d)									X	
Installation / repair services	X	X				X			X	X

- (1) Subject to local sales tax only.
- (2) Clothing items under \$50 excluded.
- (3) Clothing under \$110 excluded.
- (4) Clothing items under \$175 excluded.
- (5) Subject to meals and rooms tax of 9%
- (6) Special 12% rate applies
- (7) Subject to state occupancy tax of 5.7% plus a local rate of up to 4.5%

- (a) Washington has separate rates for various services.
- (b) Sales tax in addition to excise tax. In VT, wine and beer are subject to the sales tax.
- (c) Each state taxes utilities in different ways. VT includes some utility taxes in its sales tax (such as a portion of the taxes on telephone services), and others independent from the sales tax, such as electric power generation, telephone equipment, and corporate utility income.
- (d) All states tax software. Tax refers to internet, mainframe and data processing.

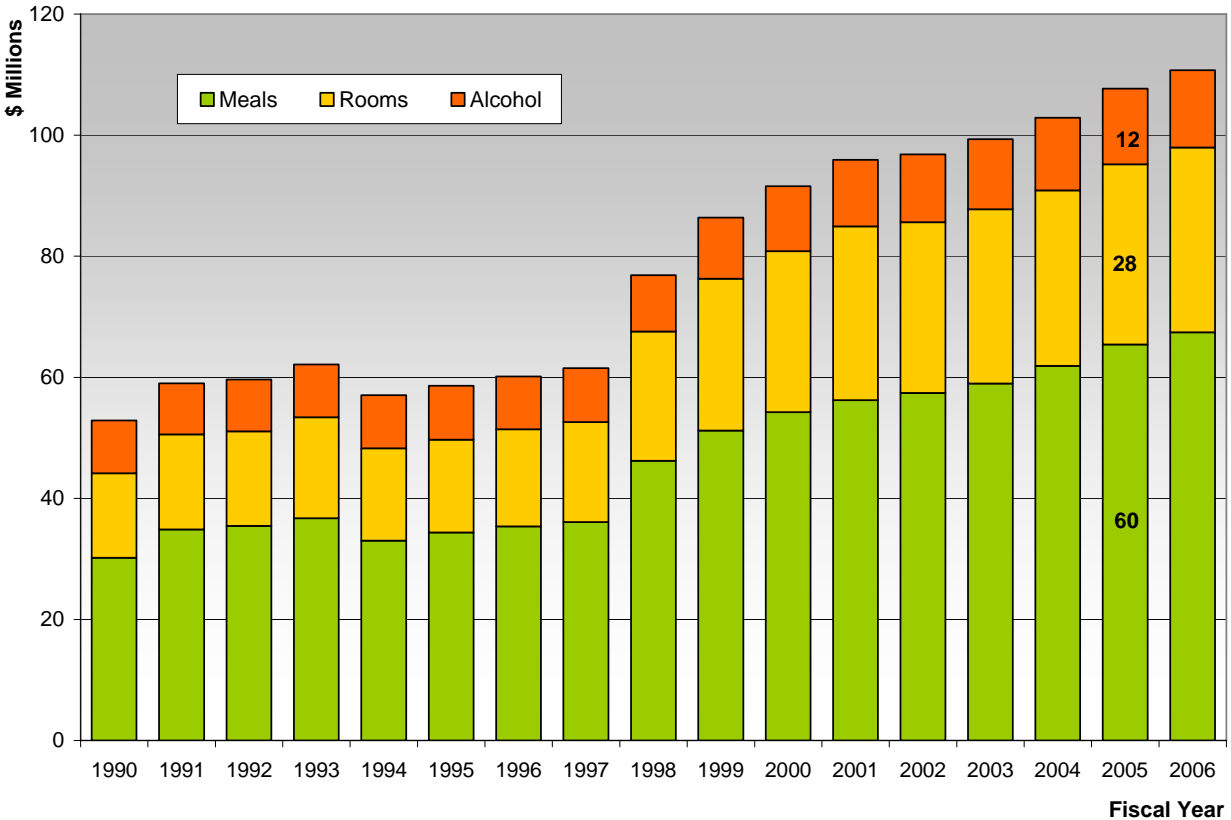
## MEALS AND ROOMS TAX

The Vermont meals and rooms tax is applied to prepared and restaurant meals and to short-term lodging (hotels, motel, inns, etc.). The meals and rooms rate is 9.0%, and the rate is 10% for served alcoholic beverages. Revenues from taxes on meals, rooms and alcohol combined grew are \$113.0 million in FY 2005, 5.3% of total forecast state revenue. The most recent rate increase from 7.0% to 9.0% on rooms and meals took effect in 1997. The tax on alcoholic beverage was added in 1989.

Meals make up the largest portion of the tax revenue, 60% in 2005, with rooms at 28% and served alcohol 12% of the revenue from this tax source.

<sup>32</sup> Compiled from information available at: <http://www.taxadmin.org/fta/pub/services/services.html>

### Meals and Rooms Tax Revenue, 1990 – 2006<sup>[1]</sup>



[1] Actual dollars, not inflation-adjusted

### Nationwide Comparison

Other states typically tax meals and rooms and served alcohol, some through their general sales and use taxes, others under a separate tax system similar to Vermont's. The table below shows the state and local rates assessed by the comparison states for both food and lodging.

#### 2005 Meals and Rooms Tax Rates, 12 Comparison States

State	Tax Rates on Meals			Tax Rates on Rooms		
	State	Local <sup>[1]</sup>	Maximum Combined Rate	State	Local <sup>[1]</sup>	Maximum Combined Rate
CT	6.00%	n/a	6.00%	12.00%	n/a	12.00%
FL	6.00%	1.50%	7.50%	6.00%	1.50%	7.50%
ME	7.00%	n/a	7.00%	7.00%	n/a	7.00%
MA	5.00%	n/a	5.00%	5.70%	4.50%	10.20%
MN	6.50%	1.00%	7.50%	6.50%	1.00%	7.50%
NH	8.00%	n/a	8.00%	8.00%	n/a	8.00%
NY	4.25%	4.50%	8.75%	4.25% + \$1.50*	9.5% + \$2.00*	13.75% + \$3.50
NC	4.50%	3.00%	7.50%	4.50%	3.00%	7.50%
OR	0.00%	5.00%	5.00%	1.00%	5.00%	6.00%
VT	9.00%	1.00%	10.00%	9.00%	1.00%	10.00%
WA	6.50%	2.40%	8.90%	6.50%	7.40%	13.90%
WI	5.00%	0.60%	5.60%	5.00%	0.60%	5.60%

[1] Maximum authorized local tax rate

Source: 2005 State Tax Handbook, Commerce Clearing House

Connecticut applies its 6.0% sales tax to meals and a 12.0% room occupancy tax to hotel rooms. Massachusetts exempts short-term lodging from the general sales tax and applies a 5.7% occupancy tax. Boston may levy an additional 4.5% local rooms tax while other jurisdictions may level up to 4.0%. New Hampshire assesses an 8.0% meals and rentals tax. New York applies sales taxes to rooms and New York City applies three taxes to rooms: state sales tax, plus a state \$1.50 fee per day; local sales tax; and the New York City Hotel Room Occupancy Tax, which is a flat rate based on the room price plus 5.0%.

## MOTOR VEHICLE PURCHASE AND USE TAX

Vermont taxes motor vehicle sales under a separate purchase and use tax. It is a tax on vehicle purchases and, when a sale is not involved, a market-value-based use tax on an owner's initial registration of a vehicle. The rate is currently 6.0%, the same as the general sales and use tax, although the rates have not always been identical. The 6.0% rate applies to the vehicle's market value, and is reduced by (1) the value of any trade-in credited against the purchase price or (2) the amount of any sales tax paid to another jurisdiction. For vehicles weighing more than 10,099 pounds, the tax is capped at \$1,680. The motor vehicle purchase and use tax is included in and subject to the federal Streamlined Sales and Use Tax Agreement.

There are a number of exemptions to the motor vehicle purchase and use tax, most notably transactions involving motor vehicles that are (1) owned by a municipality, (2) owned by a religious or charitable organization, (3) transferred within a family, (4) owned by a handicapped person for whom the controls have been altered, and (5) donated to low-income residents.

As part of Act 60 in FY 1998, the rate was increased from 5.0% to 6.0% with five-sixths of the revenue dedicated to the Transportation Fund and one-sixth to the Education Fund. In FY 2005, the portion of the gasoline tax that was previously allocated to the Education Fund was shifted back to the Transportation Fund and revenue from the motor vehicle purchase and use tax was split two-thirds to the Transportation Fund and one-third to the Education Fund.

Purchase and use tax revenue in FY 2005 amounted to \$84.1 million, 4.0% of total state revenue. The table below describes the growth of motor vehicle purchase and use tax revenue from 1975 through 2005.

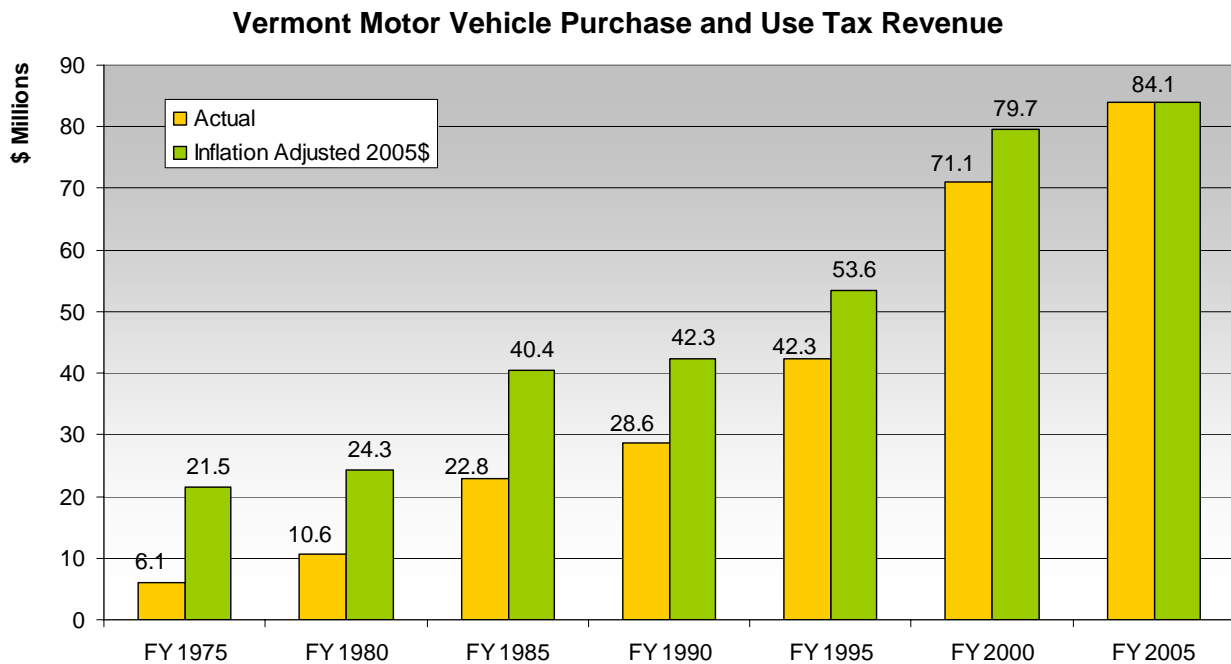
**Vermont Purchase and Use Tax Revenue Growth <sup>[1]</sup>**

Fiscal Period	Average annual growth (%)	Average annual Inflation-adjusted growth (%)	Total inflation adjusted growth (%)
1975-1980	11.8	2.5	13.0
1980-1985	16.5	10.8	66.7
1985-1990	4.6	0.9	4.7
1990-1995	8.1	4.8	26.5
1995-2000	10.9	8.3	48.8
2000-2005	3.4	1.1	5.5
<b>1975-2005</b>	<b>11.1</b>	<b>4.7</b>	<b>291.5</b>

[1] Compounded growth rates

The purchase and use tax was the fastest growing revenue source for the Vermont Transportation Fund over the past 15 years. Inflation-adjusted purchase and use revenue

quadrupled between FY 1975 and FY 2005. Some of this growth is due to tax rate increases, some to the increased number of vehicles purchased, and some to the growth in the purchase price. The chart below shows the actual and inflation-adjusted revenue from the motor vehicle purchase and use tax during the period FY 1975-2005.



### Nationwide Comparison

Most states tax motor vehicles under the general sales and use tax. The two comparison states (New Hampshire and Oregon) without a state sales tax also do not have an equivalent purchase and use tax. Of the nine comparison states with a tax on motor vehicle sales, four of the states have tax rates less than 6.0%; three, including Vermont, have 6.0% state rates; while two states (Minnesota and Washington) have rates that are higher than 6.0%. This is a comparison of state-level tax rates only. Some states also have local sales taxes on motor vehicles.

In addition to sales taxes on motor vehicles, 26 states impose annual, value-based, personal property taxes on motor vehicles.<sup>33</sup> The rates for these taxes for the comparison states are also included in the following table. Five of the comparison states, including Vermont, do not have motor vehicle personal property taxes.

<sup>33</sup> Georgia State University, Andrew Young School of Policy Studies, Policy Brief “Personal Property Tax on Motor Vehicles,” July 2006, Number 130. (<http://frc.gsu.edu/frpreports/brief130/Brief%20130FIN.pdf>)

**2006 Motor Vehicle Purchase and Use Tax Rates and  
Motor Vehicle Property Tax Rates, 12 Comparison States**

State	State Rate (%)	Trade-in Credit	Annual Motor Vehicle Personal Property Tax <sup>34</sup>
Connecticut	6.0	Yes	Motor vehicles assessed at 70% of market value. Local property taxes levied at rates ranging from 10 to 75 mills. Average mill levy is 35 mills. Tax rate range = 0.75% to 5.25%.
Florida	6.0 <sup>[1]</sup>	Yes	N/A
Maine	5.0	Yes	State tax in lieu of local property tax 2.4% of manufacturer's suggested retail price (MSRP) in the first year, declining to 0.4% of MSRP in the sixth year and thereafter.
Massachusetts	5.0	Yes	Local governments collect excise tax at statewide rate of 2.5% of 90% of MSRP in lieu of a personal property tax. Value depreciates to 10% in years five and thereafter.
Minnesota <sup>[a]</sup>	6.5	Yes	State tax levied in lieu of personal property taxes at 1.25% applied to 100% of the MSRP in years 1 and 2; 90% of MSRP in years 3 and 4; 75% in years 5 and 6; 60% in year 7; a flat \$25 in years 11 and thereafter.
New Hampshire	None	N/A	Local registration tax: Year 1 - 1.5% of MSRP; year 2 - 1.2%; year 3 - 0.9%; year 4 - 0.6%; year 5 and thereafter - 0.3%, with a minimum tax of \$5.
New York	4.0 <sup>[2]</sup>	Yes	N/A
North Carolina <sup>[b]</sup>	3.0	Yes	Property tax levied on "true cash value" as determined by local assessor at rates determined by local governments. Weighted average rates -1.2%; local rates range from 0.6% to 1.7%
Oregon	None	N/A	N/A
Vermont	6.0	Yes	N/A
Washington	6.8 <sup>[3]</sup>	Yes	N/A
Wisconsin	5.0 <sup>[4]</sup>	Yes	N/A

[a] Highway Use Tax collected in lieu of sales tax

[b] Motor Vehicle Sales Tax

[1] 7.5% total rate including 1.50% county.

[2] State rate decreased from 4.25% to 4.0% 5/31/2005. County rates of up to 5.5% for a combined rate ranging from 7.0% to 9.5%.

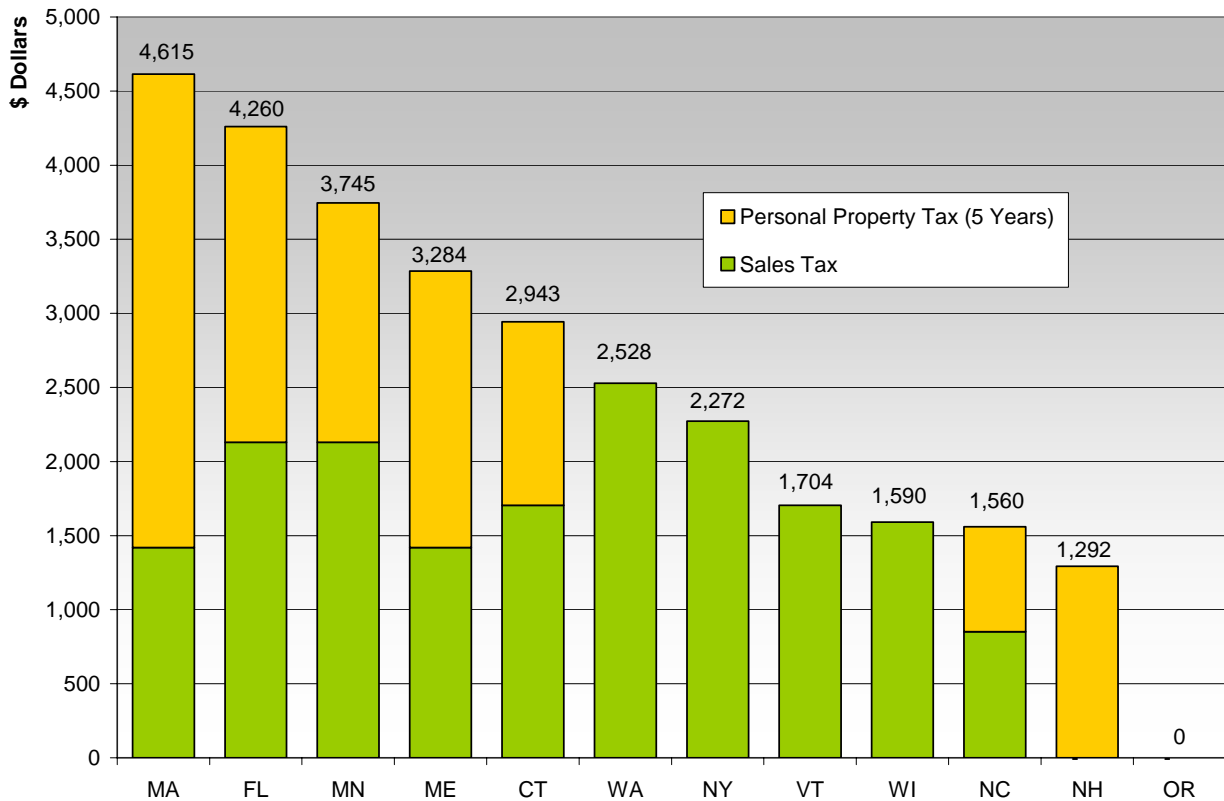
[3] 6.5% general sales tax, plus 0.3% motor vehicle tax

[4] County may add 0.6% surtax

The personal property tax on motor vehicles can add significantly to the taxes required to own a vehicle in states where it is levied. In order to estimate the impact of taxes on motor vehicles, the following table calculates the state and local sales tax on a new vehicle and the estimated motor vehicle property tax due over a five-year period for a new car with a manufacturer's suggested retail price (MSRP) of \$28,400.

<sup>34</sup> Source: NCSL State and Local Value-Based Taxes on Motor Vehicles (<http://www.ncsl.org/programs/fiscal/autotaxs.htm>)

**Motor Vehicle Taxes, New Vehicle, 2005 MSRP = \$28,400<sup>[1]</sup>**



[1] The average price of a new car sold in the United States is \$28,400 according to the National Automobile Dealers Association.

[2] The sales tax includes state and local sales taxes combined.

[3] The five-year loan is the average length for a new car purchase ([www.automotivedigest.com](http://www.automotivedigest.com)).

[4] CT and NC excise taxes are based on depreciated 30% in year one and 10% each year thereafter.

As the chart above shows, if only sales taxes on motor vehicles are considered, Vermont and Connecticut rank fifth among the study states. If motor vehicle property taxes over a five-year period are included in a combined motor vehicle sales and property tax total, Vermont's rank drops to eighth. Massachusetts has the highest combined motor vehicle taxes while Oregon has no sales taxes or personal property tax on motor vehicles.

## MOTOR VEHICLE PURCHASE AND USE TAX HISTORY

Year	Action
1960	Motor vehicle purchase and use tax is created. Rate set at 2%, maximum of \$150. Rate is applied to purchase price net of trade-in value.
1961	Rate raised to 3%, maximum of \$225
1968	Rate raised to 4%, maximum of \$300
1980	Maximum raised to \$400
1981	Maximum raised to \$500
1982	Maximum raised to \$600
1984	Car rental tax is created. Cars purchased for use in short-term rentals are exempted from the purchase tax but each rental is subject to a tax of 5% of the rental charge
1986	Maximum cap on tax is eliminated for pleasure cars. For motor homes the cap is set at \$1,000 and for all other motor vehicles at \$600
1987	Farm trucks are excluded from tax
1989	Maximum cap on tax is eliminated for motor homes
1991	Rate raised to from 4% to 5% effective July 1, 1991. Rate to revert to 4% on July 1, 1993. Maximum (now essentially limited to trucks) is raised to \$750.
1993	5% rate extended through June 30, 1995
1995	5% rate extended through June 30, 1996. Long term vehicle leases subjected to tax.
1996	5% rate extended through June 30, 1997
1997	As part of Act 60, the reversion of the rate from 5% to 4% on July 1, 1997 is cancelled and the rate is increased to 6% effective September 1, 1997 with no sunset.
1998	All the revenue from the 1.0% increase to 6% effective September 1, 1997 through June 30, 1998 is directed to the general fund (and eventually to the education fund). The education fund is created effective July 1, 1998 and defined to include 1/6 <sup>th</sup> of the motor vehicle purchase and use tax
2000	Maximum cap is raised to \$1,100 and limited to vehicles over 10,099 pounds. Motorcycles subjected to tax.
2002	Short term car rental tax is raised from 5% to 7%
2004	In a revenue swap, the gasoline tax allocated to the education fund is reallocated to the transportation fund while the proportion of the purchase and use tax allocated to the education fund is increased from 1/6 <sup>th</sup> to 2/6 <sup>ths</sup> .
2006	Maximum cap for vehicles over 10,099 pounds is raised to \$1,680. Motor vehicles previously registered by an applicant for at least 3 years in a state which imposes a sales and use tax are exempted.

# PROPERTY-BASED TAXES

## Summary

Vermont has several taxes based on the value of real property: the education property tax, the municipal property tax, the property transfer tax, and the land gains tax. The largest of these is the education property tax, which is the single largest source of tax revenues in Vermont. In FY 2005, the education property tax raised approximately \$655.8 million, or 31% of all state revenue. The tax raises more than 60% of the revenue used to finance public elementary and secondary education across Vermont. Revenue from the property transfer tax and the land gains tax is directly linked to the health of the real estate market. The municipal property tax is not included in this analysis except as discussed below. Owing to the relative complexities of the education property tax, a discussion of its tax base and tax rates are combined below with a legislative history of the tax.

## Education Property Tax: Base, Rate and History

Prior to the creation of the statewide education property tax, each Vermont school raised property tax revenues on its own tax base to fund its education expenditures. However, unequal distribution of per-pupil property wealth across school districts led to wide disparities in the ability of school districts to finance education. In 1997, the Vermont Supreme Court held this system of funding education unconstitutional and called for an education finance system that no longer tied local education spending to local property wealth. The Vermont Legislature's response to the court's ruling was the Equal Educational Opportunity Act of 1997, more commonly known as Act 60.

Act 60 created a statewide education tax on real property.<sup>35</sup> The uniform education property tax rate was set at \$1.10 per \$100 of fair market or "equalized" value. The revenue generated from the statewide education property tax was used to fund a block grant to each school district on a per-pupil basis. The per-pupil block grant was to cover most, but not all, spending on public elementary and secondary education.

School districts that voted to spend more than the base education payment raised the additional funds through the local share property tax. The local share property tax rate was set in proportion to spending above the block grant in each school district so that all towns with the same level of per-pupil education spending had the same local share property tax rate. The state guaranteed the yield of the local share property tax with additional non-property tax revenues so that school districts would be assured of a certain level of resources above the block grant regardless of the pool of communities that spent more than the block grant amount on education.

Under Act 60, resident homeowners with household income under \$75,000 had the option of paying an education tax based on their household income rather than the value of their housesite.<sup>36</sup> For this purpose, the housesite was defined to include the primary residence and up to two acres of contiguous land. The statewide tax rate was set at 2.0% of household income. The local share tax rate on household income, like the local share tax on the housesite, was set in proportion to spending above the block grant. Alternatively, resident homeowners with household income under \$75,000 (\$47,000 beginning in FY 2005) could pay

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<sup>35</sup> Act 60 exempted personal property – machinery and equipment and inventory – from the statewide education property tax.

<sup>36</sup> The household income threshold was raised to \$85,000 in FY2007 and will be increased to \$90,000 in FY2008 and thereafter.

an education property tax that was based on the value of their housesite after exempting \$15,000 from its fair market value.

In 2003, the legislature passed the Act Relating To Education Funding, better known as Act 68, which split the education property tax base into two separate classes and made significant changes in the way each property class was taxed to finance public education. Homestead property was defined as owner-occupied, primary residences and all contiguous land. Nonresidential property was defined as all other taxable real property including businesses, second homes, apartment buildings, and non-contiguous land.

The education tax rate on nonresidential property became uniform statewide – fixed at \$1.59 per \$100 of fair market value so that it no longer fluctuated with education spending levels. By applying a uniform statewide tax rate to nonresidential property, Act 68 ensured that owners of nonresidential property would no longer be subject to education property tax rates that fluctuated in response to local decisions on education spending over which they had no control. The nonresidential tax rate was reduced to \$1.54 in FY 2005 and \$1.44 in FY 2007.

Education tax rates on homestead property and household income were essentially unchanged under Act 68, although the distinction between the statewide property tax and the local share property tax was eliminated. The education tax rate on homestead property or household income varied across school districts in proportion to per-pupil education spending. The state set a “base” education tax rate that is increased in proportion to a school district’s per-pupil education spending in excess of the “base” education payment. The base education tax rate on homestead property was set at \$1.10 and the base education tax rate on household income was set at 2.0%. Instead of guaranteeing a local share property tax yield, the state set the base homestead tax rates on homestead property or household income. In FY 2005, the base homestead tax rate was reduced to \$1.05 and the base rate on household income was reduced to 1.9%. In FY 2007 the homestead tax rate will be \$0.95 and the household income percentage will be 1.8%.

Annually, the Tax Department’s Division of Property Valuation and Review conducts an equalization study that estimates the fair market value of property that is subject to education taxes. The determination of equalized property values comes from a comparison of assessed or “listed” values to actual market sales or appraisals of property. Although assessment practices have improved in Vermont, the double-digit rates of appreciation in the value of real property that Vermont has experienced due to market conditions over the past several years have made it more difficult for municipalities to maintain listed values at the statutory minimum of 80% of fair market value. In FY 2005, there were 115 municipalities with listed values at less than the statutory minimum.

Finally, there are a number of substantial exemptions from the statewide education property tax. These include: property owned by the state of Vermont or the US government; property for public, pious, or charitable uses; property owned by a veterans’ organization; property owned by a fraternity or society house; property owned and occupied by a YMCA or YWCA; fairgrounds; up to the first \$40,000 value of the residence owned by a disabled veteran or his or her family; water pollution abatement property approved by the Agency of Natural Resources; fallout shelters, and machinery and equipment; among others.<sup>37</sup>

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<sup>37</sup> The exemption for machinery and equipment was added on January 1, 1998.

## Tax Revenue

The education property tax, a statewide tax, is the largest source of tax revenues in Vermont. In FY 2005, the tax raised about \$655.8 million, or 31% of all state revenue. The education property tax raises more than 60% of the revenue used to finance public elementary and secondary education across Vermont.<sup>38</sup>

The homestead portion of the tax collected was \$270.0 million, or 41% of the total education taxes. Of the 168,235 homestead taxpayers, approximately 55% paid taxes on their housesite based on household income rather than property value. Nonresidential property taxes amounted to \$385.8 million, or 59% of the total.

The table below shows education property tax revenues between fiscal years 1996 and 2005. These figures do not include municipal property taxes, which are collected to finance local government services other than public education.

**Vermont Education Property Tax Revenue Estimates** <sup>[1]</sup>  
(Blue is pre-Act 60, Yellow is Act 60, and Green is Act 68)

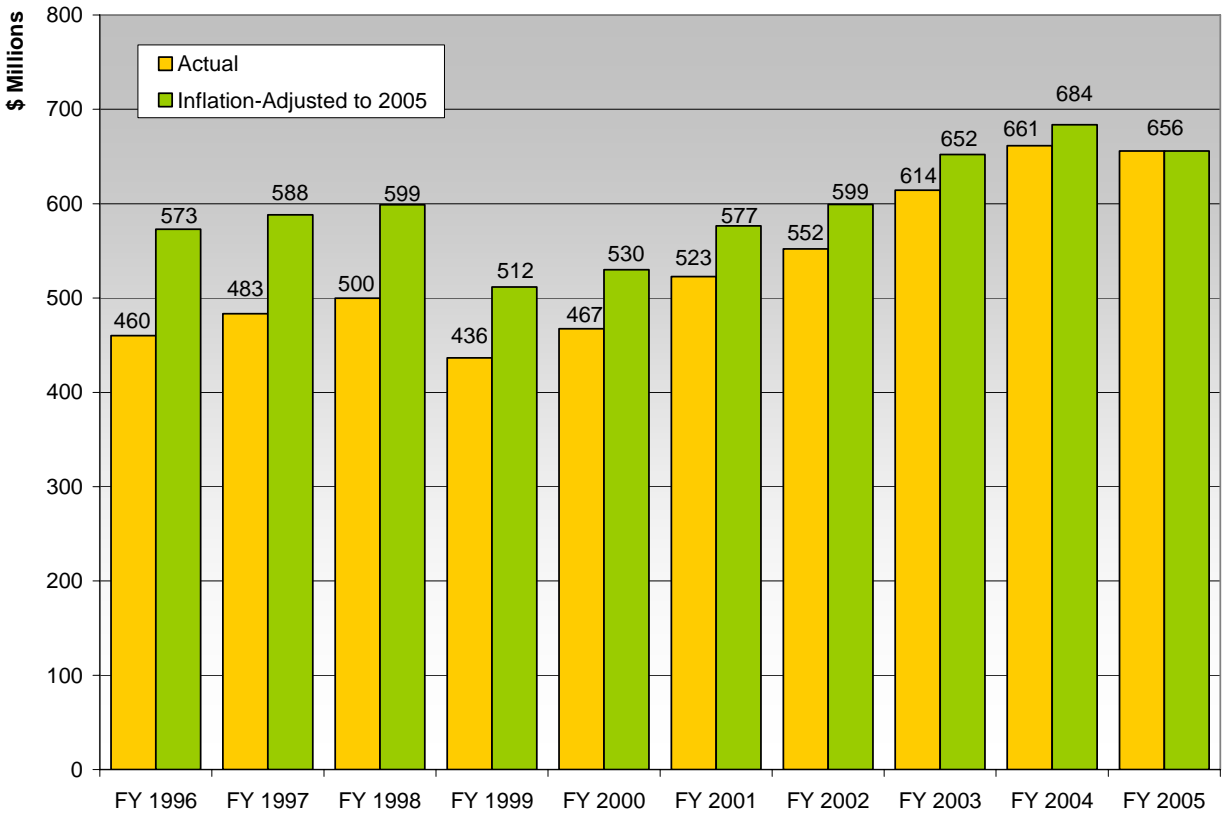
Fiscal Year	Gross Property Tax Revenue	Annual Change (%)	Property Tax Adjustment	Net Property Tax Revenue	Annual Change (%)
1996	460.2	-	-	460.2	-
1997	483.4	5.0	-	483.4	5.0
1998	499.9	3.4	-	499.9	3.4
1999 <sup>[2]</sup>	493.2	-1.3	56.8	436.4	-12.7
2000	527.9	7.0	60.5	467.4	7.1
2001	580.4	9.9	57.7	522.7	11.8
2002	617.6	6.4	65.7	551.9	5.6
2003	687.6	11.3	73.3	614.3	11.3
2004	741.9	7.9	80.6	661.3	7.7
2005 <sup>[3]</sup>	732.4	-1.3	76.6	655.8	-0.8

[1] Nominal dollars, not inflation-adjusted; [2] Act 60 fully implemented; [3] Act 68, first year of the split grand list

The chart below shows actual and inflation-adjusted Vermont education property tax revenue estimates from FY 1996 through FY 2005. For the years prior to the implementation of Act 60 (FY 1996-1998), the revenue estimates include local education property tax collections. For the years immediately following the implementation of Act 60 (FY 1999-2004), the revenue estimates include statewide and local share property tax collections. In FY 2005, the revenue estimates include property tax collections on homestead and nonresidential property. In years FY 1999-2005, both gross and net education property tax revenues are shown. Net education property tax revenues reflect the property tax adjustment for taxpayers with household income under \$75,000.

<sup>38</sup> Maintenance of the local property tax rolls, or “grand list,” remains a responsibility of municipalities.

## Vermont Education Property Tax Revenue Estimates<sup>39</sup>



### Nationwide Comparison

Vermont's education property tax is unique. It is the only substantial, statewide property-based tax in the country. All 50 states rely on property taxes and a handful assess property taxes at the statewide level, but none to the extent of Vermont's education property tax. All other states assess a majority of property taxes at the local level, either by county, municipal, or town governments or by special districts.

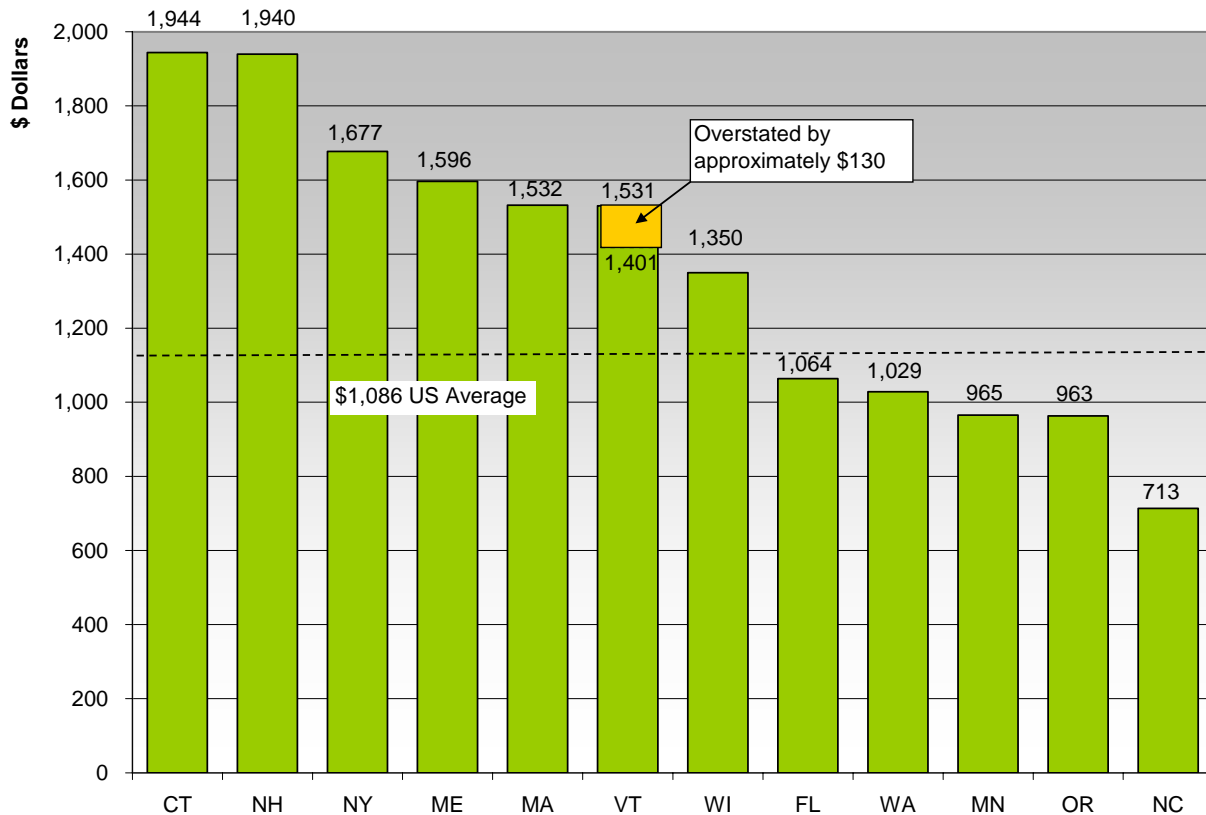
Multi-state property tax comparisons are difficult. The most recent year for which comparable data is available is FY 2004. Vermont's education property tax was reformed in FY 2005. With some education property tax revenues replaced with sales tax revenues, education property taxes declined in Vermont in FY 2005. This change is not reflected in the multi-state comparison presented below.

More important, the US Census data on state and local property tax collections do not account for Vermont's property tax adjustment. As discussed above, more than half homestead property taxpayers in Vermont do not pay an education tax based on the value of their housesite. Instead, they pay reduced education tax that is based on their household income. In 2004, the adjustment to the education property tax for these taxpayers amounted to more than \$80 million. Consequently, Vermont's per capita state and local property tax revenue in FY 2004 is overstated by about \$130 per person.

<sup>39</sup> Actual data separating the net property tax is not collected at this time.

In FY 2004, according to the US Census, Vermont's education property tax revenue was \$1,531 per person, which placed the state eighth nationally in property tax revenues per capita. Vermont ranked eighth 10 years ago.<sup>40</sup> New Jersey was the highest with \$2,099 per person, and Alabama was the lowest at \$367 per person. Relative to the 11 comparison states, Vermont is ranked sixth in tax revenues per capita, with all of the other Northeastern comparison states ranking higher than Vermont.

**FY 2004 State and Local Property Tax Revenues Per Capita  
(State & Local) 12 Comparison States**



### Property Tax Relief in Vermont

Vermont has three programs that provide education and municipal property tax relief to state residents. Two programs are targeted at low-income Vermonters: the homeowner rebate, frequently referred to as the super circuit-breaker, and the renter rebate. An additional program, known as use value appraisal, allows for property taxation of agricultural land and buildings and forest land based on use value rather than fair market value. Each program is described below.

**Homeowner Rebate Program<sup>41</sup>** – Resident homeowners with household income under \$47,000 may be eligible for a rebate if the education property tax (after accounting for any property tax adjustment) and municipal property taxes on their homestead exceed a percentage of their household income as follows:

<sup>40</sup> NCSL (<http://www.ncsl.org/programs/fiscal/SLTxLvls/ProppC95.htm>)

<sup>41</sup> The eligibility threshold for homeowners with household income under \$10,000 has been lowered to 2% of household income for claims filed in 2007 and after.

If household income is:	Then the taxpayer is entitled to credit for property tax paid in excess of this percent of that income:
\$0 - \$4,999	3.5%
\$5,000 - \$9,999	4.0%
\$10,000 - \$24,999	4.5%
\$25,000 - \$47,000	5.0%

In 2005, 33,280 taxpayers received homeowner rebates as a credit against their personal income tax liability.<sup>42</sup> The total amount of homeowner rebates was \$22.3 million. The average homeowner rebate was \$670 per claimant.

**Renter Rebate Program<sup>43</sup>** – Resident renters with household income under \$47,000 may be eligible for a rebate if the education and municipal property taxes on their rental unit exceed a percentage of their household income. For this purpose, renters may assume that their property taxes equal 21 percent of their annual rent; alternatively, they may use the actual property taxes paid on their rental unit. The renter rebate is determined as follows:

If household income is:	Then the taxpayer is entitled to credit for property tax paid in excess of this percent of that income:
\$0 - \$4,999	3.5%
\$5,000 - \$9,999	4.0%
\$10,000 - \$24,999	4.5%
\$25,000 - \$47,000	5.0%

In 2005, 11,037 taxpayers received renter rebates. The total amount of renter rebates was \$6 million. The average renter rebate check was \$536.

**Use Value Appraisal Program** – The use value appraisal program, formally known as the Vermont Agricultural and Managed Forest Land Use Value Program, allows for property taxation of farm and forest land based on use value rather than fair market value. The objectives of the program are to keep Vermont’s agricultural and forest land in production, to slow the development of these lands, and to achieve greater equity in the taxation of undeveloped land. Use values are established by an advisory board. Enrolled land that is subsequently developed or otherwise removed from the program is subject to a land use change tax. Enrolled farm buildings are also exempt from property taxes under the use value appraisal program. Farm buildings include dwellings used exclusively to house farm employees and their families as a non-monetary benefit of their farm employment. In addition, up to \$100,000 of the value of any facility that processes farm products is exempt from property taxes as long as 75% of the farm products processed are produced on the enrolled land.

In 2005, there were almost two million acres enrolled in the use value appraisal program. Total property taxes on agricultural and forest land and farm buildings were reduced by nearly \$33 million.

<sup>42</sup> Beginning in 2007, the property tax adjustment and the homeowner rebate will be combined into one payment that will be applied as a credit to the claimant’s property tax bill.

<sup>43</sup> The eligibility threshold for renters with household income under \$10,000 has been lowered to 2% of household income for claims filed in 2007 and after.

## Issues of Stability, Predictability, and Performance

Vermont used a statewide property tax to support general government from 1781 through 1931. The property tax was primarily on real property; however, some personal property was included. In 1931, it was replaced with the income tax and the problems of varying assessments and general inequity resulting from issues in regional disparities and variance in estimating property value were no longer a state-level issue. Property tax remained a basis for local finance.

As a local revenue source, property taxation has several distinct advantages.<sup>44</sup> First, its base is fixed in place. Property is unlike sales and income taxes, which tax business and individuals that are geographically mobile. Second, there is a link between the local services it supports and the property tax values. On a local level, some of the inequities in valuation can be addressed. A community can adjust its expenditures with investments of property tax revenues that can have an impact on the future value of property. Third, a traditional, local property tax is a familiar and easily understood tax, and this characteristic facilitates local decision-making. Fourth, local property taxes are predictable, stable and relatively easy to administer. Property taxes rarely exhibit absolute declines and relate to real estate market cycles, which are not always coincident with general economic cycles. Property taxes in states such as Vermont, with a high percentage of out-of-state property ownership, also serve to export a significant portion of the tax burden to non-residents. Traditional property taxes remain relatively stable during short-term economic fluctuations. One major disadvantage of property taxation is that, as economic growth and regional disparities of income affect property values, significant resource disparities remain. In 1997, the Vermont Supreme Court again brought to the fore the inherent inequities in property taxation, especially in regard to the funding of education. The court held that “the current system for funding education in Vermont, with its substantial dependence on local property taxes, and resultant wide disparities in revenue available to local school districts deprives children of an equal opportunity in violation of the Vermont constitution.”<sup>45</sup>

This led to the institution of the hybrid income-sensitive property tax or the state education tax to fund education. Changes in information technology allowed for some improvements in equalized valuations and assessments in property tax. The tax is an equalized property tax for non-homestead taxpayers and a property tax with over one-half the Vermont property taxpayers paying based on their household income. The Vermont education property tax is fairly complex, but addresses the issue of resource equity. It also avoids economic competition based on property tax rates and town wealth.

Reliance on the state education property tax has grown rapidly due to combination of spending growth and slow growth of non education property tax revenues. From 2000 to 2005, total educational spending has grown an average of 5.4% annually. Non-property tax contributions to the education fund have grown 3.3%, meaning that the net education taxes have had to grow by 7.0%. Rising tax liabilities have continued to keep education taxes on the front burner of public policy debate.

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<sup>44</sup> Based on New Realities in State Finance, by Ron Snell, National Conference of State Legislatures, April 2004, p.79

<sup>45</sup> Brigham et al vs. State of Vermont, Declaratory Judgment, Vermont Supreme Court, February 1997

# PROPERTY TRANSFER TAX

## Tax Base and Tax Rate

Vermont's property transfer tax is assessed on the transfer of all real estate based on the sales price. The tax rate varies by type of property transfer and use. If the property is a principal residence, the tax rate is 0.5% of the first \$100,000 of value and 1.25% of any value greater than \$100,000. If the property transferred is financed through the Vermont Housing Finance Agency, the first \$100,000 of value transferred is exempt and a tax rate of 1.25% applies to any value greater than the \$100,000. Property owned by a farmer or enrolled in the state use-value appraisal program is taxed at a flat 0.5%. The tax rate on all other property is a flat 1.25%.

**Vermont Property Transfer Tax Rates**

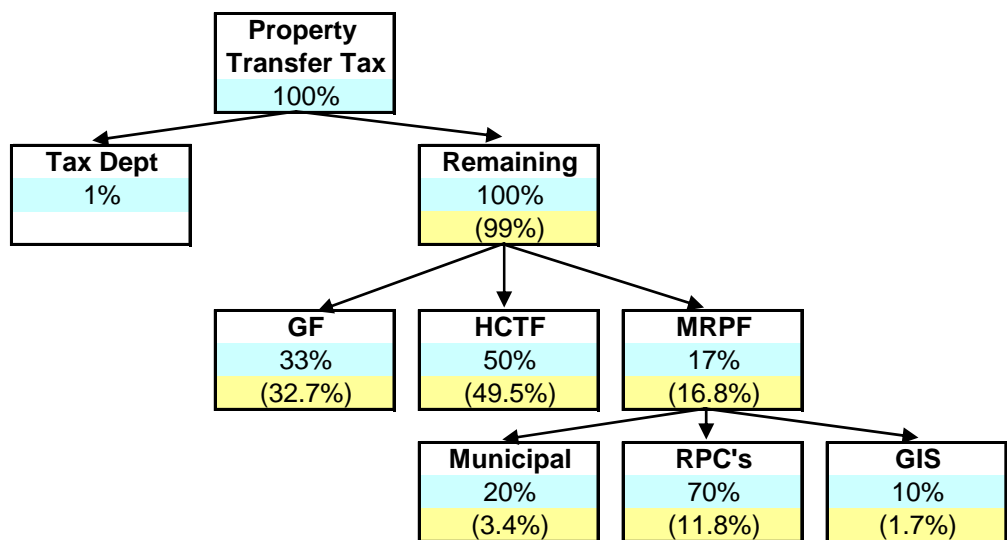
Transfer Type	First \$100,000 (%)	Amount Over \$100,000 (%)
Principal Residence (& Housing Co-Op)	0.5	1.25
VHFA Financed	0	1.25
Farm or Current Use	0.5	
All Other	1.25	

## Tax Revenue

The property transfer tax generated \$45.2 million of revenue in FY 2005. This accounted for 2.1% of total state revenue, including the statewide property tax. Property transfer tax revenue declined to \$43.7 million in FY 2006, and is forecast to drop to \$39.6 million in FY 2007.

A large portion of the revenue from the property transfer tax, 67.3%, is dedicated to special purposes. The remaining 32.7% is deposited in the General Fund. In recent years, actual appropriations have been different from the formula distribution. The chart below shows the distribution of the property transfer tax revenue.

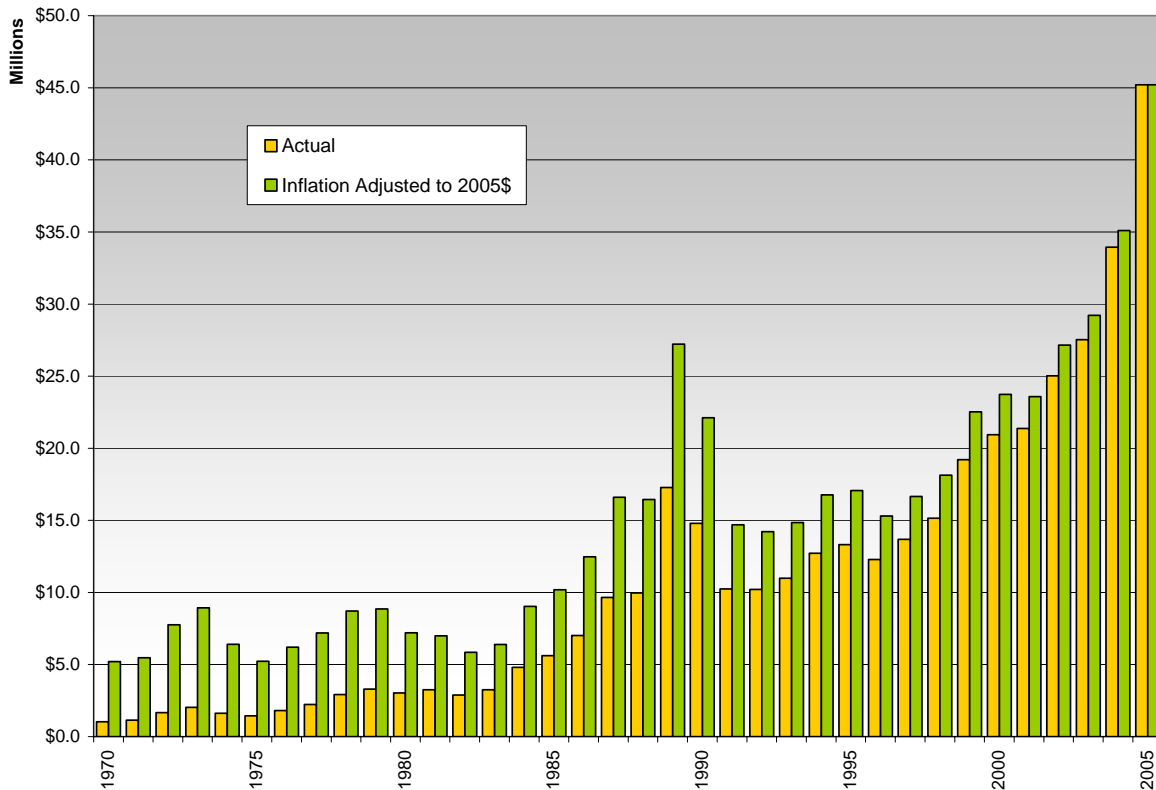
**Property Transfer Tax Revenue Distribution**



The percentages in blue reflect the dedication in statute. The percentages in yellow reflect the effective amount of total property tax revenue dedicated after the allocation to the Tax Department.

The table below shows the growth in property transfer tax revenues in both nominal and constant dollars. The table illustrates the growth in revenues in both the early 1990s and again over the past five years. The state economic forecast predicts future revenue growth in this area to moderate.

**Property Transfer Tax Revenue, FY 1970 – FY 2005**



### Nationwide Comparison

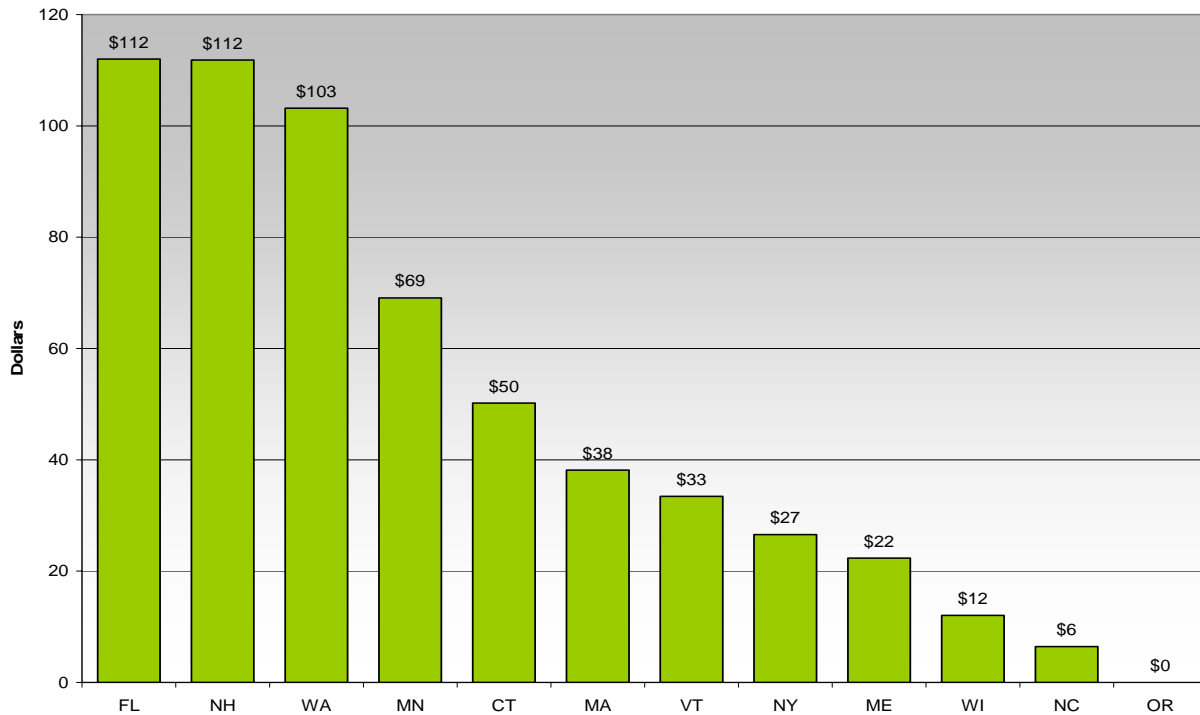
Nationally, 13 states do not assess taxes on real estate transfers; the remaining 37 have real estate transfer taxes at the state or local level. Most of the taxes are a percentage of the transfer value. Tax rates range from a low of 1% in Colorado to a high of 2.2% in Washington D.C.<sup>46</sup>

Of the 11 comparison states, all assess a property transfer tax except Oregon. In addition to these state taxes, many local jurisdictions also charge taxes and recording fees. The census data below, modified by the National Conference of State Legislatures (NCSL) in a recent report,<sup>47</sup> show per-capita transfer tax revenue for the study states.

<sup>46</sup> FTA Bulletin, State Real Estate Transfer Taxes, February 16, 2006 (<http://www.taxadmin.org/fta/rate/B-0306.pdf>)

<sup>47</sup> NCSL Real Estate Transfer Taxes, 2005 (<http://www.ncsl.org/programs/fiscal/realxfertax.htm>)

### State Real Estate Transfer Tax Revenue Per Capita, 2004<sup>48</sup>

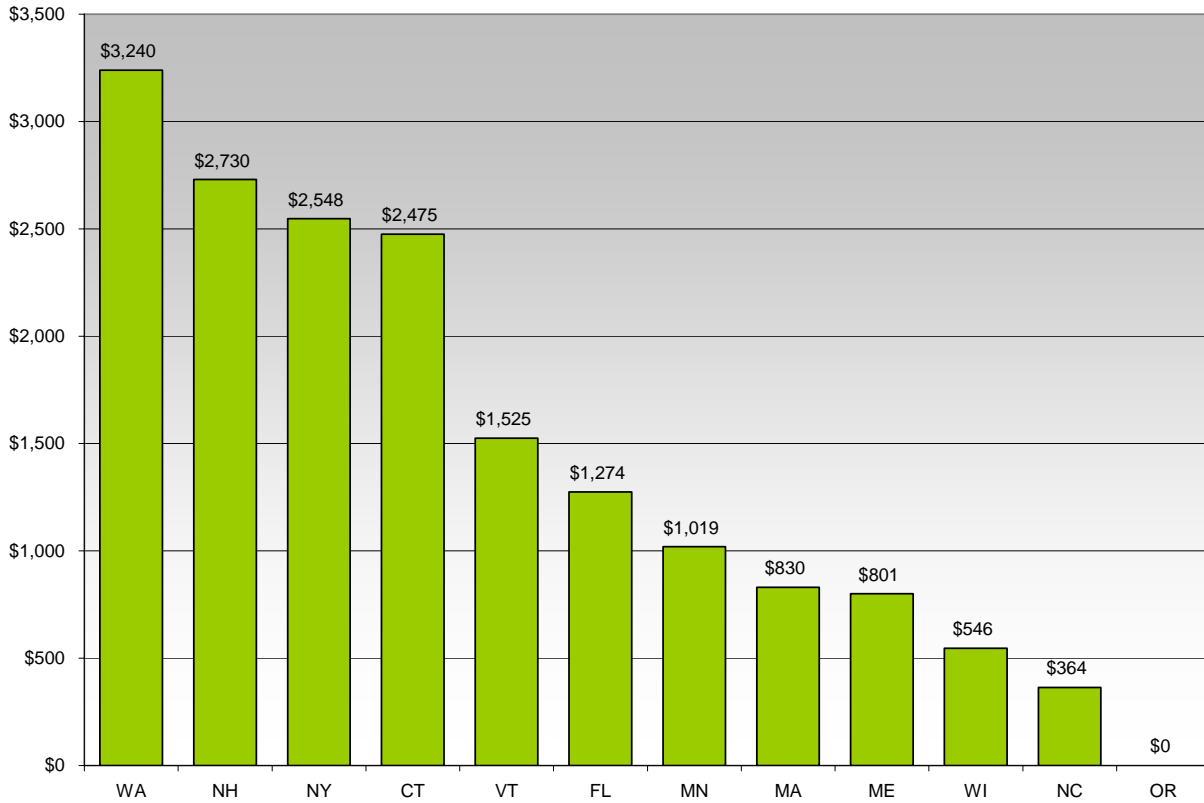


Vermont ranked seventh with \$33 in collections per capita, among the comparison states. Florida, New Hampshire, Washington, Minnesota, Connecticut, and Massachusetts all had higher per-capita transfer tax revenue. The revenue yield is determined by the tax rate, relative real estate prices, and market activity.

In order to do a same-value comparison of the impact of the real estate transfer tax, the amount due on the sale of a \$182,000 primary residence in each state was calculated. This analysis does not include local charges.

<sup>48</sup> FTA Bulletin analysis using 2004 Census data (<http://www.taxadmin.org/fta/rate/B-0306.pdf>)

**State Real Estate Transfer Tax Estimate  
\$182,000<sup>[1]</sup> primary residence**



[1] 2005 median house sales price in Vermont

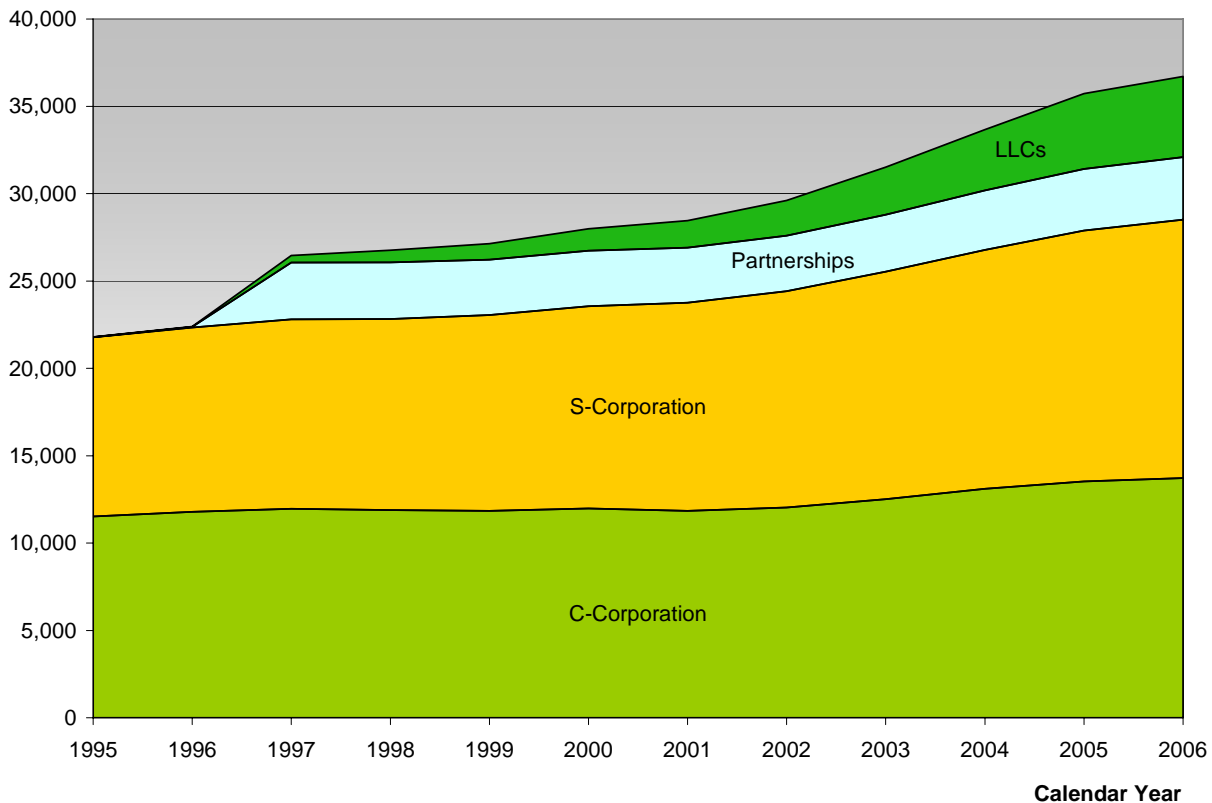
The tax due on a transfer in Vermont was the fifth highest at \$1,525. Washington, New Hampshire, New York, and Connecticut all had state taxes that were substantially higher. The remaining states all had lower taxes; Oregon has no tax on real estate transfers. Because real estate transfer taxes are not paid annually, but only with the instance of a real estate transfer, an estimate of their impact is not included in the individual case studies in Volume II of this report. Nonetheless, real estate transfer taxes are a component of the overall tax paid eventually by most residents of a state.

# BUSINESS TAXES

## Summary

The corporate income tax is the tax most commonly associated with businesses in Vermont. Yet most Vermont businesses do not pay the corporate income tax. Of the approximately 35,700 businesses in the state, 38% are C Corporations, whose earnings are subject to the corporate income tax. All other types of businesses – Subchapter S Corporations, Limited Liability Companies (LLCs), and partnerships – do not pay tax as a business entity, but rather the shareholders pay individual income taxes on their earnings from the business. Vermont assesses two other business taxes that apply to specific industries; the bank franchise tax and the insurance premiums tax. Businesses pay other taxes as well, including property, payroll, and workers' compensation, among others, that are not addressed in this section.

**Business Entities in Vermont, 1995 – 2005** <sup>[1]</sup>



[1] Source: Vermont Department of Taxes  
1996 Partnership and LLC legislation

## CORPORATE INCOME TAX

### Tax Base

Income from C corporations (C corps) constitutes the base for the Vermont corporate income tax. The Vermont corporate income tax, as in most other states, is based on federal corporate taxable income. The federal taxable income is adjusted in various ways to determine Vermont

taxable corporate income. The increasing use of S corps, LLCs and partnerships has shifted tax revenues from corporate to individual income taxes over the past ten years.

Of Vermont C corps, 54% filed an apportioned tax return in tax year 2003. This means they were multi-state or multinational businesses with only a portion of their income earned in Vermont. The remaining 46% filed an unapportioned tax return, reporting 100% of their income as Vermont-based.

Approximately 75% of C corps filing a Vermont corporate income tax return paid the minimum tax<sup>49</sup> and the remaining 25% paid according to a Vermont rate and bracket structure.<sup>50</sup> Multi-state or multinational companies account for 55% of the minimum taxpayers; Vermont-only companies account for the remaining 45%.

## Tax Rates and Reforms

Vermont has a progressive corporate tax structure characterized by income tax brackets and marginal tax rates that increase as income rises. Vermont's corporate income tax begins with federal taxable income (as a base for the determination of state corporate tax income) and features four state tax brackets and marginal rates. The minimum tax is \$250. This report's discussion of corporate income tax rates recognizes that the Vermont corporate income tax structure is undergoing significant changes after a number of years of relative stability. They are outlined below:

- **Corporate Income Tax Rate Reductions**

A two-phase reduction in corporate income tax rates began in tax year 2006 and continues in tax year 2007 (see chart). The rate reductions benefit all corporate income taxpayers, except those paying the minimum tax.

**Vermont Corporate Income Tax Rates**

Taxable Income Bracket (\$)	Tax Rates (%)		
	1997 - 2005	2006	2007
3,571 - 10,000	7.00	6.00	6.00
10,000 - 25,000	8.10	7.00	7.00
25,000 - 250,000	9.20	8.75	8.50
250,000 +	9.75	8.90	8.50

- **Unitary Combined Reporting**

Unitary combination reporting is required beginning tax year 2006 for all C corporations with income attributable to Vermont derived using a modified "water's edge" method. This system apportions the taxable income of an entire multi-state group of affiliated corporations engaged in a unitary business. Prior to 2006, Vermont used a separate accounting income system of only the corporations doing business in Vermont. Unitary taxation was an attempt to address state corporate tax revenue loss due to income sheltering and tax avoidance by some of the larger and more complex multistate taxpayers. There will be no impact on in state-only corporate taxpayers. Nationally, 17 states require unitary combined reporting. In addition to Vermont, the four other comparison states that require unitary combined reporting are Maine, Minnesota, New Hampshire, and Oregon.

<sup>49</sup> A minimum amount of tax is required to be paid by all C corporations in Vermont. The amount is \$250 except for small farm businesses that pay a \$75 minimum tax.

<sup>50</sup> Tax Years 2001, 2002, and 2003

- **Apportionment Formula Change**

The apportionment formula for businesses that operate in more than one state is no longer equal-weighted among property, payroll, and sales. Beginning in tax year 2006, the sales factor is double-weighted. More heavily weighting the sales factor in apportionment formulas is an effort to stimulate economic development in two ways. First, the reduction or elimination of the property and payroll elements of the formula also removes tax penalties for in-state investments in physical plant or employees. Second, by providing favorable treatment to and encouraging in-state firms that export products for sale in other states, the state may improve its balance of trade.

Double-weighting the sales factor does not affect the tax burden for any corporation that operates solely within Vermont. For Vermont-only corporations, each of the three factors (the property, payroll, and sales ratios) carries a value of 100 percent, and therefore nothing changes when the weight of any one factor is changed. However, the double-weighting of sales does affect the tax burden among corporations that operate in more than one state. Multi-state businesses that invest heavily in the state and use it as a base for their operations will have substantial property and payroll ratios for income tax purposes, because a significant part of their assets and employees are located in the state. Their sales ratio, on the other hand, often will be lower, because sales occur outside as well as within the state.

Other multi-state businesses consist of corporations which sell in the state but have relatively small commitments in terms of assets and employment. The apportionment profile for these businesses often will include a sales ratio that is higher than the property and payroll ratios. Increasing the weight of the sales factor in apportioning the corporate income tax has the effect of reducing the tax burden for the first type of multi-state corporations and increasing the tax burden for the second.

- **New Net Operating Loss Rules**

Vermont will implement a new net operating loss (NOL) rule for corporations beginning in 2007. An NOL is any negative income after allocation and apportionment of Vermont net income. Prior law piggybacked to the federal net operating losses, but allowed no refund for the portion that was carried back on the federal return. The new rule, when fully implemented in 2010, will allow corporate taxpayers to carry forward all Vermont losses for 10 years regardless of whether the federal loss is carried back. During the transition period, corporate taxpayers will be able to carry forward the Vermont NOL if the federal NOL is carried forward. For federal carrybacks, 10% will be available for carry forward in Vermont in 2007, increasing to 30% in 2008, 40% in 2009, and 100% in 2010. This allows companies with an NOL that is carried back federally to obtain a refund in Vermont as well when the law is fully implemented in 2010. The transition period allows for a partial Vermont benefit.

- **Bonus Depreciation and Production Deduction**

Numerous federal tax changes have been passed in recent years that affect the state corporate income tax and have significant revenue impact. Of these, Vermont did not pass through the federal 30% bonus depreciation that was part of the federal Job Creation and Worker Assistance Act (JCWAA) of 2002. Almost half the states, 22 in addition to Vermont, did not conform with the federal depreciation changes. Of the 12 comparison states, only Oregon and Florida allowed the federal bonus depreciation to pass through.<sup>51</sup> Vermont did allow the federal qualified production activities income deduction (QPAI) to pass through to

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<sup>51</sup> CCH Tax Briefing: Corporate Income tax and 'Bonus' Depreciation, December 4, 2003. <http://tax.cchgroup.com/Tax-Briefings/2003-Corporate-Tax-Bonus-Depreciation.pdf>

Vermont corporate (and individual) income taxpayers a deduction that was part of the federal American Jobs Creation Act of 2004. This deduction began in 2005 at 3.0% and will phase in over five years, increasing to 6.0% in 2007 and 9.0% in 2010. Eighteen states and the District of Columbia have acted to decouple from the federal QPAI provision.<sup>52</sup>

- **Pass-Through Entities**

Although not recent, legislation in 1996 authorized the creation of pass-through entities such as limited liability corporations and partnerships. These types of businesses, unlike C corporations are not taxed at the entity level; instead, the businesses' income and losses are passed through to the shareholders and taxed as personal income. An ever-increasing portion of business income has been reported, and taxed, as personal income since the passage of LLC legislation in 1996.

## Tax Revenue

Corporate income taxes comprise a small portion of the Vermont state revenue mix, \$60.4 million in FY 2005, or 2.5% of total FY 2005 tax revenues (including the statewide education property tax) or 3.4% excluding the property tax. Corporate income tax revenues are extremely sensitive to economic conditions, and therefore single-year comparisons of this revenue source can be misleading. For example, revenues were \$35.3 million in FY 2003, but climbed to \$55.7 million in FY 2004 and \$60.4 million in FY 2005. They are expected to top out at \$75.9 million in FY 2006, more than double the amount three years prior, before beginning to decline again.

**Vermont Corporate Income Tax Revenue**<sup>[1]</sup>

Fiscal period	Average annual growth (%)	Average annual inflation-adjusted growth (%)	Total inflation-adjusted growth (%)
1975-1980	17.7	8.1	47.7
1980-1985	8.5	2.9	15.3
1985-1990	-5.3	-8.9	-37.4
1990-1995	12.0	8.6	51.3
1995-2000	-2.0	-4.3	-19.9
2000-2005	8.1	5.4	29.9
<b>1975-2005</b>	<b>9.5</b>	<b>1.7</b>	<b>61.2</b>

[1] Compounded growth rates.

A number of factors affect the stability and predictability of state corporate income tax revenue, including tax law changes, tax credits, tax avoidance, and the impact of economic cycles. The Vermont corporate income tax, as in most other states, is based on federal corporate taxable income. Corporate tax revenue is declining at both the federal and state level as a percentage of total revenue.<sup>53</sup> Several studies have cited federal tax reductions and substantial tax avoidance through tax shelters as the major reasons for the reduction in federal corporate tax revenue. At the state level, legal loopholes that are the result of state-level tax systems and an increasing number of state tax credits have also contributed to corporate tax revenue loss. In Vermont, for example, only two of the 19 tax credits currently available to corporate taxpayers were established prior to the last JFO tax study 10 years ago.<sup>54</sup> All of this has led to a serious

<sup>52</sup> Center on Budget and Policy Priorities

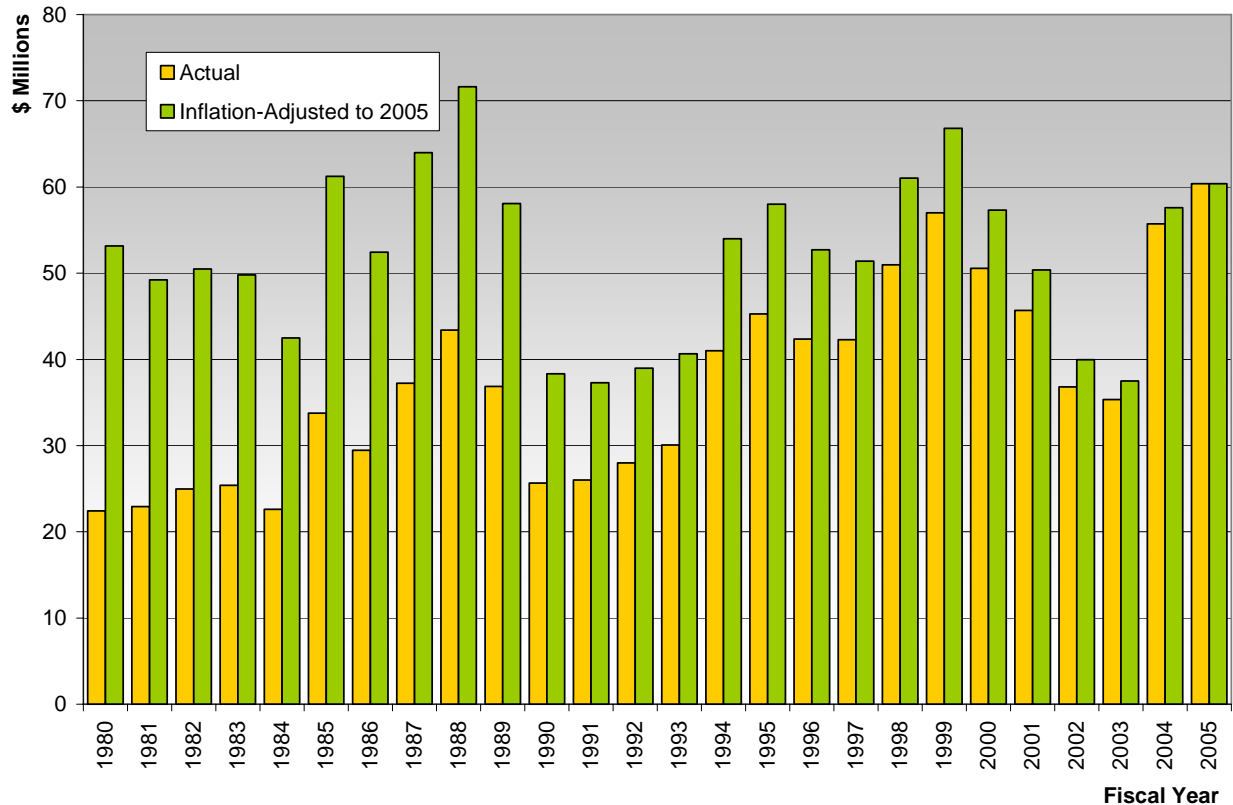
<sup>53</sup> Center on Budget and Policy Priorities (<http://www.cbpp.org/4-9-02sfp.pdf>)

<sup>54</sup> This study does not cover the use, effectiveness, and cost of corporate tax credits and incentives.

erosion of the corporate income tax base and to less dependence on corporate income tax revenue in Vermont's overall state tax system. Corporate tax policy and taxation in Vermont is undergoing substantial changes as described earlier. The impact of these changes are not yet fully assessed.

As the chart below suggests, corporate tax revenues are highly cyclical and extremely volatile. The timing of corporate tax payments can have a substantial impact on state tax collections, and corporations often receive sizeable tax refunds. Corporations are also subject to wide swings in taxable earnings and are responsive to changes in the economy.

**Vermont Corporate Tax Revenue, 1980 - 2005**



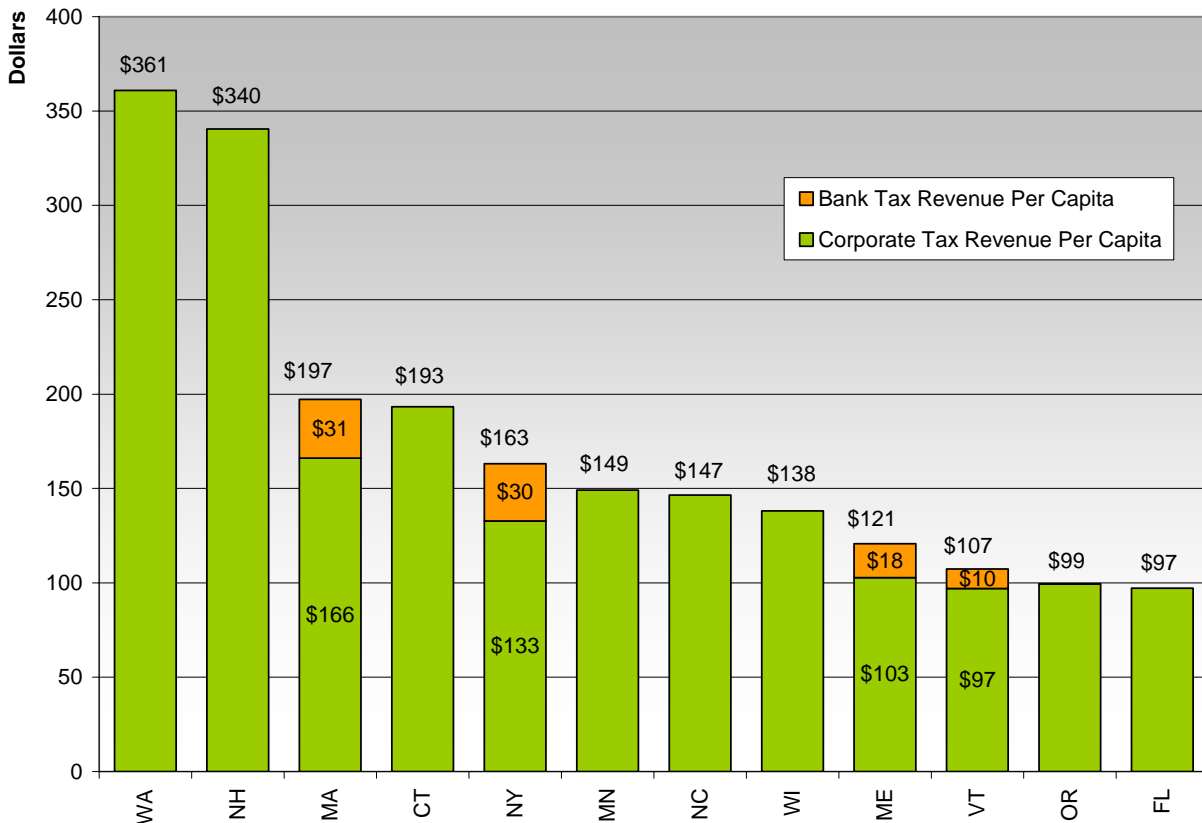
### Nationwide Comparison

National comparisons of corporate income per capita ranked Vermont 25<sup>th</sup> nationally in 2005<sup>55</sup>, an increase from 28<sup>th</sup> since 1995. These rankings *fail to show the whole picture* because they do not account for the different methods of taxing businesses in the states. Most states, 46 and the District of Columbia, have a corporate income tax (Nevada, South Dakota, Wyoming, and Washington do not). Washington, one of the 12 comparison states, does, however, have a Business & Occupations Tax (B&O). The B&O tax is a tax on gross receipts, and the tax rate varies by industry. All businesses in Washington, with a few exceptions, are subject to the B&O tax, including corporations, LLCs, partnerships, and sole proprietorships. Not-for-profit as well as for-profit entities are included in the tax. In order to have a more accurate comparison of business taxes among the 12 comparison states, Washington's B&O tax, as well as bank taxes,

<sup>55</sup> Appendix B Supplemental National Comparisons

are combined in the next table. (Vermont's bank taxes are discussed in detail in the next section.) Per capita business taxes were the highest in Washington at \$361, closely followed by New Hampshire at \$340. The New Hampshire figure is only the corporate income tax. Massachusetts, New York, Maine, and Vermont all have separate accounting of the tax revenue from financial institutions, which has been added to create a business tax total. Insurance premium taxes were not included.

**FY 2005 Business Taxes Per Capita, 12 Comparison States <sup>[1]</sup>**



[1] Compiled by JFO from multiple sources.

### Marginal and Effective Tax Rates

Vermont has a progressive corporate tax structure characterized by income tax brackets and marginal tax rates that increase as income rises. Thirty states have one rate or a flat tax structure for all corporate taxpayers while 13 states have brackets and progressive tax rates. Vermont is frequently cited as having one of the highest corporate marginal tax rates in the country; the rate, however, does not apply until taxable income is greater than \$250,000. In 2005, when the top rate was 9.75%, Vermont ranked fourth nationally behind Iowa, Pennsylvania, and Minnesota. When Vermont's top rate drops to 8.5% in 2007, the state rank will drop to approximately 15<sup>th</sup>.

### 2006 Corporate Marginal Income Tax Rates, 12 Comparison States

State	Taxable Income	Marginal Rate (%)	
Connecticut	All Brackets	7.5	
Florida	All Brackets	5.5	
Maine	\$0-\$25,000	3.50	
	\$25,001-\$75,000	7.93	
	\$75,001-\$250,000	8.33	
	\$250,001+	8.93	
Massachusetts	All Brackets	[1]	
Minnesota	All Brackets	9.8	
New Hampshire	All Brackets	8.5	
New York	All Brackets	[2]	
North Carolina	All Brackets	6.9	
Oregon	All Brackets	6.6	
Vermont		<u>2006</u>	<u>2007</u>
	\$0-\$10,000	6.00	6.0
	\$10,001-\$25,000	7.00	7.0
	\$25,001-\$250,000	8.75	8.5
	\$250,001+	8.90	8.5
Washington	N/A	N/A	
Wisconsin	All Brackets	7.9	

[1] Corporations pay an excise equal to the greater of the following: (1) \$2.60 (includes surtax) per \$1,000 of value of Massachusetts tangible property not taxed locally or net worth allocated to Massachusetts, plus 9.5% (includes surtax) of net income; or (2) \$456 (includes surtax). Special rates apply to security corporations, qualified subchapter S subsidiaries, financial institutions, utilities, and vessels.

[2] Corporations are subject to a tax on the greatest of 7.5% of entire net income with adjustments or 2.5% of minimal taxable income base allocated to New York or 1.78 mills per dollar of allocated capital (up to \$350,000) or a minimum tax between \$100 and \$10,000, depending on payroll size. Additional 9/10 mill per dollar of allocated subsidiary capital is imposed. Special rates apply to S corporations and small business taxpayers.

Source: Commerce Clearing House, Tax Research Network and www.taxpolicycenter.org. 50-State Chart in the Appendix.

### Recent Vermont Corporate Tax Analysis

The tables on the following page show the distribution of Vermont corporate income tax returns by Vermont taxable income category.<sup>56</sup> Vermont taxable income and “book income” are not necessarily the same because of differences in accounting rules. For example, a company that reports a profit of its public financial statements may not have taxable income for state tax purposes.

There were 9,815 total corporate income tax filers in tax year 2003. Of these, 7,438, or 76%, paid the minimum tax.<sup>57</sup> Excluded from these estimates are holding companies that also paid the minimum tax.<sup>58</sup> Minimum tax collections accounted for \$1.8 million, or 4.0% of the total taxes paid. The remaining 24% of corporate income taxpayers, or 2,371 returns, paid taxes based on the rate and bracket structure. Therefore, almost one quarter of the taxpayers account for 96% of the tax collected.

<sup>56</sup> The most recent corporate income tax data available is from tax year 2003. The results of this analysis are consistent in tax years 2001 and 2002 as well.

<sup>57</sup> The minimum tax is \$250 except for small farm corporations which pay \$75.

<sup>58</sup> The holding company exception was repealed beginning in tax year 2006.

**Vermont Corporate Income Tax Returns, Tax Year 2003**  
**In-State Only Corporate Income Tax Returns**

Taxable Income Group	# of Returns	# of Minimum Tax Returns	VT Taxable Income	VT Tax	% of Total	Average Ratepayer Tax (\$)
Negative	1,879	1,877	-336,140,921	475,718	1.0%	2,734
No Income	1,027	1,023	111,145	259,225	0.6%	681
Positive Up To 10,000	706	426	2,063,960	239,744	0.5%	474
10,000 - 25,000	297	2	5,139,915	384,905	0.8%	1,302
25,000 - 100,000	405	0	22,084,707	1,875,856	4.0%	4,628
100,000 - 250,000	93	0	15,080,644	1,352,338	2.9%	14,541
250,000 - 1,000,000	50	0	24,727,383	2,323,961	5.0%	46,464
1,000,000 - 5,000,000	12	0	33,096,813	3,205,818	6.8%	266,985
5,000,000 - 50,000,000	3	0	35,471,772	3,453,218	7.4%	1,150,489
<i>Sub-Total</i>	<i>4,472</i>	<i>3,328</i>	<i>-198,364,582</i>	<i>13,570,783</i>	<i>28.9%</i>	

**Multistate or Multinational Corporate Income Tax Returns**

Taxable Income Group	# of Returns	# of Minimum Tax Returns	VT Taxable Income	VT Tax	% of Total	Average Ratepayer Tax (%)
Negative	2,324	2,310	-542,199,278	622,486	1.3%	3,106
No Income	453	428	9,283,997	1,030,657	2.2%	36,936
Positive Up To 10,000	128	113	156,248	35,204	0.1%	430
10,000 - 25,000	138	102	542,730	61,810	0.1%	1,009
25,000 - 100,000	341	237	3,959,872	378,545	0.8%	3,068
100,000 - 250,000	223	131	6,325,228	579,195	1.2%	5,940
250,000 - 1,000,000	399	257	20,711,710	1,967,080	4.2%	13,398
1,000,000 - 5,000,000	455	268	39,735,050	3,806,406	8.1%	19,995
5,000,000 - 50,000,000	608	215	130,674,501	12,547,979	26.8%	31,790
50,000,000 - 100,000,000	111	25	32,981,390	3,153,104	6.7%	36,591
<b>100,000,000 - 1,000,000,000</b>	<b>140</b>	<b>22</b>	<b>76,068,497</b>	<b>7,302,170</b>	<b>15.6%</b>	<b>61,836</b>
<b>1,000,000,000 +</b>	<b>23</b>	<b>2</b>	<b>19,119,374</b>	<b>1,840,815</b>	<b>3.9%</b>	<b>87,634</b>
<i>Sub-Total</i>	<i>5,343</i>	<i>4,110</i>	<i>-202,640,681</i>	<i>33,325,451</i>	<i>71.1%</i>	
<b>TOTAL</b>	<b>9,815</b>	<b>7,438</b>	<b>-401,005,263</b>	<b>46,896,234</b>	<b>100.0%</b>	<b>18,947</b>

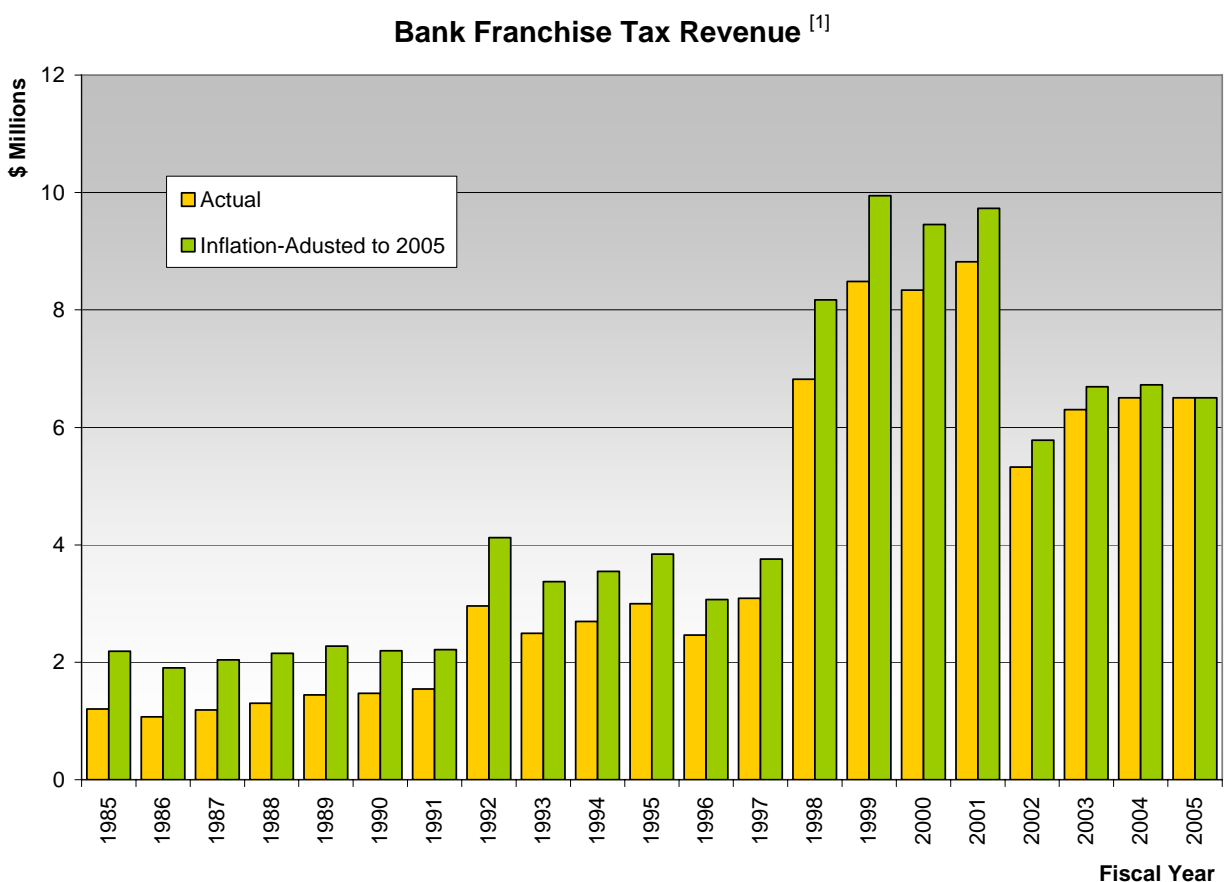
Estimated Minimum Tax Collections*	1,872,250	4%
Estimated Ratepayer Tax Collections	45,036,734	96%

Source: Vermont Department of Taxes

Slightly under half, 46%, of corporate income taxpayers claim all their income in Vermont, while the remaining 54% are multistate or multinational corporations with some income attributable to Vermont. Of the \$46.9 million paid in tax year 2003, 71% of the revenue was from these multistate or multinational businesses. Corporate tax revenue is also derived from an extremely concentrated group of taxpayers. The top 2% (blue print) of corporate, multistate income taxpayers, those with taxable income greater than \$100 million, paid 19.5% of tax year 2003 revenue, or \$9.1 million. The top 9.0% (shaded yellow) of all corporate income taxpayers, those with taxable incomes greater than \$5 million, paid over half, 60.4%, of tax year 2003 revenue.

## BANK FRANCHISE TAX

Vermont taxes banks under a separate bank franchise tax structure. The tax is 0.0096% of average monthly deposits. FY 2005 revenue amounted to \$8.6 million from the bank franchise tax, less than 1.0% of total state tax revenues. The volatility and absence of growth in bank revenues over the past 10 years (evident in the chart below) can be attributed to a combination of factors. These include the acquisition of a number of Vermont banks by out-of-state banks, which could avoid the tax on deposits by reporting income losses until this loophole was closed in 2004. In addition, a growing number of tax credits for affordable housing and downtown development are deducted from bank franchise tax liabilities. Affordable housing and downtown credits totaled more than \$500,000 in FY 2005 and are expected to more than double by FY 2008. Future bank franchise growth is expected to be steadier though subdued, without the income loss due to the tax avoidance loophole, and as the use of affordable housing and other credits expand.



[1] Tax rate increased from .004% to .0096% 8/1/97

## Nationwide Comparison

Historical differences between banks and other types of corporations as well as judicial tax limitations have led to the alternative state taxing schemes specifically for banks. The differences between banks and other financial corporations have been diminishing over time. In addition, states vary in their tax treatment of banks. Some impose a corporate income tax, some have a franchise tax, and a few use share taxes. At least five states levy more than one form of

taxation on banks, and others use one tax structure as a minimum for a second tax system. Nevada and Wyoming have no statewide tax on banking.<sup>59</sup>

### Taxation of Financial Corporations, 12 Comparison States <sup>[1]</sup>

State	Tax Type
Connecticut	Bank Franchise Tax on income
Florida	Bank Franchise Tax measured by net income
Maine	Franchise Tax on net income and assets
Massachusetts	Financial Institution Excise Tax on net income
Minnesota	Corporation Franchise Tax in income
New Hampshire	Business Profits Tax based on income
New York	Bank Franchise Tax
North Carolina	Corporate Income Tax
Oregon	Excise Tax
Vermont	Bank Franchise Tax based on deposits
Washington	Business & Occupations Tax - 1.5% of gross receipts
Wisconsin	Franchise Tax on income

[1] 2006 Commerce Clearing House State Tax Handbook

Of the 12 comparison states, Vermont is the only state that has a tax structure based on deposits; 10 others use a measure of income for the tax base; Washington's tax is based on gross receipts. In most states the tax revenue from banks is included in the corporate income tax (depicted in the previous table on page 56), although a few still account for it separately.

## INSURANCE PREMIUMS TAXES

The insurance premiums tax in Vermont (both on traditional and captive insurance companies) raised \$50.3 million in FY 2005. This accounted for 2.3% of all state tax revenues. Approximately 58% of the revenue, or \$29.7 million, is from the traditional insurance premiums tax and 42%, or \$22.7 million, is from the tax on captive insurance companies. Traditional insurance companies provide a reimbursement (in whole or part) to an individual or business paying premiums to protect against potential hazards.<sup>60</sup> Life insurance guarantees payment to the beneficiaries when the insured person dies. A captive insurance company may be defined as an insurance company with a limited purpose, established with the specific objective of financing risks emanating from its parent group or groups. This definition can sometimes be extended to include some of the risks of the parent company's customers. The types of risk that a captive can underwrite for the parent include property damage, public and products liability, professional indemnity, employee benefits, employers liability, motor and medical aid expenses.<sup>61</sup>

Vermont taxes traditional insurance companies at a rate of 2.0% per annum on the gross amount of premiums written in the state, exclusive of premiums written for reinsurance. The 2.0% rate applies to domestic (in-state) and foreign (out-of-state) insurers on premium revenue for property and casualty, fire, life, and health and accident insurance. There is currently no tax

<sup>59</sup> Corders, Joseph J. Robert D. Ebel and Jane G. Granville. The Encyclopedia of Taxation & Tax Policy, The Urban Institute 2005. Washington D.C.

<sup>60</sup> Some common forms of insurance cover business risks, automobiles, homes, boats, worker's compensation, and health.

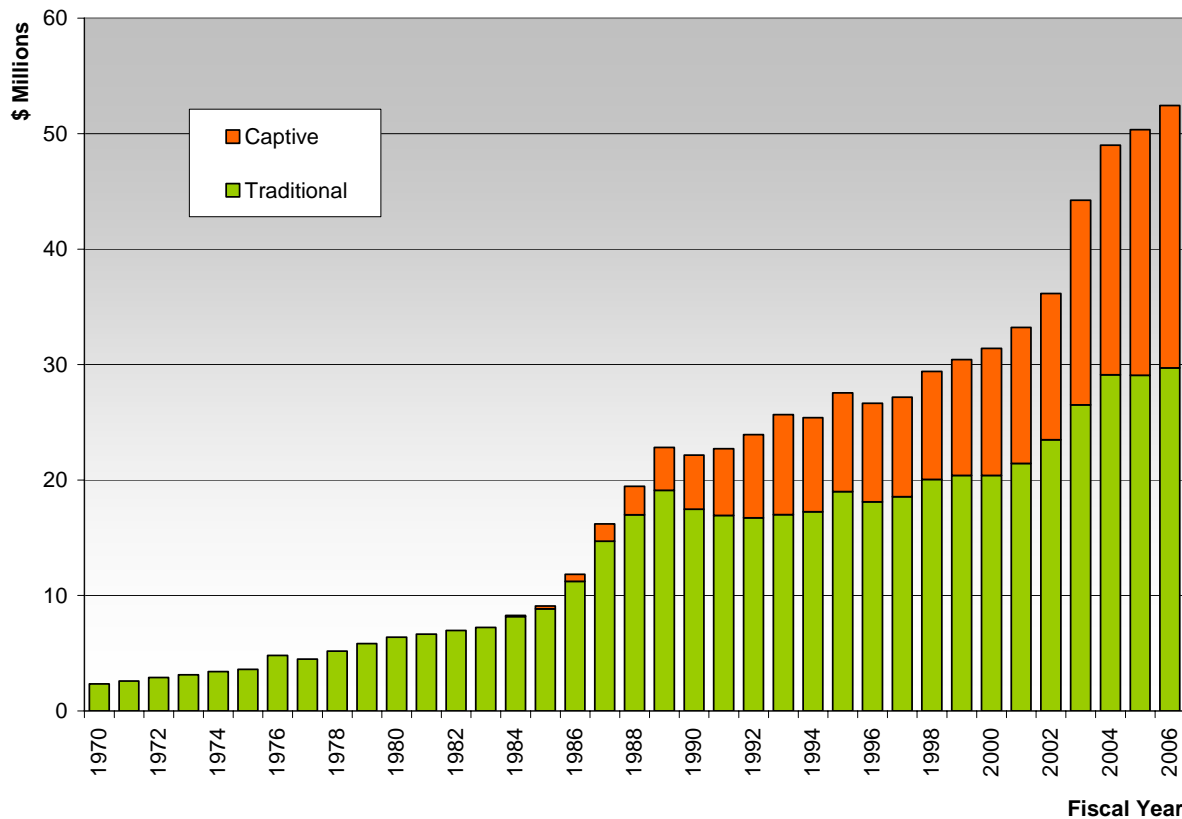
<sup>61</sup> [http://www.gibraltar.gov.gi/gov\\_depts/finance/captive\\_insurance.htm](http://www.gibraltar.gov.gi/gov_depts/finance/captive_insurance.htm)

on annuities. Captive insurance tax rates vary depending on the volume of premiums written (see table below).

### Captive Insurance Tax Rates

Volume of Premiums (\$)	Direct Premiums Tax Rate (%)	Assumed Reinsurance Premiums Tax Rate (%)
0 to 20 million	0.380	0.214
20 to 40 million	0.285	0.413
40 to 60 million	0.190	0.048
60 million +	0.072	0.024

### Insurance Premiums Tax Revenue, FY 1970 – 2006<sup>62</sup> Actual Revenue, not Inflation-Adjusted



Note: Captive statute passed in 1981; first revenues collected in FY83.

### Nationwide Comparison

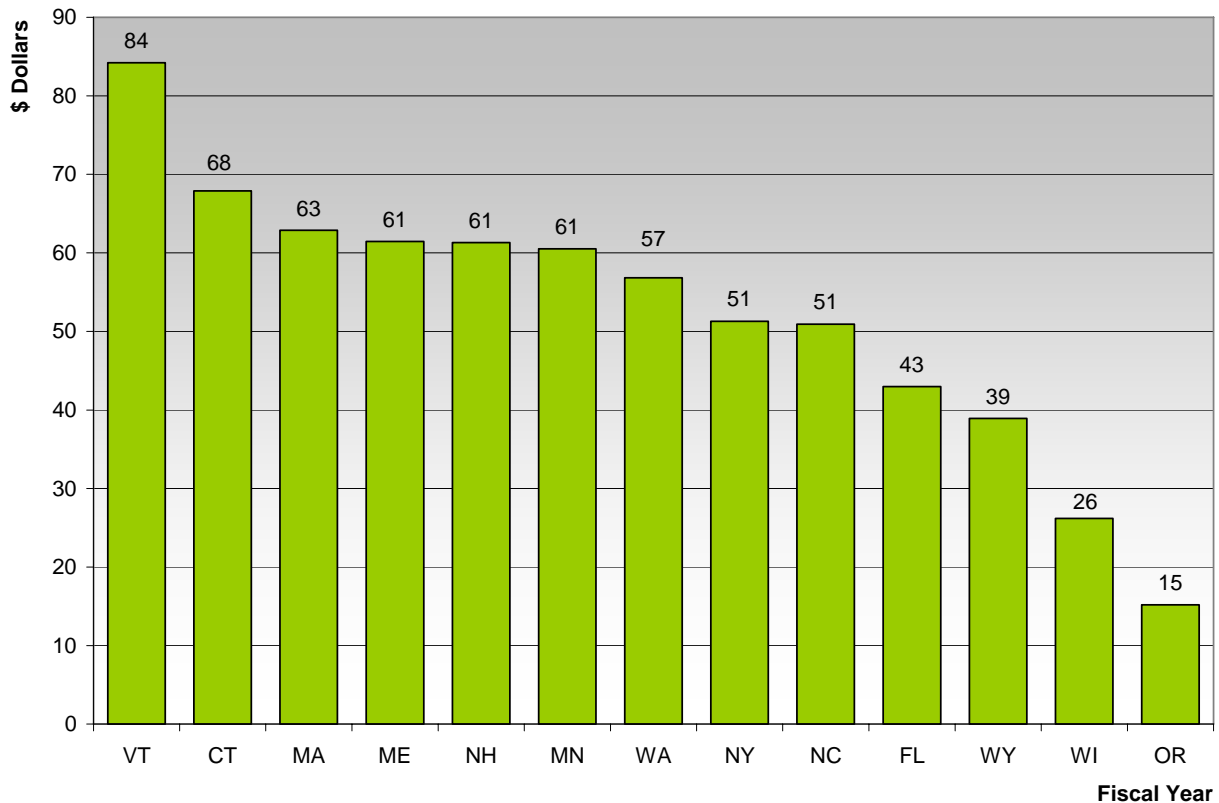
All 50 states impose premiums taxes on insurance companies, both domestic and foreign, for insuring risks or property within a given state. Retaliatory taxes are unique to this industry, imposed by 49 states (except Hawaii). Retaliatory taxes allow a state to collect taxes on foreign companies selling premiums within its state for the difference between the tax in the company's home state, if it is higher, and the in-state state tax.

<sup>62</sup> Nominal dollars.

Vermont began to license captive insurance companies and to collect captive insurance premiums taxes in 1981. As of 2006, 20 states license captive insurance. Of the 11 other comparison states, only two others, Maine and New York, license captives. While the domicile market is much more competitive among states, Vermont remains the largest captive domestic domicile in the US.

A comparison of per capita insurance premium tax collections in Vermont and the other comparison states illustrates the impact of the captive industry on tax statistics.

**Insurance Premiums Tax Collections Per Capita <sup>[1]</sup>**



[1] 2005 State Government Tax Collections, US Census

Vermont has the highest per-capita insurance premium revenue of the 12 comparison states, and at \$84 per person, the third-highest rank in the nation after Nevada and Kentucky. Approximately 42% of insurance tax revenue in Vermont, or \$35 per capita, is from captive insurance premiums, with the remaining \$49 per capita raised on traditional insurance premiums. Therefore, without the significant captive market in Vermont, the state's tax ranking in this area would be much smaller, placing Vermont ninth, between North Carolina and Florida in this comparison. This also plays into the overall high per-capita tax rank of Vermont, although it is a tax that is largely exported to out-of-state companies and does not affect effect resident tax liabilities.

# EXCISE TAXES

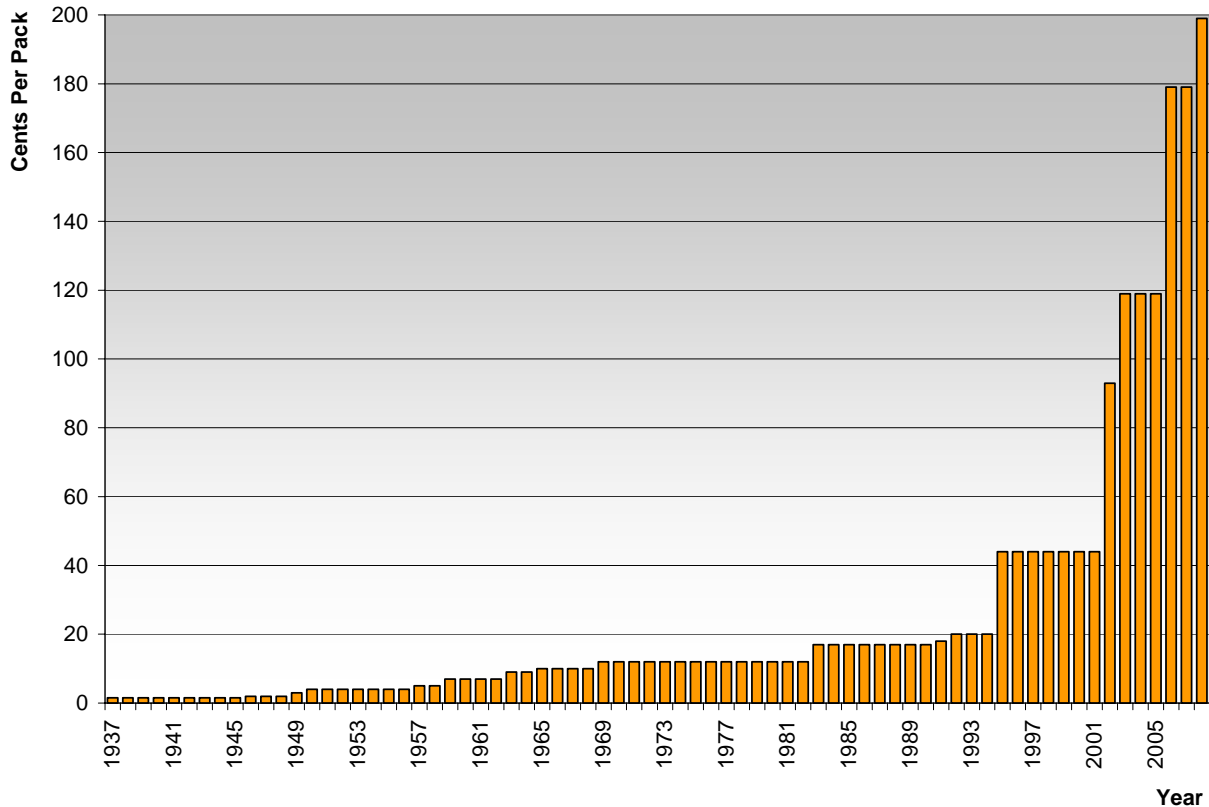
## Summary

An excise tax is a narrowly based tax levied on the sale or consumption of a particular good or service. Excise taxes are generally unit taxes, meaning the tax is applied to units sold rather than a percentage of the price. In Vermont, as in most states, excise taxes are levied on cigarettes and other tobacco products, alcoholic beverages, and motor fuel.

## CIGARETTE AND TOBACCO PRODUCTS TAXES

An excise tax is imposed on all cigarettes sold in Vermont. The tax increased from \$1.19 to \$1.79 per pack on July 1, 2006. “Little cigars”<sup>63</sup> and roll-your-own (RYO) tobacco are taxed as cigarettes and snuff is taxed at \$1.49 per ounce, also as of July 2006. All other tobacco products are taxed at 41% of the wholesale price.<sup>64</sup> On July 1, 2008, the tax rate on cigarettes will increase to \$1.99 per pack and the tax rate on snuff will increase to \$1.69 per ounce. Cigarettes and other tobacco products are also subject to the sales and use tax. Revenues from the cigarette and other tobacco products taxes are dedicated to health care.

History of Cigarette Tax Rates in Vermont



<sup>63</sup> “Little cigars” are cigars weighing 3 lbs per 1,000 or less.

<sup>64</sup> Prior to July 1, 2006 little cigars, RYO, and snuff were all under the other tobacco products tax at 41% of wholesale.

## Tax Revenue

Cigarette taxes generated \$46.1 million in FY 2005, a 7.5% decline from 2004. Revenues are expected to increase to approximately \$57 million when the tax increases to \$1.99 in 2008. The tobacco products tax raised an additional \$2.6 million in FY 2005.

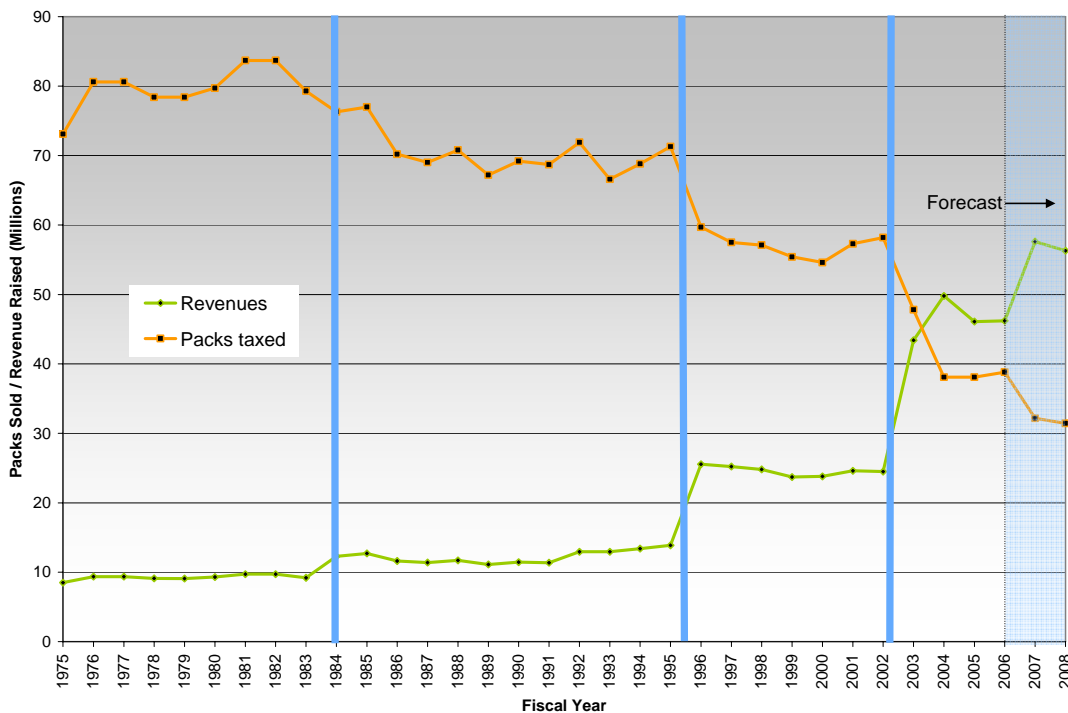
**Cigarette Tax Revenues, FY 1975 - 2005**

Fiscal period	Average annual growth (%)	Average annual inflation-adjusted growth (%)	Total inflation adjusted growth (%)
1975-1980	1.9	-6.4	-28.3
1980-1985	6.4	.85	4.3
1985-1990	-2.1	-5.8	-25.8
1990-1995	3.9	.77	3.9
1995-2000	11.4	8.7	51.77
2000-2005	14.1	11.3	70.8
<i>1975-2005</i>	<i>5.8</i>	<i>1.4</i>	<i>49.6</i>

[1] Compounded growth rates.

Each time the cigarette tax is raised, the number of packs sold declines because the higher price leads to a decrease in demand and number sold in Vermont. The chart below traces the amount of the tax versus total number of packs sold over the past 30 years. The blue lines indicate significant tax increases. While a number of factors have contributed to the decrease in demand, the chart shows that the tax rate is an important factor.

**Cigarette Tax Revenue and Number of Packs Sold in Vermont, 1975 – 2008**

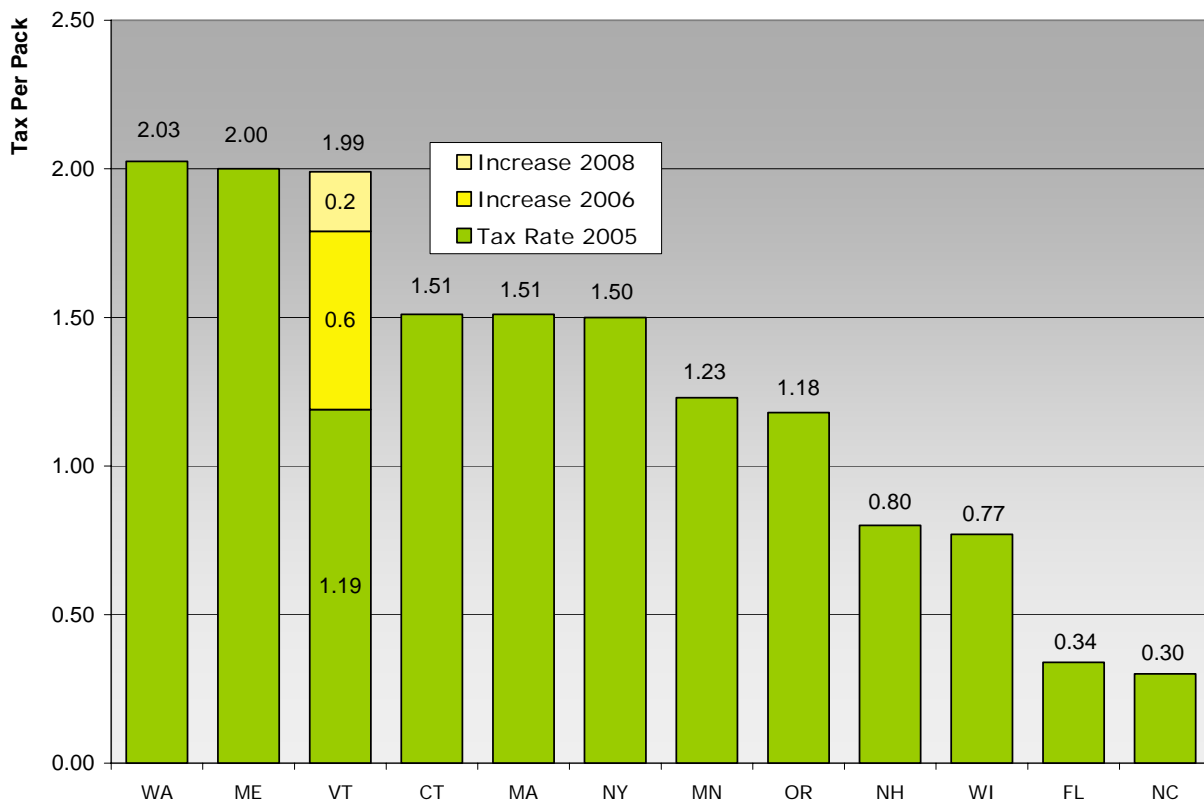


As mentioned above, the Vermont cigarette tax rate increased from \$1.19 per pack to \$1.79 per pack on July 1, 2006, and is scheduled to increase again to \$1.99 per pack on July 1, 2008. The cigarette tax revenue forecast for these years includes estimates of the reduction in the number of packs sold. Many external factors affect cigarette sales and cause considerable uncertainty in estimating revenues. These factors include: the effective state combined sales and excise tax rate; the effective tax rate in surrounding states; the federal effective cigarette tax rate; and industry pricing. Other less significant factors influencing sales and state revenue are: increasing mail order and internet-based cigarette sales, unregulated Indian reservation sales, illegal smuggling, and the effective tax rates in Canada.

### Nationwide Comparison

Vermont's 2005 cigarette tax of \$1.19 per pack was 15<sup>th</sup> highest in the nation.<sup>65</sup> At the current rate of \$1.79 per pack, Vermont's tax is the eighth highest in the country. The average national rate is currently \$1.00.<sup>66</sup> New Jersey assesses the highest tax, \$2.57½ per pack. South Carolina's tax is the lowest at seven cents per pack. These rankings do not include local cigarette taxes. The highest tax per pack is in Chicago, which has county and city taxes in addition to the state tax for a total tax of \$3.66 per pack. In addition to state, county, and local cigarette taxes, the federal excise tax is 39 cents per pack. The sales tax is also applied to cigarette sales in each of the comparison states (with the exception of Oregon and New Hampshire, which have no sales tax).

**2006 State Cigarette Tax Rates, Comparison States**



<sup>65</sup> The tax was increased to \$1.79 in 2006.

<sup>66</sup> <http://www.tobaccofreekids.org/research/factsheets/pdf/0097.pdf>

## BEER, WINE, AND LIQUOR EXCISE TAXES

In Vermont malt beverage, or beer, is taxed at 26.5 cents per gallon paid at the wholesale level. Vinous beverage, or wine, is taxed at 55 cents per gallon. The tax on spirituous liquor is 25% of gross revenues. Beer sales exceed wine sales in Vermont. Therefore, although the excise tax on wine is more than double that of beer, the beer excise tax accounts for 78% of the total beverage tax revenue, while wine tax makes up the remaining 22%.

### History of Beer, Wine, and Liquor Tax Rates in Vermont

Beer and Wine		Liquor	
Year	Tax Rate (cents per gallon)	Year	Tax Rate
1933	3.2 beer & wine	1935	0.10 cents / pint
1934	3.25 beer & wine	1939	0.23 cents / pint
1936	5 beer & wine	1945	0.35 cents / pint
1937	10 beer & wine	1947	0.45 cents / pint
1949	15 beer & wine	1957	5.10 cents / gallon
1959	20 beer & wine	1969	5.60 cents / gallon
1969	25 beer & wine	1974	24% of retail sale
1976	50 wine only	1981	25% of retail sale
1981	55 wine; 26.5 beer		

None of the three excise tax rates on alcohol has been increased in 25 years. The beer and wine excise taxes are based on gallons sold, and therefore revenues do not increase with prices, but only reflect increases in consumption or population growth. The liquor excise tax is now a percentage of the retail sale, and therefore does reflect the price increases over time.

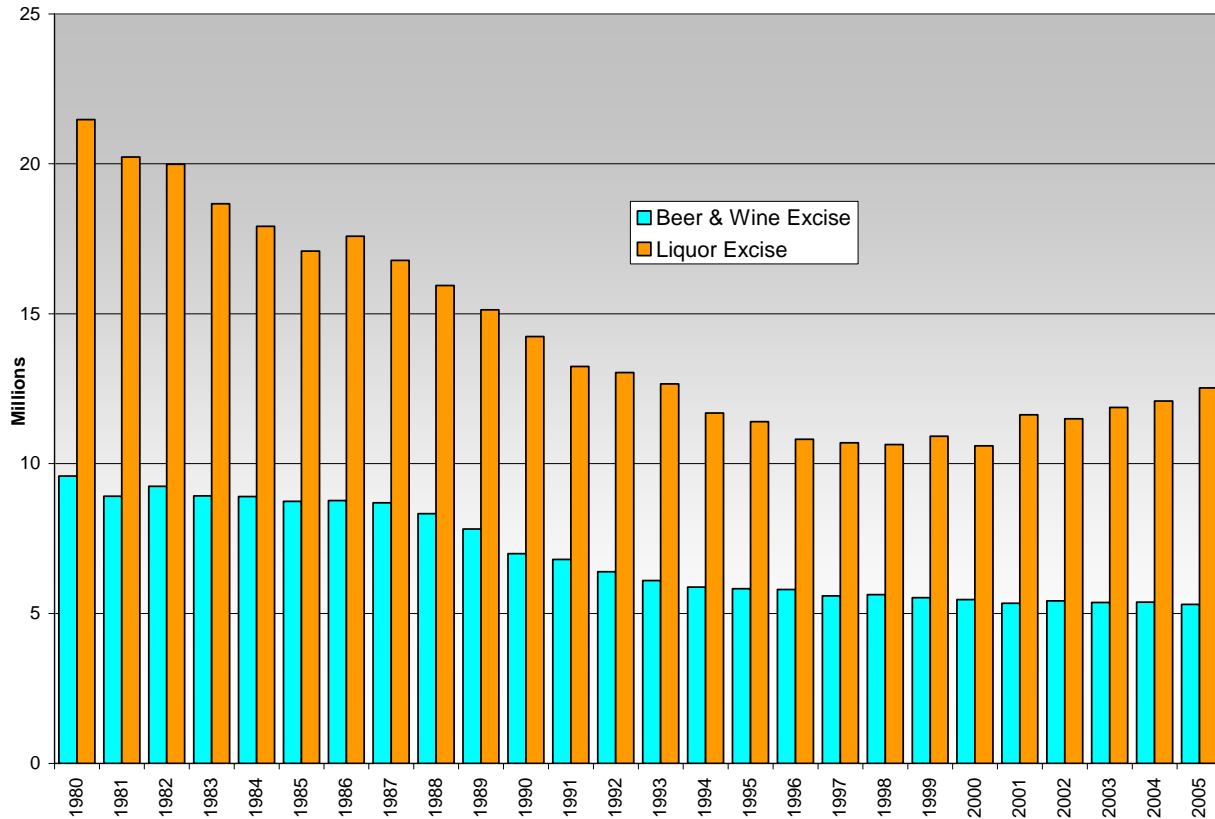
### Tax Revenue

The beer, wine, and liquor taxes generated a combined \$17.8 million in 2005, up from \$16.9 million in 2004 and \$14.1 million in 2000. The history of the beverage tax portion, which is the tax per gallon on beer and wine, is displayed below.

### Beverage Tax Revenues, 1975-2005

Fiscal period	Average annual growth (%)	Average annual inflation-adjusted growth (%)	Total inflation adjusted growth (%)
1975-1980	6.4	-2.3	-10.9
1980-1985	3.6	-1.8	-8.8
1985-1990	-0.3	-4.1	-18.7
1990-1995	-4.3	-3.9	-17.9
1995-2000	1.2	-1.3	-6.3
2000-2005	1.9	-0.6	-0.3
<b>1975-2005</b>	<b>2.0</b>	<b>-2.3</b>	<b>-50.7</b>

## Vermont Alcohol Excise Tax Revenue <sup>[1]</sup> FY 1980 – FY 2005



[1] Inflation-adjusted to 2005 dollars.

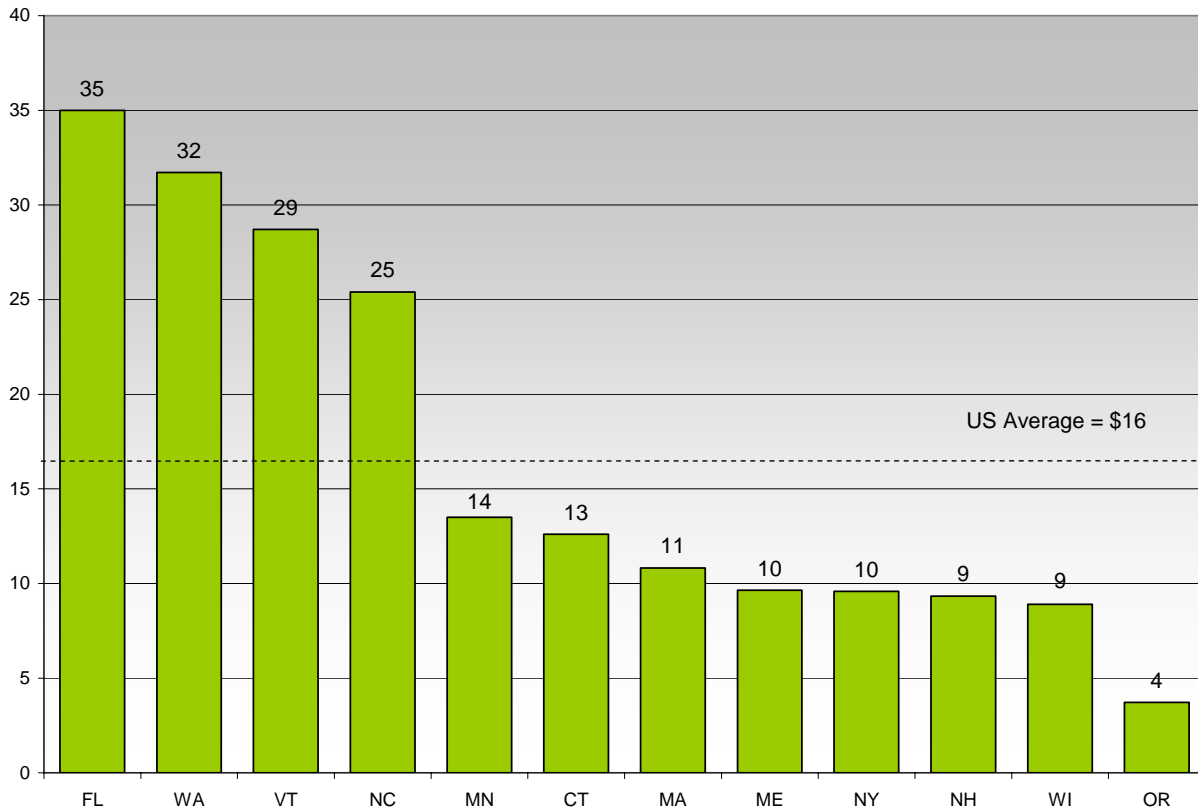
The chart above, which has been adjusted for inflation, shows stagnation in the beer and wine tax revenue. Although the number of gallons of beer sold has doubled in the last 10 years and the number of gallons of wine sold has more than doubled, the revenue from this tax has declined when considering inflation. Excise tax revenues that are based solely on the number of units sold cannot be expected to keep pace with inflation.

The excise tax on liquor, which has been 25% of the retail sale since 1981, also showed decline between 1980 and 2000, but is now posting growth. There are a number of factors that affect liquor sales because it is such a highly regulated commodity, and includes purchases by both individuals and in-state firms that use liquor in the manufacturing and flavoring of other food products. The price of liquor in neighboring states has had a significant impact on in-state sales.

### Nationwide Comparison

Vermont's 26.5-cent-per-gallon excise tax on beer is the 17<sup>th</sup> highest nationally and 7.5 cents above the 19-cent national median. At 55 cents per gallon, the excise tax on wine is the 28<sup>th</sup> highest and 14 cents below the national median of 69 cents. Per capita revenues from alcohol taxes equal \$29 in Vermont, eighth in the nation and well above the national average of \$16.

### 2005 Per Capita Alcohol Tax Revenues <sup>[1]</sup>



[1] 2005 State Government Tax Collections (<http://www.census.gov/govs/www/statetax.html>)

## GASOLINE EXCISE TAX

The gasoline tax of 19 cents per gallon and a petroleum distributor licensing fee of one cent per gallon together amount to a total assessment of 20 cents per gallon. The excise tax was last raised in 1997 from 15 cents per gallon to 19 cents per gallon. The one-cent licensing fee was added in 1989. The 20-cent total is divided between various state funds as follows.

### Vermont Gasoline Excise Tax Revenue Dedication

Allocation	Cents per gallon	Percent of total (%)
Transportation Fund	18.245	91.2
DUI Fund	0.380	1.9
Fish & Wildlife Fund	0.375	1.9
Petroleum Clean-Up Fund	1.000	5.0
Total	20.000	100.0

A brief history of the Vermont gasoline tax shows tax rate increases as well as the changes in dedication of the revenue from this tax.

### Vermont Gasoline Tax History

Year <sup>[1]</sup>	Action
1923	A one-cent per gallon tax is assessed on all motor vehicle fuel. Proceeds are dedicated to highway work
1929	Tax raised to 4 cents per gallon. Proceeds to be paid to the state treasury
1949	Tax raised to 5 cents per gallon but fuel redefined to exclude diesel fuel
1955	Tax raised to 5½ cents per gallon
1957	Tax raised to 6½ cents per gallon with proceeds deposited in new highway fund
1966	Motor fuel redefined to exclude aircraft jet fuel
1967	Tax raised to 8 cents per gallon
1971	Tax raised to 9 cents per gallon
1981	Tax raised to 11 cents per gallon
1986	Tax raised to 13 cents per gallon. Highway Fund changed to Transportation Fund
1989	Tax raised to 15 cents per gallon. Petroleum cleanup fee of 1 cent per gallon also added
1997	As part of Act 60, tax is raised 4 cents to 19 cents per gallon effective August 1, 1997 (FY 1998). All revenue from the 4-cent increase in FY 1998 is reserved for the General Fund and eventually transferred to the Education Fund
1998	Education Fund is defined including 21% of gasoline tax revenue in FY 1999 (3.99 cents) and 16% in FY 2000 and thereafter (3.04 cents at the 19 cent per gallon rate). Thus starting July 1, 1999 the portion of the gasoline tax deposited in the Transportation Fund is increased by 0.96 cents per gallon
2004	In a revenue swap, the allocation of gasoline tax revenue to the Education Fund is eliminated while the allocation of the motor vehicle purchase & use tax to the Education Fund is increased from 1/6 to 1/3.

[1] Calendar year the law went into effect.

### Tax Revenue

Vermont gasoline tax revenue in FY 2005 amounted to \$65.5 million, 3.0% of total state revenue. The gasoline tax is a fixed cent-per-gallon tax that does not vary with the price of gasoline. Proceeds from the licensing fee of 1 cent per gallon are deposited in the Petroleum Clean Up Fund. It should be noted that this tax is collected from gasoline distributors, not retailers. Because of this, inventory purchasing can at times distort actual retail consumption at the pump and cause volatility in tax revenue receipts. Of approximately 100 gasoline distributors in the state, the largest dozen account for about 75% of all tax payments. The revenues analyzed here are limited to the 19.0-cent gasoline tax. In addition to state taxes, the federal government excise tax on gasoline is 18.2 cents per gallon.

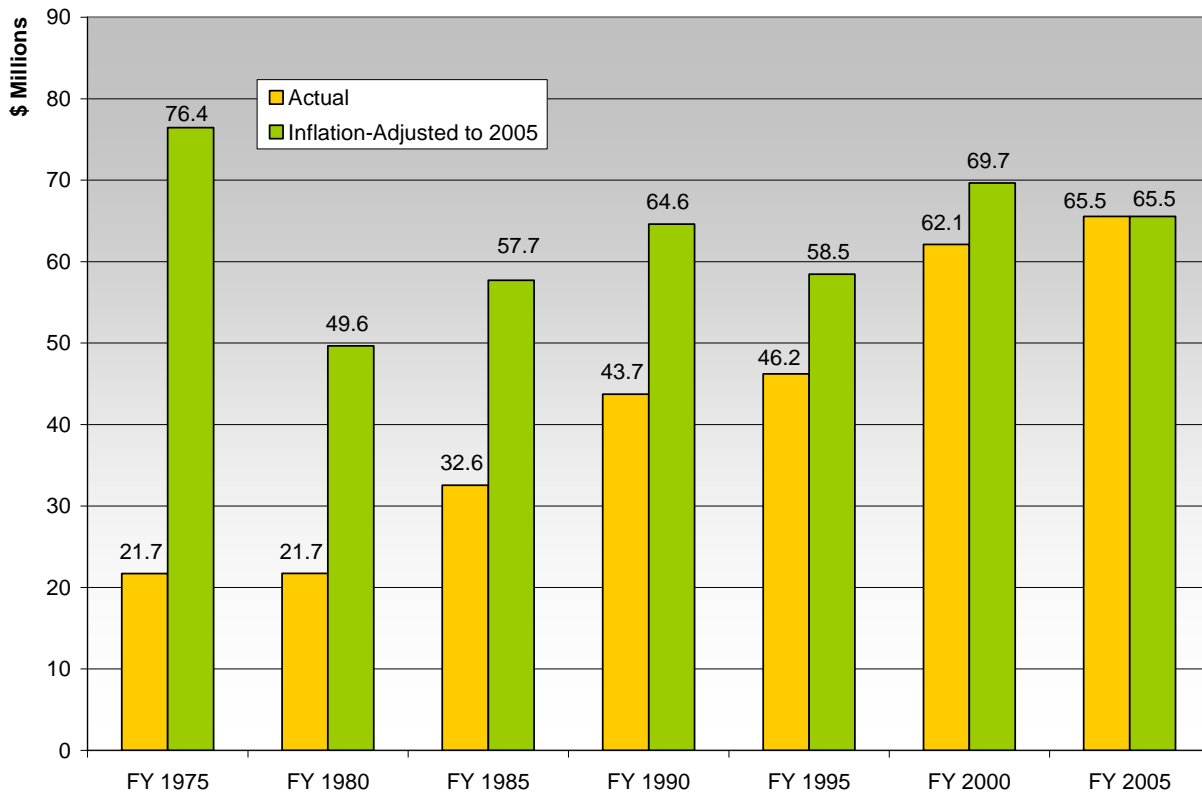
### Vermont Gasoline Excise Tax Revenue <sup>[1]</sup>

Fiscal period	Average annual growth (%)	Average annual inflation-adjusted growth (%)	Total inflation adjusted growth (%)
1975-1980	0.0	-8.3	-35.1
1980-1985	8.4	3.1	16.3
1985-1990	6.1	2.3	12.0
1990-1995	1.1	-2.0	-9.5
1995-2000	6.1	3.6	19.1
2000-2005	1.1	-1.2	-5.9
<b>1975-2005</b>	<b>3.8</b>	<b>-0.5</b>	<b>-14.3</b>

[1] Compounded growth rates.

The chart below shows the actual and inflation-adjusted revenue from the gasoline tax during the period between 1975 and 2005.

### Vermont Gasoline Tax Revenue, 1975-2005



The outsized value of the 1975 revenue figure in terms of 2005 dollars is likely the result of two factors. First, between 1975 and 1980, gasoline prices more than doubled from an average price in 1975 of \$.57 per gallon to \$1.22 in 1980. This increase in price dampened demand which, in terms of gallons sold, was basically flat over the period. While consumer spending on gasoline increased substantially, since the gasoline tax is a flat cent-per-gallon tax (the rate was

9 cents per gallon the whole period), the extra spending did not translate into additional revenue. Second, consumer prices between 1975 and 1980 increased by 54%, almost twice the increase experienced between 1980 and 1985 (29%), the five-year period with the next highest inflation rate. When the 1975 gasoline tax revenues are thus translated into 2005 dollars, the surge in inflation between 1975 and 1985 in particular has the effect of pushing the inflation adjusted figure higher. Adjusting for inflation, gasoline tax revenues have decreased over the past five years. The inability of this tax source to keep up with inflation has contributed to revenue shortfalls in the Transportation Fund in recent years and inventory adjustments have caused periodic volatility in gasoline tax receipts.

### **Nationwide Comparison**

All 50 states impose gasoline excise taxes that are unit-based and most have dedicated gasoline fees. A few states have additional sales taxes on gasoline that are price-based (California, Florida, Georgia, Hawaii, Illinois, Michigan, New York, and West Virginia). Most national comparisons of gasoline excise taxes per gallon rank Vermont near the middle of states (28<sup>th</sup> by the Tax Foundation). If other state and local gasoline taxes are included (such as special purpose fees and local sales taxes), Vermont's ranking drops well below the national average (37<sup>th</sup> by the American Petroleum Institute). The chart below includes state and local excise taxes and notes additional sales taxes. Among the 12 comparison states, Vermont has the second lowest gasoline excise tax at 20 cents per gallon and New Hampshire has the lowest tax rate at 19.625 cents per gallon.

## 2006 Gasoline Tax Rates, 12 Comparison States

State	State Excise Tax	Other State Excise Taxes	Total State Excise Taxes	Notes
CT	25.0	n/a	25.0	Also subject to a 5% gross earnings tax collected at wholesale
FL	17.1*	See local taxes	6.2	*4.0 cpg excise tax plus 10.9 cpg "fuel sales tax", increases w/CPI and 2.2 cpg tax/fee for environmental inspection Up to 6 cpg SCETS (State Comprehensive Enhanced Transportation System); Total 10 – 18 cpg local option taxes
ME	26.8 <sup>[1]</sup>	1.45	28.25	.07 cpg Coastal Inland Water Fund; 1.38 cpg Groundwater Fund 40 cpg/10,000 gallons Petroleum Market Share Act
MA	21.0	2.5	23.5	UST Fund Tax
MN	20.0	2.0	22.0	Periodic UST cleanup fee at wholesale level fluctuates depending on fund balance. <sup>[2]</sup>
NH	18.0	1.625	19.625	1.5 cpg Oil Discharge & Disposal Fund; and 0.125 cpg Oil Pollution Control Fund
NY	8.0	16.25	23.95	15.9 cpg Petroleum Business Tax; 0.3 cpg Spill Tax; 0.05 Petroleum Testing Fee; 8.0 – 8.75 cpg statewide volume weighted average sales tax; Also local option sales taxes 3.25% - 5.75%.
NC	29.9	0.25	30.15	Inspection Tax
OR	24.0	1.0 – 3.0 county 1.0 – 5.0 city	27.0*	*Includes 3.0 local tax
VT	19.0	1.0	20.0	Petroleum Clean-Up Fee
WA	34.0	n/a	34.0	<sup>[3]</sup>
WI	30.9	2.0	32.9	UST Fee

[1] State excise tax increased from 25.9 to 26.8 on 7/1/06 (indexed to inflation) [2] In effect 10/1/05 – 7/1/06 [3] Increased from 31.0 to 34.0 on 7/1/2006 Sources: Federation of Tax Administrators ([www.taxadmin.org](http://www.taxadmin.org)); U.S. Department of Transportation, Federal Highway Administration, Office of Highway Policy Information (<http://www.fhwa.dot.gov/ohim/mmmfr/feb06/index.htm>); and the American Petroleum Institute ([www.api.org](http://www.api.org))

## DIESEL EXCISE TAX

The diesel tax of 25 cents per gallon and a petroleum distributor licensing fee of 1 cent per gallon together amount to a total assessment of 26 cents per gallon. The 25-cent tax revenue is deposited into the Transportation Fund and the 1-cent licensing fee is deposited into the Petroleum Clean Up Fund. A brief history of the Vermont diesel tax is below.

### Vermont Diesel Tax History

Year	Action
1923	A 1-cent-per-gallon tax is assessed on all motor vehicle fuel. Proceeds are dedicated to highway work.
1929	Tax raised to 4 cents per gallon. Proceeds are paid to the state treasury.
1949	Tax raised to 5 cents per gallon but fuel is redefined to exclude diesel fuel.
1982	A specific tax on diesel fuel is created and set at 14 cents per gallon.
1989	Tax raised to 16 cents per gallon. For trucks over 10,000 pounds, the tax is raised to 22 cents per gallon with a further increase to 25 cents per gallon to take effect in 1990. A separate petroleum cleanup fee of 1 cent per gallon is also added.
2000	Basic tax rate increased to 25 cents per gallon and differential treatment based on weight is eliminated.

## Tax Revenue

Vermont diesel tax revenue in FY 2005 amounted to \$15.5 million, 0.7% of total state revenue. The diesel tax is a fixed cent-per-gallon tax that does not vary with the price of diesel fuel. This analysis is limited to the diesel tax (not including the 1-cent per gallon licensing fee). The table below describes the growth of diesel tax revenue from 1975 to 2005.

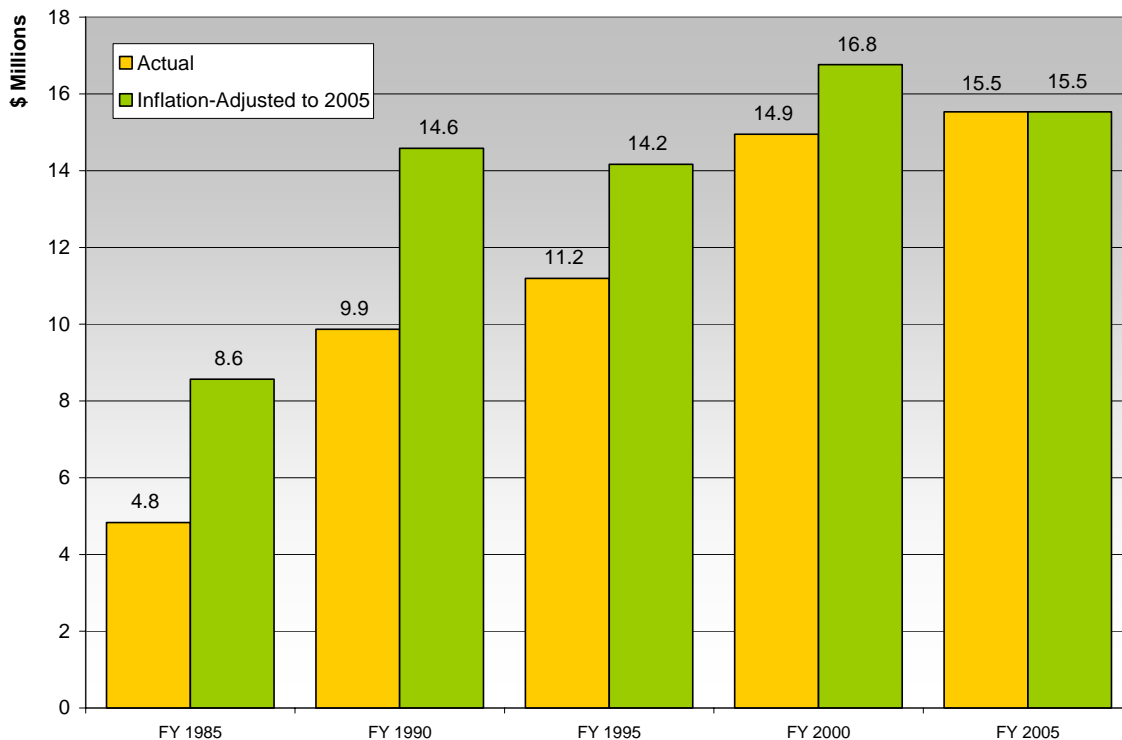
**Vermont Diesel Excise Tax Revenue** <sup>[1]</sup>

Fiscal period	Average annual growth (%)	Average annual inflation-adjusted growth (%)	Total inflation adjusted growth (%)
1975-1980	Not taxed	N/A	N/A
1980-1985	Not taxed	N/A	N/A
1985-1990	15.3	11.2	70.2
1990-1995	2.6	-0.6	-2.9
1995-2000	6.0	3.4	18.3
2000-2005	0.8	-1.5	-7.3
<i>1975-2005</i>	<i>6.0</i>	<i>4.3</i>	<i>133.5</i>

[1] Compounded growth rates.

Diesel fuel was not taxed between 1949 and 1982. Therefore the revenue history for the diesel excise tax begins in FY 1985. The chart below shows the actual and inflation-adjusted revenue from the diesel tax during the period 1985-2005.

**Vermont Diesel Tax Revenue, 1985 – 2005**



## Nationwide Comparison

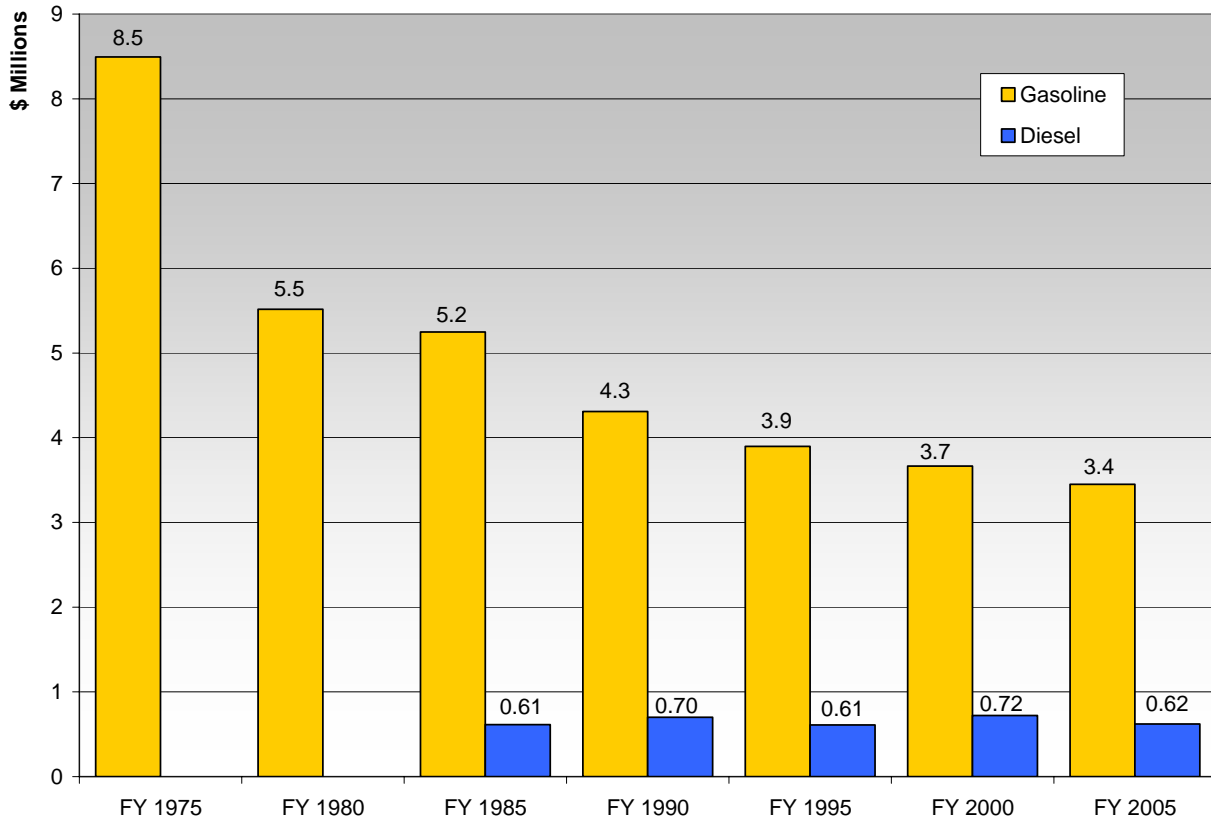
All 50 states impose diesel excise taxes that are unit-based and many have dedicated diesel fees. A few states have additional sales taxes on diesel that are price-based. Vermont ranks higher on diesel tax rates than gasoline tax rates. Vermont ranked 13<sup>th</sup> in the Federation of Tax Administrators diesel tax rate chart. When other state and local gasoline taxes are considered (such as special purpose fees and local sales taxes), Vermont's ranking drops to 22<sup>nd</sup> (American Petroleum Institute ranking). The chart below includes state and local excise taxes and notes additional sales taxes.

**2006 Diesel Tax Rates, 12 Comparison States**

State	State Rate (cpg)	Notes
Connecticut	26.0	Also subject to a 5% gross earnings tax collected at wholesale
Florida	27.9	The 27.9 cpg diesel taxes are flat across all FL counties and include: 4.0 cpg state excise; 10.9 cpg sales tax; 6.0 cpg SCETS; 7.0 cpg local option taxes
Maine	27.9	Includes: 0.07 cpg Coastal Inland Water Fund; 0.6 cpg Groundwater Fund 7/1/06 0.9 cpg indexed increase
Massachusetts	21.0	Includes 2.5 cpg UST Fund tax.
Minnesota	22.0	Includes periodic 2.0 cpg UST cleanup fee at wholesale level which fluctuates depending on the fund balance. (In effect from 10/1/05)
New Hampshire	18	Includes 0.7 cents per gallon oil clean-up fee
New York	22.15	Gasoline sales also subject to 4.0 % sales tax
North Carolina	30.15	
Oregon	24	
Vermont	25	26 cents per gallon including petroleum clean-up fee
Washington	31	
Wisconsin	29.9	

Sources: Federation of Tax Administrators ([www.taxadmin.org](http://www.taxadmin.org)); U.S. Department of Transportation, Federal Highway Administration, Office of Highway Policy Information (<http://www.fhwa.dot.gov/ohim/mmfrr/feb06/index.htm>); and the American Petroleum Institute ([www.api.org](http://www.api.org))

### Gasoline and Diesel Tax Revenue Per Penny of Tax in Constant 2005 Dollars



This chart shows in constant inflation adjusted 2005 dollars the revenue per penny generated by the gasoline and diesel taxes. General inflation during the period grew substantially faster than the volume of gasoline sold. Thus in constant inflation adjusted 2005 dollars, the per penny revenue values for gasoline decline throughout the whole period. As a practical matter, this means Vermonters were spending a significantly higher proportion of their income on the gasoline tax per gallon in FY 1975 than in FY 2005. In FY 2001 the method of collecting the diesel tax was changed, resulting in a sharp increase in revenue collections that could not reasonably be explained in terms of rising consumption. In other words, gallons sold under the old collection system appeared to be systematically underreported. As with the gasoline tax, general inflation during the period grew substantially faster than the reported volumes of diesel sold. Because of the volume reporting problem experienced during the period, however, it is problematical to draw any conclusions from the per-penny values in constant inflation adjusted 2005 dollars.

## OTHER TAXES

The list and short descriptions below include additional taxes collected by the State of Vermont that are included in the consensus state revenue forecast.<sup>67</sup>

### **Electric Energy Tax**

The tax is imposed on electric generating plants with a name-plate generating capacity of 200,000 kilowatts or more, which includes only one such facility, the Entergy Nuclear Vermont Yankee power plant. This is a graduated tax based on megawatt-hour production. FY 2005 revenue was \$2.6 million.

### **Land Gains Tax**

The tax is on the gain made from the sale or exchange of land located in Vermont and held by the seller for less than six years. The rate is in inverse proportion to the holding period, between 5.0% and 80% of gain. FY 2005 revenue was \$5.7 million.

### **Land Use Change Tax**

This tax is assessed if agricultural or managed forest land previously appraised under the Vermont Agricultural and Managed Forest Land Use Value Program ("Current Use") is developed. Calendar year 2005 revenue was \$840,000.

### **Lottery**

Vermont has a number of lottery games that raise revenue for the state. These revenues are dedicated entirely to the Education Fund. FY 2005 lottery revenues were \$20.4 million.

### **Railroad Tax**

This tax is assessed annually on the appraised value of property and corporate franchise of each person or corporation owning or operating a railroad located in whole or in part within Vermont. 50% of the tax is paid to each town where the railroad real estate is located. FY 2004 total revenue was approximately \$178,000.

### **Telephone Property Tax**

This tax, on all of a company's personal property within the state, is 2.37% of net book value on the preceding December 31. FY 2005 revenue was \$10.5 million.

### **Telephone Company (Gross) Receipts Tax**

This "alternative" tax may be elected in lieu of telephone property tax by companies with less than \$50 million in gross operating revenue in the previous year, but the election may not be made by a taxpayer that did not make the election in the previous year. The tax is between 2.25% and 5.25% of gross operating revenue. FY 2004 revenue was \$258,000.

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<sup>67</sup> The Emergency Board, made up of the Governor and the four chairs of the "money committees" in the legislature, meets biannually to review and adopt an official, consensus state revenue forecast.

**Additional Taxes**

As noted earlier, there are other state taxes dedicated to special purposes that are excluded from the total state revenue base and are not part of the biennial forecast. These include: the fuel gross receipts tax, hazardous waste generation taxes, heating oil tax, local option revenue dedicated to the state, hospital provider taxes, and the energy efficiency surcharge, among others. Inclusion of these taxes in the official revenue forecast and in future studies would offer a broader picture of the entire state tax system.

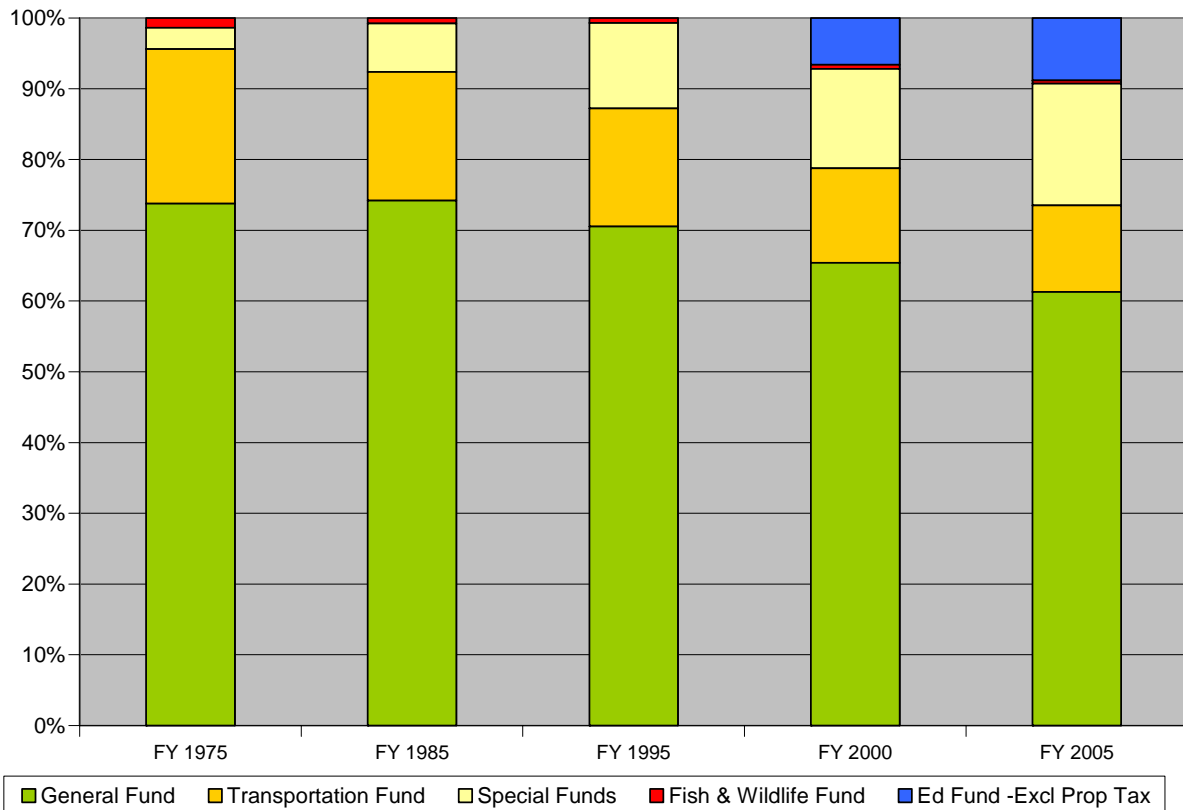
## STATE FUNDS

State finances are organized and operated on the basis of funds. Funds are independent fiscal and accounting entities. Fund accounting segregates funds according to their intended purpose and is used to demonstrate compliance with finance-related legal and contractual provisions. All state budgeting is on a fund basis. There are several major funds: the General Fund, the Transportation Fund, the Education Fund and Special Funds, into which are deposited the tax and fee revenues levied by the state.

On the following pages are descriptions of each of the major funds and their revenue trends. The information here is presented in nominal terms. The individual tax sections of the report have an analysis that provides trends in inflation-adjusted terms as well as rate or policy changes for each tax source.

Dedication of revenues is the most prominent trend in fund revenue in Vermont. When new initiatives are passed, often new special funds are created, and all or a portion of revenues that would have otherwise been deposited into the General Fund or Transportation Fund are dedicated to specific purpose funds. This can be seen in the chart below, which shows the combined revenues of the major funds over the past 30 years.

**Combined Fund Revenue**  
(Excludes Education Property Tax)



In fiscal years 1975 and 1985, the General Fund and Transportation Fund comprised more than 90% of the total combined funds revenue. In 1995, this percentage dropped to 87%; in 2000, it was down to 79% and continued to drop to 73% in 2005. At the same time, the Special Funds percentage has steadily risen from 3.0% in 1975 to 17% of the total combined fund revenue in 2005.

Between 1995 and 2005, several large areas of revenue dedication can be identified:

- The Education Fund was created in Fiscal Year 1999. Revenues from various tax sources as well as lottery proceeds were dedicated to this fund.
- Over the past decade, the entire cigarette tax and health care provider taxes have been dedicated to special funds restricted for state health care programs.
- Over the past 30 years, as several industries have expanded, the regulatory functions of the state have increased as well. These functions are mostly funded with licenses or fees through special funds. Examples are the funds that support the state banking, insurance, and securities divisions as well as the Office of Professional Regulation.
- Vermont established a special fund for proceeds from the national Master Tobacco Settlement.
- In Fiscal Year 1999, the Higher Education Trust Fund was established. If actual estate tax revenues are higher than 125% of the initial forecast, the overage is dedicated to this fund each year.
- In the past decade, Vermont has put in place a distribution formula for the property transfer tax. This formula allocates 67% of this revenue to specific housing, conservation, and planning activities. The effect of this earmarking has been lessened in recent years as the formula has been “not withstood,” allowing a greater share to flow to the general fund.
- Special and dedicated funds protect expenditures from competing with other state needs as part of the general fund budgeting process.

### COMBINED FUND REVENUES - Not including education property tax

BY FUND	FY75		FY85		FY95		FY00		FY05	
	\$	%	\$	%	\$	%	\$	%	\$	%
General Fund	148.5	73.8%	377.1	74.2%	659.8	70.5%	885.5	65.4%	1049.3	61.3%
Transportation Fund	43.9	21.8%	92.4	18.2%	156.1	16.7%	181.3	13.4%	209.8	12.2%
Special Fund	6.0	3.0%	34.9	6.9%	113.0	12.1%	190.0	14.0%	294.5	17.2%
Fish & Wildlife Fund	2.8	1.4%	3.9	0.8%	6.8	0.7%	7.9	0.6%	7.5	0.4%
Education Fund - Excl Prop Tax	0.00	0.0%	0.00	0.0%	0.00	0.0%	89.50	6.6%	151.50	8.8%
Total Revenue	201.23	100.0%	508.23	100.0%	935.67	100.0%	1354.23	100.0%	1712.61	100.0%
Nom. Compound Rate	N/A		9.7%		6.3%		7.7%		4.8%	5 YR
									6.2%	10 YR

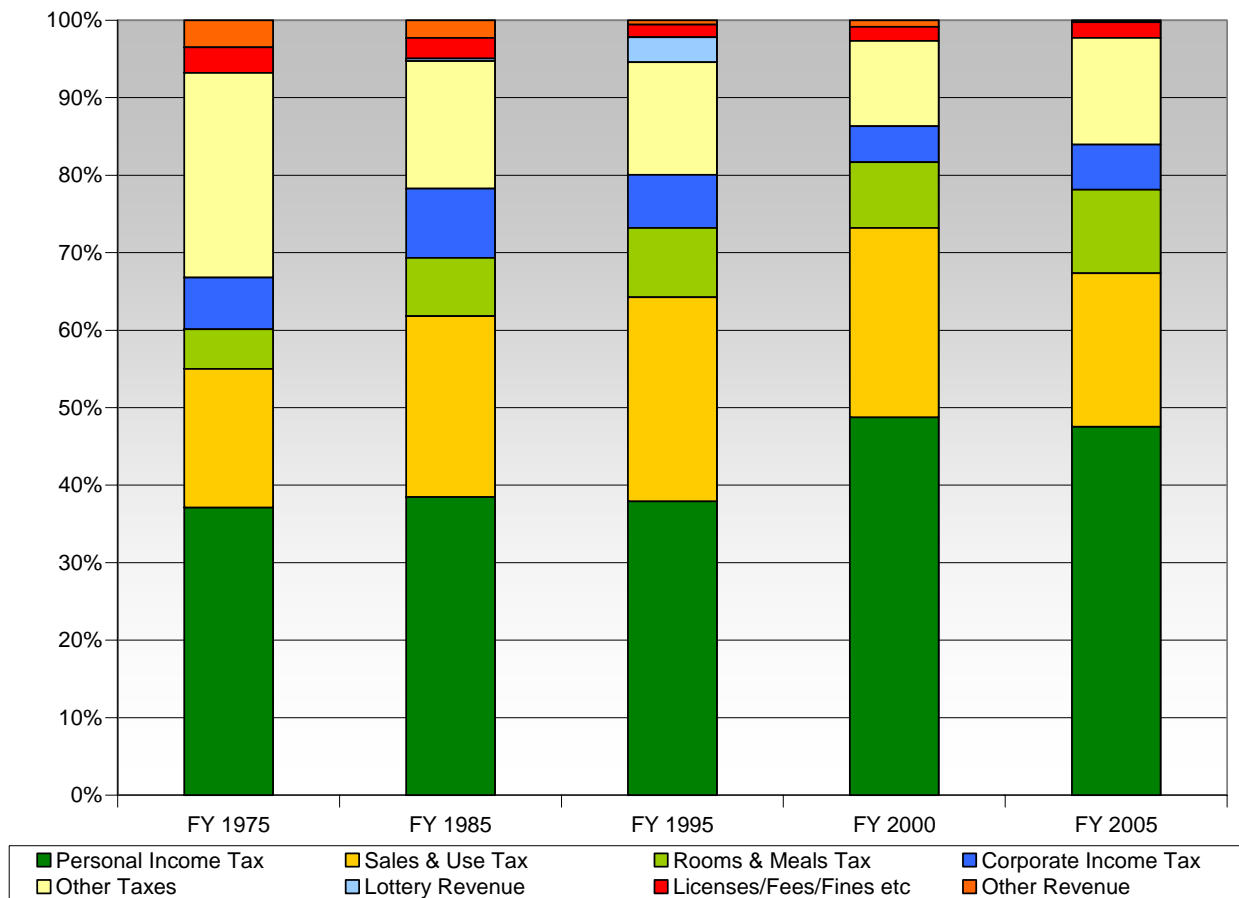
### COMBINED FUND REVENUES - Not including education property tax

BY SOURCE	FY75		FY85		FY95		FY00		FY05	
	\$	%	\$	%	\$	%	\$	%	\$	%
Personal Income Tax	55.1	27.4%	145.1	28.6%	250.3	26.7%	431.7	31.9%	499.0	29.1%
Sales & Use Tax	26.5	13.2%	87.9	17.3%	173.6	18.6%	231.3	17.1%	311.2	18.2%
Rooms & Meals Tax	7.6	3.8%	28.3	5.6%	59.0	6.3%	92.0	6.8%	113.0	6.6%
Corporate Income Tax	9.9	4.9%	33.8	6.6%	45.3	4.8%	50.6	3.7%	61.2	3.6%
Motor Fuel Tax	21.7	10.8%	32.6	6.4%	47.0	5.0%	64.6	4.8%	67.3	3.9%
Diesel Tax	0.0	0.0%	4.8	1.0%	11.2	1.2%	14.9	1.1%	15.5	0.9%
MV Purchase & Use Tax	6.1	3.0%	22.8	4.5%	44.7	4.8%	69.5	5.1%	84.0	4.9%
Other Taxes	40.9	20.3%	66.5	13.1%	110.6	11.8%	176.4	13.0%	274.9	16.0%
Lottery Revenue	0.0	0.0%	1.2	0.2%	21.2	2.3%	18.9	1.4%	20.4	1.2%
Licenses/Fees/Fines	24.5	12.2%	60.5	11.9%	104.6	11.2%	129.9	9.6%	170.8	10.0%
Other Revenue	8.9	4.4%	24.7	4.9%	68.1	7.3%	74.4	5.5%	95.2	5.6%
Total Revenue	201.23	100.0%	508.23	100.0%	935.67	100.0%	1354.23	100.0%	1712.61	100.0%
Nom. Compound Rate	N/A		9.7%		6.3%		7.7%		4.8%	5 YR
									6.2%	10 YR

## GENERAL FUND

The General Fund is the primary operating fund of the state. It is a major source of funding for health care, human services, education, and other major functions of state government. Receipts deposited into this fund are from the major taxes, including individual and corporate income, sales and use, meals and rooms, and other business-related taxes. It accounts for much of the financial resources of the general government, except those required to be accounted for in another fund. The money in the General Fund is not earmarked for specific purposes; however, in Vermont certain programs (K-12 education and Medicaid) have expectations of a minimum level of ongoing General Fund support in addition to the sources that are dedicated in other funds.

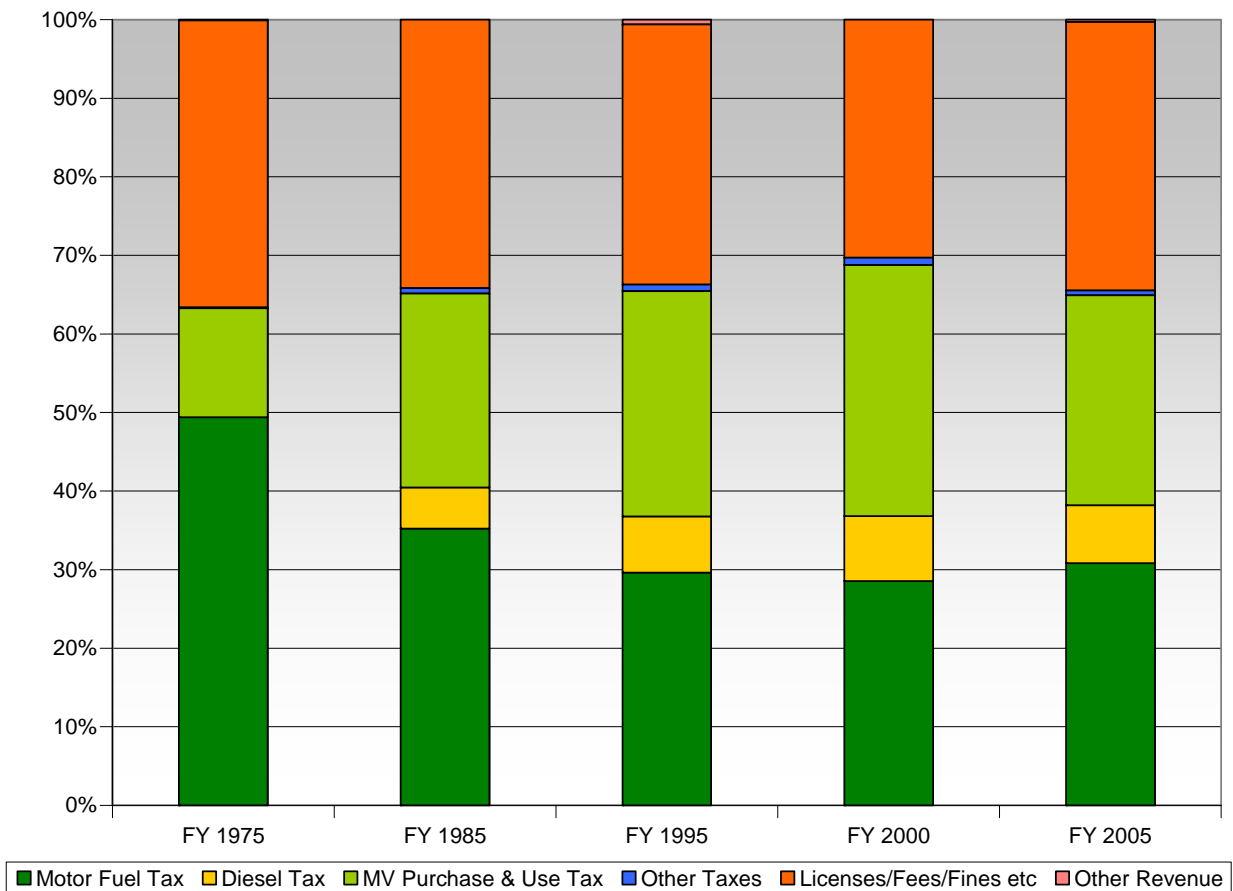
**General Fund Revenue**



# TRANSPORTATION FUND

The Transportation Fund is Vermont’s largest special fund but is reported independently of the consolidated special fund grouping. It is the primary fund for financing transportation-related expenditures. Receipts from the tax on gasoline and diesel fuels, the motor vehicle sales tax, and motor vehicle fees are deposited into this fund. What is most notable about the Transportation Fund is that its nominal growth rate since 1995 has not keep pace with the General Fund or other special funds. This is primarily because motor fuel and diesel taxes are volume based and do not keep up with inflation. Also, when the state increased the tax rates for both gasoline and motor vehicle sales under Act 60 and Act 68, respectively, those increases were dedicated to education purposes instead of transportation.

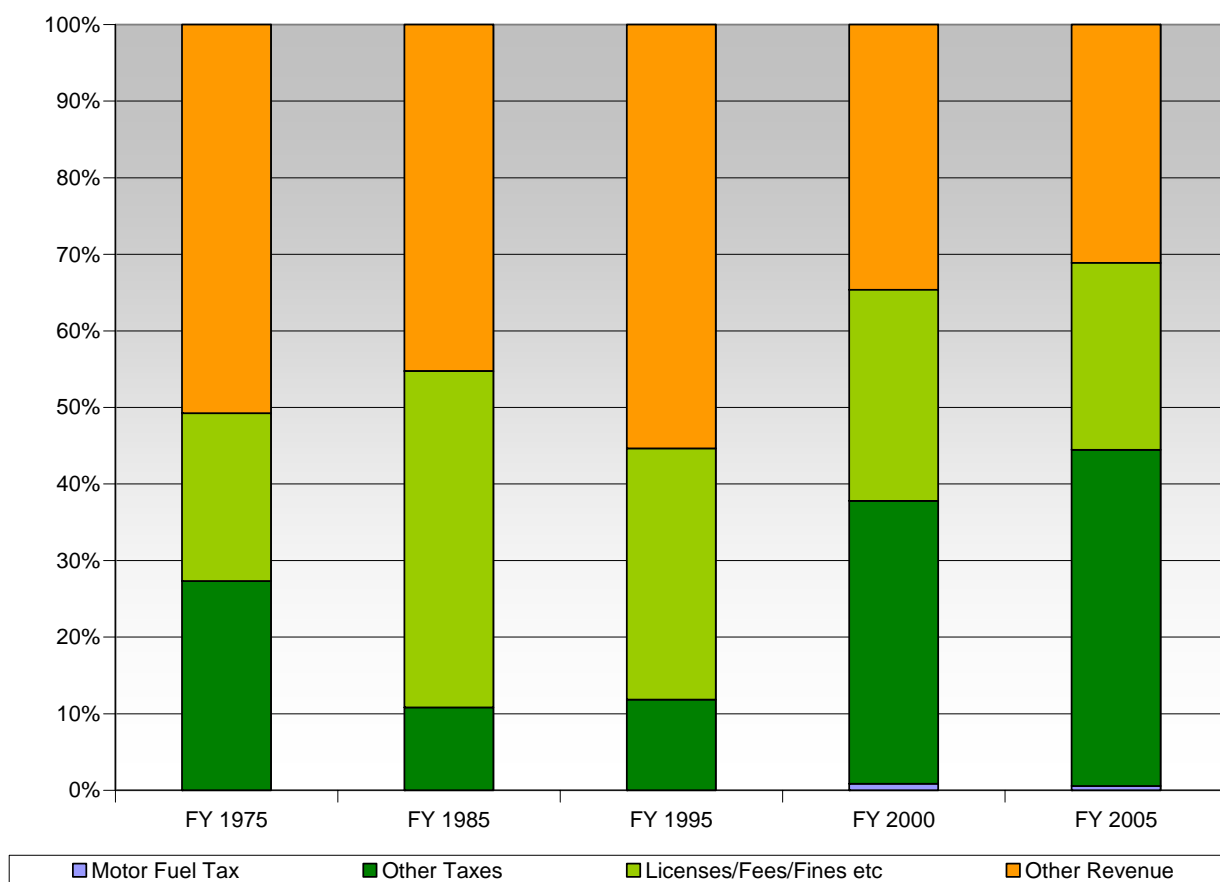
**Transportation Fund Revenue**



## SPECIAL FUNDS

The special funds are a group of individual dedicated revenue funds. Expenditures from special funds are usually restricted or “earmarked” for certain purposes. Vermont has a large number of special funds – more than 500 in fiscal year 2005. Recently, the state has tried to eliminate or reduce the number of special funds, particularly small funds and funds that have infrequent use. However, new funds are still being created when major new initiatives are enacted. The majority of the special funds are modest in terms of annual revenue and expenses. However, within this group are several significant funds. The largest of the special funds are related to health care; tobacco settlement revenues; insurance and securities regulation; environmental and natural resources protection; the Public Service Department; and home weatherization.

### Special Funds Revenue



## THE FISH AND WILDLIFE FUND

The Fish and Wildlife Fund is another special fund reported independently of the consolidated special fund grouping. This fund is used to support the activities of the Fish and Wildlife Department. For many years, this fund was able to support all the activities of this department, but hunting and fishing license and fee revenue that the fund depends upon have stagnated, and General Fund support has supplemented the department since fiscal year 2003.

## GENERAL FUND

	FY75		FY85		FY95		FY00		FY05	
	\$	%	\$	%	\$	%	\$	%	\$	%
Personal Income Tax	55.14	37.1%	145.15	38.5%	250.28	37.9%	431.67	48.7%	499.01	47.6%
Sales & Use Tax	26.52	17.9%	87.95	23.3%	173.64	26.3%	216.52	24.5%	207.63	19.8%
Rooms & Meals Tax	7.59	5.1%	28.28	7.5%	58.95	8.9%	75.16	8.5%	113.04	10.8%
Corporate Income Tax	9.92	6.7%	33.75	9.0%	45.28	6.9%	40.95	4.6%	61.15	5.8%
Other Taxes	39.19	26.4%	62.04	16.5%	95.87	14.5%	97.23	11.0%	144.31	12.6%
Lottery Revenue	0.00	0.0%	1.23	0.3%	21.20	3.2%	0.00	0.0%	0.00	0.0%
Licenses/Fees/Fines, etc.	4.89	3.3%	9.99	2.6%	10.77	1.6%	16.41	1.9%	21.45	2.0%
Other Revenue	5.21	3.5%	8.66	2.3%	3.85	0.6%	7.53	0.8%	2.73	0.3%
Total Fund Revenue	148.46	100.0%	377.05	100.0%	659.84	100.0%	885.47	100.0%	1049.33	98.8%
Nom. Compound Rate	N/A		9.8%		5.8%		6.1%		3.5%	5 YR
									4.7%	10YR

## TRANSPORTATION FUND

	FY75		FY85		FY95		FY00		FY05	
	\$	%	\$	%	\$	%	\$	%	\$	%
Motor Fuel Tax	21.70	49.4%	32.56	35.2%	46.22	29.6%	51.77	28.6%	64.66	30.8%
Diesel Tax	0.00	0.0%	4.83	5.2%	11.20	7.2%	14.95	8.2%	15.50	7.4%
MV Purchase & Use Tax	6.10	13.9%	22.82	24.7%	44.71	28.6%	57.93	32.0%	56.04	26.7%
Other Taxes	0.04	0.1%	0.64	0.7%	1.32	0.8%	1.74	1.0%	1.28	0.6%
Licenses/Fees/Fines, etc.	16.05	36.5%	31.57	34.2%	51.70	33.1%	54.93	30.3%	71.70	34.2%
Other Revenue	0.05	0.1%	0.00	0.0%	0.92	0.6%	0.00	0.0%	0.60	0.3%
Total Fund Revenue	43.94	100.0%	92.41	100.0%	156.07	100.0%	181.31	100.0%	209.77	100.0%
Nom. Compound Rate	N/A		7.7%		5.4%		3.0%		3.0%	5 YR
									3.0%	10 YR

## SPECIAL FUNDS

	FY75		FY85		FY95		FY00		FY05	
	\$	%	\$	%	\$	%	\$	%	\$	%
Motor Fuel Tax	0.0	0.0%	0.00	0.0%	0.00	0.0%	1.60	0.8%	1.67	0.6%
Other Taxes	1.6	27.3%	3.78	10.8%	13.40	11.9%	70.26	37.0%	129.26	43.9%
Licenses/Fees/Fines, etc.	1.32	21.9%	15.32	43.9%	37.07	32.8%	52.35	27.5%	71.89	24.4%
Other Revenue	3.05	50.7%	15.78	45.2%	62.53	55.3%	65.82	34.6%	91.71	31.1%
Total Fund Revenue	6.01	100.0%	34.88	100.0%	113.00	100.0%	190.03	100.0%	294.53	100.0%
Nom. Compound Rate	N/A		19.2%		12.5%		11.0%		9.2%	5 YR
									10.1%	10 YR

## FISH & WILDLIFE FUND

	FY75		FY85		FY95		FY00		FY05	
	\$	%	\$	%	\$	%	\$	%	\$	%
Motor Fuel Taxes	0.00	0.0%	0.00	0.0%	0.82	12.2%	0.95	12.0%	1.01	13.5%
Other Taxes	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
Licenses/Fees/Fines, etc.	2.20	78.2%	3.63	93.4%	5.11	75.4%	6.20	78.4%	5.79	77.3%
Other Revenue	0.61	21.8%	0.26	6.6%	0.84	12.4%	0.76	9.6%	0.69	9.2%
Total Fund Revenue	2.82	100.0%	3.88	100.0%	6.77	100.0%	7.91	100.0%	7.49	100.0%
Nom. Compound Rate	N/A		3.3%		5.7%		3.2%		-1.1%	5 YR
									1.0%	10 YR

## THE EDUCATION FUND

The Education Fund is unique to Vermont. It is the primary fund for financing K-12 education in the state. This fund was established in fiscal year 1999 with Act 60 of 1997. Amendments to the education finance structure and the specific tax revenues dedicated to this fund were made in Act 68 of 2003, effective in fiscal year 2005. Prior to Act 60, all education property taxes were levied at the local level; after Act 60 and Act 68 all education property taxes are levied by the state, although in large part the administration of the tax remains local.

All education property taxes flow to the Education Fund. Currently, the revenues of this fund also include lottery proceeds and one-third of the 6.0% total for the sales and use tax and motor vehicle purchase and use tax. This fund also receives a significant annual transfer from the General Fund. Details of Education Fund revenues are on the following page.

## OTHER FUNDS

There are several other types of funds within the state. The revenues in these funds either are not directly controlled by the state, are from non-tax-based sources such as bequests, or are internal or revolving funds sourced by the sale of state services.

- **Federal Funds** - Revenues received by the state from federal government appropriations. Federal funds are deposited in the state treasury and must be appropriated by the general assembly to be expended.
- **Enterprise Funds** - Funds that provide money for services to the general public through programs that are expected to recover their full costs, primarily through user charges. Examples include the Liquor Control, Vermont Life, and the Lottery.
- **Internal Service and Revolving Funds** - Funds internal to the operation of state government that provide a variety of services to state agencies, such as computer services, fee-for-space, postage, and printing. The funds must recover the costs of services provided through billing state agencies.
- **Fiduciary Funds** - Account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or funds. Examples include the pension trust funds for state employees and teachers.

## EDUCATION FUND

	FY75		FY85		FY95		FY00		FY05	
	\$	%	\$	%	\$	%	\$	%	\$	%
<b>Dedicated Revenue</b>										
Lottery							18.90	21.1%	20.40	13.5%
Sales & Use							14.80	16.5%	103.60	68.4%
Meals & Rooms Tax							16.80	18.8%	0.00	0.0%
Corporate Income Tax							9.60	10.7%	0.00	0.0%
Other Taxes							7.20	8.0%	0.00	0.0%
Motor Fuel Tax							10.30	11.5%	0.00	0.0%
MV Purchase & Use Tax							11.60	13.0%	28.00	18.5%
Other Revenue							0.30	0.3%	(0.50)	-0.3%
<b>Total Dedicated Revenue</b>							89.50	100.0%	151.50	100.0%
<b>Property Tax Revenue</b>										
Education Property Tax							528.51		732.40	
Vermont Yankee							1.51		1.90	
Rebate/Prebate Adj.							(72.04)		(81.20)	
<b>Net Education Property Tax</b>							457.99		653.10	
<b>General Fund Transfer</b>										
General Fund Transfer							231.1		249.3	
Supplemental Transfer							14.6		0.0	
<b>Total General Fund</b>							245.6		249.3	
<b>Total Fund Revenue</b>										
Dedicated Revenue							89.50	11.3%	151.50	14.4%
Education Property Tax							457.99	57.7%	653.10	62.0%
General Fund Transfer							245.65	31.0%	249.30	23.7%
<b>Total Fund Revenue</b>							793.14	100.0%	1053.90	100.0%
Nom. Compound Rate							N/A		5.8%	5 YR

The Education Fund was established in FY 1999 in Act 60 of 1997 and amended in Act 68 of 2003.

Prior to Act 60 and Act 68, the Education Property tax was levied at the local level.

Prior to Act 60/Act 68, General Funds were appropriated as Aid to Education

## CONCLUSION

During the decade since the 1996 Vermont Tax Study, Vermont has implemented several of its the report's recommendations. These have resulted in improved information about the state's tax system. Among the changes in the past 10 years are:

- Information technology improvements at the Tax Department have greatly improved basic data access, reliability and timeliness. This has served to enhance both the management and analysis of existing revenues and inform options for tax policy changes.
- The creation of a tax research section, staffed by an economist, in the Tax Department has increased analytical capabilities dramatically.
- The Legislature's creation of a biennial Tax Expenditure Report has begun to provide useful information on the growing area of forgone revenue.

Although the availability of data on Vermont's tax system and relevant comparative national data have improved, additional information and research is warranted in a number of areas:

- Vermont has experienced growth in the number of tax deductions, exemptions, and credits over the past decade. The Tax Expenditure Report is currently in phase two of a four-year process of identification and valuation of the various tax expenditures that may be applied against the major tax types. This effort to provide for the first time an overview and accounting of the forgone revenue due to these provisions should continue.
- Pursuant to a 2006 legislative request, the state is currently examining the possible change from a Tax Department to a Revenue Department. As part of this review, existing taxes that are dedicated to special purposes should be identified. Accounting for these tax sources as part of the total state revenue base would give a broader and more complete picture of the entire state revenue system.
- Changing demographics may affect revenue streams and could become more critical in the future. Additional analysis should be done on possible impacts in this area.
- The dedication of revenue to special funds as part of new policy initiatives has been a growing practice in recent years. A reevaluation of the organization and reporting of state funds, especially special funds, may be in order.
- A systematic analysis of the tax incidence across income groups, between households and businesses, and by industry sector, could provide important additional information to evaluate Vermont's tax system. Several states that produce regular tax incidence studies also attempt to show the changes in tax incidence over time and forecast tax incidence into the future.

Finally, the Tax Department should complete the computerization of corporate tax returns. The use of electronic filing for individual income taxes has improved the processing and information flow. The creation of a corporate tax-data-based system will benefit taxpayers and the state tax collection system as a whole. Many other states have corporate income tax data organized by the North American Industry Classification System, or NAICS code, which would allow for information on the business sectors of the economy and improve tax analysis in the years ahead. It would be useful to gather more detailed information on other major tax revenues such sales and use tax collections by sector.

# Appendices

## Appendix A

### National Conference of State Legislators “Principles of a High-quality State Revenue System”\*

1. A high-quality revenue system comprises elements that are complementary, including the finances of both state and local governments.
2. A high-quality revenue system produces revenue in a reliable manner. Reliability involves stability, certainty and sufficiency.
3. A high-quality revenue system relies on a balanced variety of revenue sources.
4. A high-quality revenue system treats individuals equitably. Minimum requirements of an equitable system are that it imposes similar tax burdens on people in similar circumstances, that it minimizes regressivity, and that it minimizes taxes on low-income individuals.
5. A high-quality revenue system facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs.
6. A high-quality revenue system promotes fair, efficient and effective administration. It is as simple as possible to administer, raises revenue efficiently, is administered professionally, and is applied uniformly.
7. A high-quality revenue system is responsive to interstate and international economic competition.
8. A high-quality revenue system minimizes its involvement in spending decisions and makes any such involvement explicit.
9. A high-quality revenue system is accountable to taxpayers.

\* National Conference of State Legislators (<http://www.ncsl.org/programs/fiscal/fpphqrs.htm>)

## **Appendix B**

### **Supplemental National Comparisons**

	2005 Per Capita Personal Income <sup>1</sup>		2005 Total State Taxes Per Capita <sup>2</sup>		2004 Total State and Local Taxes Per Capita <sup>3</sup>	
	Median	Rank	Total	Rank	Total	Rank*
Alabama	29,623	40	1,711	44	2,328	51
Alaska	35,433	15	2,787	8	3,610	15
Arizona	30,157	38	1,854	40	2,871	37
Arkansas	26,641	47	2,358	18	2,536	49
California	36,890	12	2,724	9	3,736	12
Colorado	37,459	8	1,640	47	3,169	26
Connecticut	47,519	1	3,300	4	4,921	3
Delaware	37,084	11	3,229	5	3,608	17
Florida	34,099	20	1,905	37	3,094	28
Georgia	31,191	33	1,728	42	2,877	36
Hawaii	34,468	19	3,478	2	3,813	9
Idaho	28,398	42	2,054	30	2,728	43
Illinois	36,264	13	2,069	29	3,555	18
Indiana	31,150	34	2,049	31	2,999	30
Iowa	31,795	30	1,939	33	3,054	29
Kansas	32,948	23	2,040	32	3,380	23
Kentucky	28,317	43	2,179	23	2,767	40
Louisiana	24,582	50	1,910	35	2,899	34
Maine	30,808	37	2,323	19	3,789	11
Maryland	41,996	4	2,410	14	4,016	7
Massachusetts	43,702	3	2,815	7	4,217	6
Michigan	32,735	24	2,405	15	3,313	25
Minnesota	37,322	9	3,094	6	3,811	10
Mississippi	24,925	49	1,860	39	2,444	50
Missouri	31,299	31	1,645	46	2,822	39
Montana	28,906	41	1,910	35	2,623	46
Nebraska	32,988	22	2,158	24	3,609	16
Nevada	35,780	14	2,075	28	3,417	22
New Hampshire	37,835	6	1,544	48	3,133	27
New Jersey	43,822	2	2,631	10	4,555	4
New Mexico	27,915	45	2,319	20	2,861	38
New York	40,072	5	2,607	11	5,260	2
North Carolina	31,029	35	2,147	25	2,929	32
North Dakota	31,230	32	2,203	21	2,989	31
Ohio	31,867	29	2,094	27	3,419	21
Oklahoma	29,908	39	1,933	34	2,677	44
Oregon	32,174	28	1,791	41	2,917	33
Pennsylvania	34,848	18	2,193	22	3,447	20
Rhode Island	35,219	17	2,443	12	3,891	8
South Carolina	28,212	44	1,720	43	2,662	45
South Dakota	32,642	26	1,430	50	2,615	47
Tennessee	30,952	36	1,678	45	2,536	48
Texas	32,604	27	1,434	49	2,881	35
Utah	27,497	46	1,897	38	2,735	42
Vermont	32,731	25	3,600	1	3,681	14
Virginia	37,552	7	2,104	26	3,342	24
Washington	35,234	16	2,360	17	3,452	19
West Virginia	26,029	48	2,367	16	2,740	41
Wisconsin	33,251	21	2,430	13	3,714	13
Wyoming	37,270	10	3,418	3	4,437	3
<b>Per Capita US</b>	<b>34,586</b>		<b>2,192</b>		<b>3,447</b>	<b>*DC #1</b>

	2005 State Income Tax Per Capita <sup>2</sup>	
	Total	Rank
Alabama	557	37
Alaska	0	44
Arizona	480	39
Arkansas	675	29
California	1,190	6
Colorado	808	17
Connecticut	1,434	3
Delaware	1,046	9
Florida	0	44
Georgia	807	18
Hawaii	1,084	8
Idaho	728	25
Illinois	622	34
Indiana	672	30
Iowa	760	23
Kansas	747	24
Kentucky	728	26
Louisiana	529	38
Maine	983	12
Maryland	1,011	10
Massachusetts	1,514	1
Michigan	604	35
Minnesota	1,235	5
Mississippi	402	40
Missouri	692	28
Montana	762	22
Nebraska	792	20
Nevada	0	44
New Hampshire	52	42
New Jersey	943	14
New Mexico	563	36
New York	1,459	2
North Carolina	971	13
North Dakota	180	41
Ohio	823	16
Oklahoma	696	27
Oregon	1,291	4
Pennsylvania	656	31
Rhode Island	928	15
South Carolina	636	33
South Dakota	0	44
Tennessee	26	43
Texas	0	44
Utah	780	21
Vermont	803	19
Virginia	1,104	7
Washington	0	44
West Virginia	645	32
Wisconsin	987	11
Wyoming	0	44
<b>Per Capita US</b>	<b>747</b>	

	2005 State Sales Taxes Per Capita <sup>2</sup>	
	Total	Rank
Alabama	446	43
Alaska	0	46
Arizona	877	10
Arkansas	926	8
California	829	12
Colorado	429	44
Connecticut	931	7
Delaware	0	46
Florida	1,071	3
Georgia	585	34
Hawaii	1,676	1
Idaho	790	18
Illinois	564	37
Indiana	797	17
Iowa	581	35
Kansas	725	22
Kentucky	622	31
Louisiana	633	30
Maine	707	25
Maryland	516	40
Massachusetts	608	32
Michigan	798	16
Minnesota	819	13
Mississippi	886	9
Missouri	524	39
Montana	0	46
Nebraska	862	11
Nevada	934	6
New Hampshire	0	46
New Jersey	752	20
New Mexico	807	14
New York	571	36
North Carolina	530	38
North Dakota	644	29
Ohio	715	24
Oklahoma	468	42
Oregon	0	46
Pennsylvania	649	28
Rhode Island	784	19
South Carolina	682	27
South Dakota	801	15
Tennessee	1,026	4
Texas	716	23
Utah	692	26
Vermont	499	41
Virginia	409	45
Washington	1,455	2
West Virginia	603	33
Wisconsin	730	21
Wyoming	1,026	4
<b>Per Capita US</b>	<b>717</b>	

	2004 State and Local Sales Taxes Per Capita <sup>3</sup>	
	Total	Rank
Alabama	710	32
Alaska	226	46
Arizona	1,111	6
Arkansas	1,030	9
California	957	14
Colorado	905	16
Connecticut	894	17
Delaware	0	47
Florida	1,035	8
Georgia	796	24
Hawaii	1,506	2
Idaho	743	30
Illinois	622	39
Indiana	764	27
Iowa	689	34
Kansas	908	15
Kentucky	598	40
Louisiana	1,183	5
Maine	698	33
Maryland	487	44
Massachusetts	584	41
Michigan	781	26
Minnesota	810	21
Mississippi	856	18
Missouri	807	23
Montana	0	47
Nebraska	1,007	12
Nevada	1,058	7
New Hampshire	0	47
New Jersey	721	31
New Mexico	1,028	10
New York	1,005	13
North Carolina	688	35
North Dakota	677	36
Ohio	809	22
Oklahoma	790	25
Oregon	0	47
Pennsylvania	642	38
Rhode Island	745	29
South Carolina	677	37
South Dakota	1,021	11
Tennessee	1,201	3
Texas	852	19
Utah	824	20
Vermont	417	45
Virginia	518	43
Washington	1,577	1
West Virginia	563	42
Wisconsin	752	28
Wyoming	1,197	4
<b>Per Capita US</b>	<b>836</b>	

	2005 State Corporate Income Tax Per Capita <sup>2</sup>	
	Total	Rank
Alabama	87	36
Alaska	887	1
Arizona	118	20
Arkansas	100	31
California	240	6
Colorado	68	41
Connecticut	164	11
Delaware	295	3
Florida	100	29
Georgia	79	38
Hawaii	97	33
Idaho	98	32
Illinois	171	10
Indiana	132	18
Iowa	63	43
Kansas	90	35
Kentucky	115	23
Louisiana	78	39
Maine	103	28
Maryland	144	14
Massachusetts	208	7
Michigan	188	8
Minnesota	182	9
Mississippi	97	34
Missouri	38	46
Montana	105	27
Nebraska	113	24
Nevada	0	47
New Hampshire	364	2
New Jersey	255	4
New Mexico	126	19
New York	145	13
North Carolina	146	12
North Dakota	119	21
Ohio	116	22
Oklahoma	48	45
Oregon	100	30
Pennsylvania	137	16
Rhode Island	105	26
South Carolina	58	44
South Dakota	63	42
Tennessee	135	17
Texas	0	47
Utah	76	40
Vermont	111	25
Virginia	80	37
Washington	0	47
West Virginia	255	5
Wisconsin	141	15
Wyoming	0	47
<i>Per Capita US</i>	130	

	2005 State Tobacco Products Tax Per Capita <sup>2</sup>	
	Total	Rank
	34	33
	85	6
	49	26
	53	21
	30	36
	28	37
	78	8
	95	4
	26	40
	27	38
	67	13
	36	30
	51	22
	55	19
	32	35
	45	27
	9	48
	23	43
	70	11
	49	25
	66	14
	117	2
	34	32
	19	45
	19	46
	65	15
	41	28
	57	17
	78	9
	92	5
	25	41
	51	23
	5	50
	33	34
	51	24
	36	31
	67	12
	83	7
	127	1
	7	49
	37	29
	20	44
	26	39
	25	42
	78	10
	14	47
	56	18
	57	16
	110	3
	54	20
	45	

	2005 State Alcoholic Beverages Tax Per Capita <sup>2</sup>	
	Total	Rank
	32	7
	52	1
	10	34
	16	21
	9	40
	7	42
	13	27
	16	19
	35	2
	17	17
	34	3
	5	46
	12	30
	6	43
	5	48
	33	5
	20	15
	12	29
	10	35
	5	44
	11	32
	15	23
	14	26
	14	24
	5	44
	23	11
	14	24
	15	22
	9	38
	11	31
	20	14
	10	36
	25	10
	9	37
	8	41
	20	13
	4	49
	19	16
	10	33
	33	4
	16	20
	16	18
	27	9
	12	28
	29	8
	20	12
	32	6
	5	47
	9	39
	2	50
	16	

	2005 Per Capita State Insurance Premiums	
	Total	Rank
Alabama	60	20
Alaska	80	6
Arizona	67	10
Arkansas	45	37
California	62	14
Colorado	41	41
Connecticut	68	9
Delaware	82	4
Florida	43	40
Georgia	37	44
Hawaii	68	8
Idaho	61	17
Illinois	29	47
Indiana	30	46
Iowa	44	39
Kansas	44	38
Kentucky	86	2
Louisiana	80	5
Maine	61	15
Maryland	48	36
Massachusetts	63	12
Michigan	25	49
Minnesota	61	18
Mississippi	56	22
Missouri	50	30
Montana	65	11
Nebraska	22	50
Nevada	89	1
New Hampshire	61	16
New Jersey	52	24
New Mexico	50	31
New York	51	25
North Carolina	51	27
North Dakota	48	35
Ohio	38	43
Oklahoma	49	33
Oregon	15	51
Pennsylvania	54	23
Rhode Island	50	29
South Carolina	30	45
South Dakota	74	7
Tennessee	60	19
Texas	51	26
Utah	48	34
Vermont	<b>84</b>	<b>3</b>
Virginia	49	32
Washington	57	21
West Virginia	62	13
Wisconsin	26	48
Wyoming	39	42
<i>Per Capita US</i>	50	

	2005 State Property Taxes Per Capita <sup>2</sup>	
	Total	Rank
	51	15
	65	11
	63	12
	200	6
	60	14
	0	N/A
	0	N/A
	0	N/A
	17	20
	7	23
	0	N/A
	0	N/A
	4	26
	1	34
	0	N/A
	22	17
	114	9
	10	22
	33	16
	94	10
	0	37
	213	5
	121	8
	15	21
	4	27
	198	7
	1	35
	62	13
	299	3
	0	36
	21	18
	0	N/A
	0	N/A
	2	30
	3	28
	0	N/A
	7	24
	5	25
	1	33
	2	31
	0	N/A
	0	N/A
	0	N/A
	0	N/A
	1,195	1
	2	29
	253	4
	2	32
	20	19
	355	2
	38	

	2004 State and Local Property Taxes Per Capita <sup>3</sup>	
	Total	Rank
	367	50
	1,306	12
	848	35
	400	49
	963	29
	1,026	23
	1,944	2
	546	43
	1,064	19
	880	34
	571	42
	777	36
	1,407	9
	975	26
	1,080	18
	1,187	14
	516	45
	502	46
	1,596	6
	1,082	17
	1,532	7
	1,186	15
	965	27
	641	40
	747	37
	1,034	20
	1,148	16
	920	30
	1,940	3
	2,099	1
	441	48
	1,677	4
	713	38
	919	31
	981	25
	465	47
	963	28
	1,010	24
	1,629	5
	882	33
	915	32
	608	41
	1,254	13
	689	39
	1,531	8
	1,031	21
	1,029	22
	540	44
	1,350	11
	1,352	10
	1,086	

	2005 Other State Taxes <sup>2</sup>		2004 Other State & Local Taxes <sup>3</sup>	
	Total	Rank	Total	Rank
Alabama	46	29	225	31
Alaska	1,396	2	1,244	3
Arizona	10	44	136	47
Arkansas	26	38	105	50
California	6	49	303	19
Colorado	36	32	177	42
Connecticut	134	12	234	30
Delaware	158	9	1,326	2
Florida	249	5	370	10
Georgia	8	47	119	48
Hawaii	29	36	205	37
Idaho	10	45	203	38
Illinois	32	33	272	23
Indiana	23	40	118	49
Iowa	31	34	243	27
Kansas	62	25	178	41
Kentucky	71	24	241	29
Louisiana	164	8	252	25
Maine	50	27	209	34
Maryland	86	20	360	12
Massachusetts	82	21	207	35
Michigan	48	28	221	32
Minnesota	76	23	312	17
Mississippi	27	37	160	44
Missouri	8	48	173	43
Montana	108	15	387	9
Nebraska	15	43	319	15
Nevada	91	19	538	4
New Hampshire	134	11	318	16
New Jersey	117	13	259	24
New Mexico	374	4	437	7
New York	97	18	290	21
North Carolina	25	39	190	40
North Dakota	415	3	488	5
Ohio	6	50	206	36
Oklahoma	246	6	484	6
Oregon	22	41	365	11
Pennsylvania	102	17	427	8
Rhode Island	43	30	151	45
South Carolina	20	42	197	39
South Dakota	10	46	250	26
Tennessee	52	26	285	22
Texas	107	16	307	18
Utah	31	35	142	46
Vermont	77	22	242	28
Virginia	111	14	293	20
Washington	140	10	329	13
West Virginia	178	7	325	14
Wisconsin	37	31	211	33
Wyoming	1,589	1	1,635	1
<b>Per Capita US</b>	<b>80</b>		<b>312</b>	

<sup>1</sup>[http://bea.gov/bea/newsrel/spi\\_highlights.pdf](http://bea.gov/bea/newsrel/spi_highlights.pdf)

<sup>2</sup><http://www.census.gov/govs/www/statetax05.html>

<sup>3</sup><http://www.census.gov/govs/www/estimate04.html>

State and Local Tax Collections Per \$1,000 of Personal Income  
Fiscal Years 2000 - 2004

State	Amount			Rank		
	2000	2002	2004	2000	2002	2004
New York	\$141.18	\$130.79	\$146.76	1	1	1
Wyoming	117.74	121.97	138.58	14	3	2
Maine	138.64	130.16	133.65	2	2	3
Hawaii	126.45	120.62	126.25	6	4	4
<b>Vermont</b>	<b>121.53</b>	<b>110.60</b>	<b>122.50</b>	<b>8</b>	<b>12</b>	<b>5</b>
Wisconsin	129.44	117.26	121.83	4	5	6
Rhode Island	118.11	113.63	120.35	13	6	7
Nebraska	109.44	107.71	118.04	29	14	8
New Mexico	126.74	111.45	116.38	5	9	9
Connecticut	120.23	103.56	115.71	10	27	10
New Jersey	113.46	104.20	115.55	19	21	11
Ohio	112.90	110.96	114.34	20	11	12
Kansas	108.72	103.66	114.23	31	26	13
California	120.39	106.01	113.06	9	17	14
Louisiana	109.57	111.26	112.44	28	10	15
Minnesota	123.87	113.14	112.02	7	7	16
West Virginia	116.33	111.68	111.93	15	8	17
Nevada	104.59	101.20	111.33	41	30	18
Alaska	132.18	102.76	110.93	3	28	19
Idaho	115.43	99.84	109.82	17	36	20
Utah	119.50	108.39	109.81	11	13	21
Pennsylvania	106.56	100.91	108.75	36	31	22
Arizona	111.73	104.47	108.64	21	19	23
Delaware	115.69	107.24	108.41	16	15	24
Maryland	110.01	104.42	108.25	27	20	25
Iowa	111.09	103.85	107.30	23	24	26
Kentucky	111.62	106.22	107.27	22	16	27
North Carolina	106.60	100.17	106.60	35	35	28
Washington	107.53	100.90	106.27	32	32	29
Illinois	107.50	101.31	105.83	33	29	30
Massachusetts	110.36	95.87	105.77	26	40	31
Mississippi	110.75	103.92	105.74	24	23	32
Michigan	114.17	103.83	105.18	18	25	33
Arkansas	106.50	104.00	105.14	37	22	34
Florida	100.06	93.74	105.06	44	44	35
Indiana	105.64	100.39	104.37	38	33	36
North Dakota	119.48	105.19	104.17	12	18	37
South Carolina	104.82	95.82	103.77	40	41	38
Georgia	109.07	100.36	102.32	30	34	39
Oklahoma	106.67	99.53	101.35	34	37	40
Montana	110.53	98.05	101.19	25	38	41
Oregon	105.60	90.93	100.82	39	46	42
Virginia	102.80	95.18	99.56	43	43	43
Texas	96.87	95.49	99.46	46	42	44
Missouri	99.45	96.06	97.31	45	39	45
Colorado	103.53	92.30	92.86	42	45	46
New Hampshire	88.18	84.65	91.61	50	49	47
South Dakota	94.56	90.37	90.60	47	47	48
Tennessee	89.17	83.89	89.97	49	50	49
Alabama	93.65	87.58	88.89	48	48	50
U.S. Average	\$112.28	\$103.98	\$110.33			

\* local data for fiscal years 2001 and 2003 not compiled by the U.S. Census Bureau.

<http://dor.wa.gov/content/statistics/2006/Compare06/default.aspx>



## **Appendix C**

### **Supplemental Tax Rate and Other Data**

**States with an Estate or Inheritance Tax\***

<b>State</b>	<b>Type of Tax [1]</b>
Connecticut	Estate
Illinois	Estate
Indiana	Inheritance
Iowa	Inheritance
Kansas	Estate
Kentucky	Inheritance
Maine	Estate
Maryland	Estate plus Inheritance
Massachusetts	Estate
Minnesota	Estate
Nebraska	Estate plus Inheritance
New Jersey	Estate plus Inheritance
New York	Estate
North Carolina	Estate
Ohio	Estate
Oklahoma	Estate
Oregon	Estate
Pennsylvania	Inheritance
Rhode Island	Estate
Tennessee	Inheritance
Vermont	Estate
Virginia	Estate
Washington	Estate
Wisconsin	Estate

[1] An estate tax is collected from the assets of the estate before it is transferred to the heirs. An inheritance tax is the tax on the amount of the estate paid by the heirs.

\*12 comparison states are highlighted.

([http://www.urban.org/UploadedPDF/1001019\\_Tax\\_Fact\\_08-28-06.pdf](http://www.urban.org/UploadedPDF/1001019_Tax_Fact_08-28-06.pdf))

Comparison of State and Local Sales Tax Rates							
State	State Rate	Maximum Local Rate	Maximum State/Local Rate	State	State Rate	Maximum Local Rate	Maximum State/Local Rate
Alabama	4	7	11	Missouri	4.225	4.5	8.725
Alaska	---	7	7	Nebraska	5.5	1.5	7
Arizona	5.6	4.5	10.1	Nevada	6.5	1	7.5
Arkansas	6	5.5	11.5	New Jersey	6	---	6
California	6.25	2.65	8.9	New Mexico	5	2.25	7.25
Colorado	2.9	7	9.9	New York	4	5.5	9.5
Connecticut	6	---	6	North Carolina	4.5	3	7.5
D.C.	5.75	---	5.75	North Dakota	5	2.5	7.5
Florida	6	1.5	7.5	Ohio	6	2	8
Georgia	4	3	7	Oklahoma	4.5	6	10.5
Hawaii	4	---	4	Pennsylvania	6	1	7
Idaho	6	3	9	Rhode Island	7	---	7
Illinois	6.25	3	9.25	South Carolina	5	2	7
Indiana	6	---	6	South Dakota	4	2	6
Iowa	5	2	7	Tennessee	7	2.75	9.75
Kansas	5.3	3	8.3	Texas	6.25	2	8.25
Kentucky	6	---	6	Utah	4.75	2.25	7
Louisiana	4	6.25	10.25	Vermont	6	1	7
Maine	5	---	5	Virginia	4	1	5
Maryland	5	---	5	Washington	6.5	2.4	8.9
Massachusetts	5	---	5	West Virginia	6	---	6
Michigan	6	---	6	Wisconsin	5	0.6	5.6
Minnesota	6.5	1	7.5	Wyoming	4	2	6
Mississippi	7	0.25	7.25				

Source: Compiled by the Washington Department of Revenue from various sources.  
[http://www.taxadmin.org/fta/rate/sl\\_sales.html](http://www.taxadmin.org/fta/rate/sl_sales.html)

Combined Average State & Local Sales Tax Rates [1]			
Delaware	N/A	Utah	6.45%
Montana	N/A	Iowa	6.60%
New Hampshire	N/A	New Mexico	6.60%
Oregon	N/A	Florida	6.70%
Alaska	1.15%	Minnesota	6.70%
Hawaii	4.00%	Ohio	6.70%
Maine	5.00%	North Carolina	6.80%
Maryland	5.00%	Georgia	6.90%
Massachusetts	5.00%	Missouri	6.95%
Virginia	5.00%	New Jersey	6.95%
South Dakota	5.30%	Kansas	7.00%
Wyoming	5.35%	Mississippi	7.00%
Wisconsin	5.40%	Rhode Island	7.00%
North Dakota	5.50%	Nevada	7.50%
Dist. of Columbia	5.75%	Illinois	7.60%
South Carolina	5.80%	Arizona	7.80%
Connecticut	6.00%	California	7.95%
Indiana	6.00%	Texas	7.95%
Kentucky	6.00%	Alabama	8.00%
Michigan	6.00%	Arkansas	8.00%
West Virginia	6.00%	Oklahoma	8.15%
Idaho	6.05%	New York	8.25%
<b>Vermont</b>	<b>6.05%</b>	Washington	8.45%
Colorado	6.15%	Louisiana	8.65%
Pennsylvania	6.25%	Tennessee	9.40%
Nebraska	6.30%		

[1] Arranged lowest to highest.

Source: The Sales Tax Clearing House (<https://thestc.com/STRates.stm>)

**Motor Vehicle Taxes, New Vehicle, 2005 MSRP = \$28,400<sup>[1]</sup>**

<b>State</b>	<b>Sales Tax <sup>[2]</sup></b>	<b>Rank</b>	<b>Five-Year Property Tax<sup>[3]</sup></b>	<b>Total Taxes</b>	<b>Rank</b>
CT <sup>1</sup>	1,704	5	1,239	2,943	5
FL	2,130	3	2,130	4,260	2
ME	1,420	8	1,864	3,284	4
MA	1,420	8	3,195	4,615	1
MN	2,130	3	1,615	3,745	3
NH	-	11	1,292	1,292	11
NY	2,272	2	-	2,272	7
NC <sup>[4]</sup>	852	10	708	1,560	10
OR	-	11	-	-	12
<b>VT</b>	<b>1,704</b>	<b>5</b>	-	<b>1,704</b>	<b>8</b>
WA	2,528	1	-	2,528	6
WI	1,590	7	-	1,590	9

[1] The average price of a new car sold in the United States is \$28,400 according to the National Automobile Dealers Association.

[2] The sales tax includes state and local sales taxes combined.

[3] The five-year loan is the average length for a new car purchase ([www.automotivedigest.com](http://www.automotivedigest.com)).

[4] CT and NC excise taxes are based on depreciated 30% in year one and 10% each year thereafter.

### Real Estate Transfer Taxes

State	Tax Description	Transfer Fee Rate
Alabama	Deeds: \$0.50 per \$500 Mortgages: \$0.15 per \$100	0.10% 0.15%
Alaska	None	
Arizona	\$2 fee per deed or contract	Flat fee
Arkansas	\$3.30 per \$1,000	0.33%
California	Local option transfer tax: \$0.55 per \$500	0.11%
Colorado	Transfer tax: \$0.01 per \$100	0.01%
Connecticut	Transfer tax rates: 0.61% to 1.11%; nonresidential is 1.0% and residential has two tiers of either 0.5% or 1.0% based on value.	0.5% up to \$800,000; and 1.0% of value over \$800,000, plus .11% municipal tax.
Delaware	Transfer tax: state-local combinations from 1.5% to 2%	1.5% to 2%
District of Columbia	Transfer tax: 1.1% Mortgage Tax: up to \$250,000	1.10% 1.10%
Florida	Conveyance of realty: \$0.70 per \$100 (0.6% if county surtax) Mortgage tax: \$0.35 per 100	0.7% 0.35%
Georgia	\$0.10 per \$100	0.10%
Hawaii	Transfer tax: \$0.10 to \$0.30 per \$100; \$0.15 to \$0.35 per \$100 without homeowner exemption. Mortgage fee 0.1%.	0.1% to 0.3% 0.15% to 0.35% 0.10%
Idaho	None	
Illinois	County: \$0.25 per \$500 State: \$0.50 per \$500	0.05% 0.10%
Indiana	None	
Iowa	\$0.80 per \$500	0.16%
Kansas	Mortgage fee: \$0.26 per \$100	0.26%
Kentucky	Transfer tax: \$0.50 per \$500	0.10%
Louisiana	None	
Maine	Transfer tax: \$2.20 per \$500	0.44%
Maryland	Mortgage tax (local): \$2.20-\$4.00 per \$500 Transfer tax: 0.5% or (0.25% for first-time buyers)	0.44% to 0.80% 0.50%
Massachusetts	Transfer tax: \$4.56 per \$1000 (0.4% plus 14% surtax); also \$10 to \$20 document fee	0.46%
Michigan	State: \$3.75 per \$500 County: \$0.55 per \$500 or \$0.75 per \$500 depending on plus per 2 million population	0.75% 0.11% to 0.15%
Minnesota	Deed tax: \$1.65 per \$500 Mortgage registry tax: \$0.23 per \$100	0.33% 0.23%
Mississippi	None	
Missouri	None	
Montana	None	
Nebraska	Transfer tax: \$1.75 per \$1,000	0.18%
Nevada	\$0.65 per \$500 up to 400,000 county population \$1.25 per \$500 more than 400,000 county population (and local option mid-size county 0.1%)	0.13% 0.25%

New Hampshire	Transfer tax: \$0.75 per \$100, paid by buyer and by seller	1.50%
New Jersey	Transfer tax varies based on price and tax status (seniors, disability) Homes over \$1 million add 1.0% surtax .1% local rate	0.4% 1.21% rates based on value 1%
New Mexico	None	
New York	Realty transfer, state: \$2 per \$500 up to \$1 million; 1.0% additional over \$1 million Mortgage recording tax, state: \$1.00 per \$100 Mortgage, New York City: \$1.00 to \$1.12 per \$100 Realty transfer, New York City: 1.0% to 1.425% based on plus per: \$550,000 home value	0.4% or 1.4% over \$1 million  1.00% 1% to 1.12% 1% to 1.425%
North Carolina	Transfer tax: \$1 per \$500	0.20%
North Dakota	None	
Ohio	Transfer tax: \$0.10 per \$100 plus local option \$0.30 per \$100	0.4% (0.1% plus 0.3% local)
Oklahoma	Deed stamp tax: \$0.75 per \$500 Mortgage registration tax: \$0.02 to \$0.10 per \$100 based on term of mortgage	0.15% 0.02% to 0.1%
Oregon	None	
Pennsylvania	Documentary stamp tax: 1.0% Philadelphia 3% and Pittsburgh 1.5% to 2% County rates widely vary	1%
Rhode Island	Realty conveyance tax: \$2.00 per \$500	0.40%
South Carolina	Deed recording fee: \$1.85 per \$500 (\$1.30 state, \$0.55 county)	0.37%
South Dakota	\$0.50 per \$500	0.10%
Tennessee	\$0.37 per \$100 Mortgage tax: \$0.115 per \$100	0.37% 0.12%
Texas	None	
Utah	None	
Vermont	Property transfer tax: 1.25% unless property is owner-occupied, in which case tax is 0.5% on the first \$100,000 of value and 1.25% over \$100,000. Exemptions for qualified farms & VHFA.	1.25%
Virginia	Transfer tax: \$0.50 per \$500 Mortgage tax: \$0.15 per \$100 up to \$10 million value, more thereafter. Local option for 1 per 3 more of state recordation tax.	0.10% 0.15%
Washington	Real property sale excise tax: 1.28% of sales price, plus local option tax currently ranging from 0.25% to 0.75%.	1.28% 1.53% to 2.03% combined with local option
West Virginia	Transfer tax: \$1.65 per \$500 (\$1.10 state, \$0.55 county); local option \$0.55 more.	0.33%
Wisconsin	Transfer tax: \$0.30 per \$100	0.30%
Wyoming	None	

Sources: NCSL and Commerce Clearing House State Tax Guide May 2005. Compiled by National Conference of State Legislatures Fiscal Affairs Program. (<http://www.ncsl.org/programs/fiscal/realxfertax.htm>)

**State Corporate Marginal Income Tax Rates, 2005**

State	Taxable Income	Marginal Rate (%)	Special Features
Alabama	All Brackets	6.5	Qualified taxpayers may elect an alternative tax of 0.25% of gross sales in Alabama during the tax year. S corporations pay a 5% tax on net recognized built-in gains and excess net passive income.
Alaska	\$0-\$9,999 \$10,000-\$19,999 \$20,000-\$29,999 \$30,000-\$39,999 \$40,000-\$49,999 \$50,000-\$59,999 \$60,000-\$69,999 \$70,000-\$79,999 \$80,000-\$89,999 \$90,000+	1.0 2.0 3.0 4.0 5.0 6.0 7.0 8.0 9.0 9.4	The alternative minimum tax rate on capital gains is 4.5%. The alternative minimum tax on tax preference items is 18% of the applicable alternative minimum federal tax. The personal holding company tax rate is 12.6% of apportioned income. The accumulated earnings tax rate is 4.95% of the first \$100,000 and 6.93% of the excess.
Arizona	All Brackets	6.968	Minimum tax of \$50
Arkansas	\$0-\$3,000 \$3,001-\$6,000 \$6,001-\$11,000 \$11,001-\$25,000 \$25,001-\$100,000 \$100,001+	1.0 2.0 3.0 5.0 6.0 6.5	
California	All Brackets	8.84	Minimum tax of \$800. Banks and financial corporations, except financial S corporations, are subject to a 10.84% tax rate (the general corporation rate plus 2%). A 3.5% tax rate applies to financial S corporations and a 1.5% rate applies to all other S corporations. A 6.65% alternative minimum tax is imposed.
Colorado	All Brackets	4.63	Qualified taxpayers may pay an alternative tax of 0.5% of gross receipts from sales in or into Colorado.
Connecticut	All Brackets	7.5	The tax is the greater of 7.5% or 3 1/10 mills per dollar of capital holding or the minimum tax of \$250. Financial institutions pay a tax equal to the greater of 7.5% or 4% of the interest of dividends credited to depositors' or account holders' savings accounts. Pass-through entities are subject to an annual tax of \$250. A 25% surtax applies to corporations with tax liability greater than \$250. Corporations filing combined returns are subject to an additional tax of up to \$250,000.

State	Taxable Income	Marginal Rate (%)	Special Features
Delaware	All Brackets	8.7	Headquarters management corporations pay a minimum tax of \$5,000 or a tax of 8.7% on taxable income, whichever is greater. Banking organizations are taxed at a rate of 8.7% for the first \$20 million, 6.7% for the next \$5 million, 4.7% for the next \$5 million, 2.7% for the next \$620 million, and 1.7% for amounts in excess of \$650 million.
District of Columbia	All Brackets	9.975	Minimum tax of \$100. \$5,500 ball park fee imposed on gross receipts of \$5 million to \$8 million, \$10,800 on gross receipts of \$8,000,001 to \$12 million, \$14,000 on gross receipts of \$12,000,001 to \$16 million, and \$16,500 on gross receipts of \$16,000,001 or more.
Florida	All Brackets	5.5	Taxpayers who pay the federal Alternative Minimum Tax (AMT) are liable for the greater of the Florida corporate income tax or the 3.3% Florida AMT. An emergency excise tax applies to certain taxpayers that claimed the ACRs depreciation deduction during tax years 1980 through 1986.
Georgia	All Brackets	6.0	
Hawaii	\$0-\$25,000 \$25,001-\$100,000 \$100,001+	4.4 5.4 6.4	Qualified taxpayers with Hawaii sales of \$100,000 or less may pay an alternative tax of 0.5% of Hawaii gross annual sales. Tax on banks and other financial corporations is imposed at the rate of 7.92% of net income. An alternative tax on capital gains is imposed at the rate of 4%.
Idaho	All Brackets	7.6	Minimum tax of \$20. Additional \$10 tax on each corporation filing a return and having gross income during the tax year. Qualified taxpayers may pay an alternative tax of 1.0% of dollar volume from Idaho sales.
Illinois	All Brackets	4.8	An additional 2.5% personal property replacement tax imposed for corporations other than S corporations; 1.5% tax for S corporations, partnerships, and trusts.
Indiana	All Brackets	8.5	5% on adjusted gross income derived from sources within a qualified area that contain an inactive or closed military base.
Iowa	\$0-\$25,000 \$25,001-\$100,000 \$100,001-\$250,000 \$250,001+	6.0 8.0 10.0 12.0	Financial institutions are subject to a 5% franchise tax. An alternative minimum tax is imposed at the rate of 60% of the highest corporate income tax rate, rounded to the nearest 0.1%.

State	Taxable Income	Marginal Rate (%)	Special Features
Kansas	All Brackets	4.0	A 3.35% surtax is imposed on taxable income in excess of \$50,000. Qualified corporations may pay the alternative gross receipts tax allowed as an option by the Multistate Tax Compact; no tax rate has been set. Certain financial institutions pay a privilege tax at the rate of 2.25% of net income plus a surtax of 2.125% (2.25% for trust companies and savings and loan associations with net income in excess of \$25,000).
Kentucky	\$0-\$50,000 \$50,001-\$100,000 \$100,001+	4.0 5.0 7.0	Minimum tax of \$175. An alternative minimum tax equal to the lesser of 9.5 cents per \$100 of gross receipts measured by total sales in Kentucky divided by total sales everywhere or 75 cents per \$100 of the taxpayer's Kentucky gross profits (defined as Kentucky gross receipts reduced by returns and allowances, less the cost of goods sold) is imposed.
Louisiana	\$0-\$25,000 \$25,001-\$50,000 \$50,001-\$100,000 \$100,001-\$200,000 \$200,001+	4.0 5.0 6.0 7.0 8.0	
Maine	\$0-\$25,000 \$25,001-\$75,000 \$75,001-\$250,000 \$250,001+	3.50 7.93 8.33 8.93	An alternative minimum tax equal to 5.4% of the alternative minimum taxable income is imposed. The state franchise tax on financial institutions is the sum of 1.0% of the Maine net income of the financial institution for the taxable year, plus 8 cents per \$1,000 of the institution's assets as of the end of its taxable year.
Maryland	All Brackets	7.0	
Massachusetts	All Brackets	N/A	Corporations pay an excise equal to the greater of the following: (1) \$2.60 (includes surtax) per \$1,000 of value of Massachusetts tangible property not taxed locally or net worth allocated to Massachusetts, plus 9.5% (includes surtax) of net income; or (2) \$456 (includes surtax). Special rates apply to security corporations, qualified subchapter S subsidiaries, financial institutions, utilities, and vessels.
Michigan	All Brackets	1.9	Insurance companies subject to the single business tax pay a surcharge that is the product of 1.26 and the taxpayer's tax liability before the application of any credits.
Minnesota	All Brackets	9.8	An alternative minimum tax equal to the excess of 5.8% of Minnesota alternative minimum taxable income over the basic tax is imposed. Corporations are subject to an additional minimum tax ranging from \$0 to \$5,000 depending on the Minnesota property, payrolls, and sales or receipts, and the type of corporation or partnership.

State	Taxable Income	Marginal Rate (%)	Special Features
Mississippi	\$0-\$5,000 \$5,001-\$10,000 \$10,001+	3.0 4.0 5.0	
Missouri	All Brackets	6.25	Financial institutions are taxed at a rate equal to the sum of 0.05% of the par value of the institution's outstanding shares and surplus employed in Missouri and 7% of the institution's net income for the income period minus the tax computed on their shares and surplus and the credits allowable for other state and local taxes.
Montana	All Brackets	6.75	Minimum tax of \$50. Taxpayers making a water's-edge election are taxed at 7%. Qualified corporations may elect to pay an alternative tax of 1/2% of gross sales in Montana during the tax year.
Nebraska	\$0-\$50,000 \$50,001+	5.58 7.81	
Nevada	<b>NO STATE CORPORATE INCOME TAX</b>		.
New Hampshire	All Brackets	8.5	8.5% tax on taxable business profits is imposed if gross income is over \$50,000. For gross income over \$150,000 or a base over \$75,000, the business enterprise tax also applies at a rate of 0.75% of the business enterprise value base.
New Jersey	Entire net income of \$0-\$50,000 Entire net income of \$50,001-\$100,000 All other corporations	6.5 7.5 9.0	Minimum tax of \$500. The alternative minimum assessment is based on either a percentage of gross profits or a percentage of gross receipts. The gross profits alternative minimum assessment ranges from 0.0025 on gross profits between \$1 million and \$10 million (multiplied by 1.1111) to 0.008 for taxpayers with gross profits in excess of \$37.5 million. For taxpayers that elect the gross receipts alternative minimum assessment method, the rate ranges from \$.00125 for taxpayers with gross receipts in excess of \$2 million but less than \$20 million (multiplied by 1.1111) to 0.004 for taxpayers with gross receipts in excess of \$75 million.
New Mexico	\$0-\$500,000 \$500,001-\$1,000,000 \$1,000,001+	4.8 6.4 7.6	Qualified taxpayers may pay an alternative tax of 0.75% of gross receipts from New Mexico sales.

State	Taxable Income	Marginal Rate (%)	Special Features
New York	All Brackets	N/A	Corporations are subject to a tax on the greatest of 7.5% of entire net income with adjustments or 2.5% of minimal taxable income base allocated to New York or 1.78 mills per dollar of allocated capital (up to \$350,000) or a minimum tax between \$100 and \$10,000, depending on payroll size. Additional 9/10 mill per dollar of allocated subsidiary capital is imposed. Special rates apply to S corporations and small business taxpayers.
North Carolina	All Brackets	6.9	
North Dakota	\$0-\$3,000 \$3,001-\$8,000 \$8,001-\$20,000 \$20,001-\$30,000 \$30,000+	2.6 4.1 5.6 6.4 7.0	Corporations making a water's-edge election must pay an additional 3.5% tax. Financial institutions are subject to a financial institutions tax of 7% of taxable income with a minimum amount of \$50 in lieu of the corporate income tax. Taxpayers with North Dakota sales of \$100,000 or less may be eligible to pay the alternative gross receipts tax allowed as an option by the Multistate Tax Compact at the following rates: 0.6% of the first \$20,000 of North Dakota sales, 0.8% of North Dakota sales above \$20,000 and not exceeding \$55,000, and 1.0% of all North Dakota sales above \$55,000.
Ohio	\$0-\$50,000 \$50,001+	5.1 8.5	The franchise tax is 80% of the greater of (1) 5.1% on first \$50,000 of net income and 8.5% on net income in excess of \$50,000 or (2) 4 mills times net worth up to \$150,000 maximum. Commercial activity tax (CAT) is \$150 on gross receipts greater than \$150,000 up to \$1 million. For gross receipts exceeding \$1 million, CAT is \$150 plus 0.26% multiplied by (1) 23% for the measurement period from January 1 through March 31 and (2) 40% for the measurement period from April 1 through December 31. Minimum franchise tax is \$50 or \$1,000 for corporations that have either (1) \$5 million or more in worldwide gross receipts for the taxable year or (2) 300 or more employees worldwide at any time during the taxable year.
Oklahoma	All Brackets	6.0	
Oregon	All Brackets	6.6	Minimum tax of \$10. Qualified taxpayers may elect to pay an alternative tax of 0.25% of the dollar volume of sales in Oregon (0.0125% of the dollar volume of sales if the return on sales for the business is less than 5%).
Pennsylvania	All Brackets	9.99	

State	Taxable Income	Marginal Rate (%)	Special Features
Rhode Island	All Brackets	9.0	Minimum tax of \$500. The franchise tax, which is imposed to the extent that it exceeds the business corporation tax, is generally assessed at the rate of \$2.50 for each \$10,000 of authorized capital stock or fractional part thereof, or the sum of \$500, whichever is greater. The annual tax on federally registered personal holding companies, RICs, and REITs is equal to the greater of \$100 or 10 cents on each \$100 of gross income. Special rates apply to public utilities.
South Carolina	All Brackets	5.0	Banks are taxed at a rate of 4.5%. Associations are taxed at 6% on most net income after the first three years of operation.
South Dakota	<b>NO STATE CORPORATE INCOME TAX</b>		.
Tennessee	All Brackets	6.5	Corporations are also subject to the tax on dividends and interest and a franchise tax.
Texas	All Brackets	4.5	The tax is equal to the greater of 0.25% of net taxable capital or 4.5% of net taxable earned surplus.
Utah	All Brackets	5.0	Minimum tax of \$100. Nonprofit utilities are subject to an in lieu gross receipts tax.
Vermont	\$0-\$10,000 \$10,001-\$25,000 \$25,001-\$250,000 \$250,001+	7.0 8.1 9.2 9.75	Minimum tax of \$250 (\$75 for small farm corporations).
Virginia	All Brackets	6.0	Telecommunication companies are subject to a minimum tax equal to 0.5% of a companies gross receipts for the calendar year, in lieu of the 6% corporate income tax rate, if the corporate income tax liability is less than the minimum tax liability.
Washington	<b>NO STATE CORPORATE INCOME TAX</b>		.
West Virginia	All Brackets	9.0	
Wisconsin	All Brackets	7.9	Corporations with at least \$4 million in gross receipts for the taxable year must also pay recycling surcharge based on income tax liability without regard to tax credits.
Wyoming	<b>NO STATE CORPORATE INCOME TAX</b>		.

Source: CCH Tax Research NetWork

**Insurance Premiums Tax Rates, 12 Comparison States**

<b>Type of Insurance</b>	<b>CT</b>	<b>FL</b>	<b>ME</b>	<b>MA</b>	<b>MN</b>	<b>NH</b>
Accident/Health	1.75%	1.75%	2%	2%	2%	1%
Life	1.75%	1.75%	2%	2%	2%	1%
Annuity	N/A	1% w/ exceptions	2%	N/A	N/A	N/A
Property/ Casualty	1.75%	1.75%	2%	2%	2%	1%
Fire	1.75%	1.75%	2% + 1.4%	2.28% + additional .25% on gross premiums	2% + 0.5%	1%
Risk/Retention	4%	1.75% Domestic 5% Foreign	2%	2%	2%	1%
BlueCross/Blue Shield	1.75%	1.75%	N/A	Excise Tax 1.0% of Subscription Dues	1%	1%
Prepaid Lines	2% nonprofit legal	1.75%	N/A	N/A	N/A	N/A
Title Insurance	1.75%	1.75%	2%	N/A	2%	1%
Independent Procurement	4% except Marine	5% + 0.3% service fee	3%	N/A	2%	4% Marine: 1.0%
HMO's	1.75%	N/A	N/A	N/A	1%	1%
Surplus Lines	4%	5%	3%	4%	3%	1%
Marine Insurance	0% Foreign Co.	0.75% Gross Profit	2%	5.7% Net Profit	5% Average Profit	5% Underwriting Profit

<b>Type of Insurance</b>	<b>NH</b>	<b>NY</b>	<b>NC</b>	<b>OR</b>	<b>WI</b>	<b>VT</b>
Accident/Health	1%	1.75%	2.25%	N/A	N/A	2%
Life	1%	0.70%	2.25%	N/A	2% Foreign	2%
Annuity	N/A	N/A	N/A	N/A	N/A	N/A
Property/ Casualty	1%	2%	2.25%	N/A	2% Foreign	2%
Fire	1%	2% + additional 2% foreign	2.25% + 1.0%	N/A	2% Domestic 2.375% Foreign	2%
Risk/Retention	1%	2%	4.00%	N/A	3%	2%
BlueCross/Blue Shield	1%	N/A	2.25%	N/A	N/A	N/A
Prepaid Lines	N/A	N/A	N/A	N/A	N/A	N/A
Title Insurance	1%	2%	2.25%	N/A	2.00%	2%
Independent Procurement	4% Marine: 1.0%	3.6%	4%	N/A	3% Gross Premiums; 0.5% Marine	3%
HMO's	1%	N/A	2.25%	N/A	Pay Franchise Tax	N/A
Surplus Lines	1%	4%	4%	2% + 1.0% for Fire	0.5% Marine; 3% Other	3% Net Premiums
Marine Insurance	5% Underwriting Profit	2%	2.25%	5% 3-Yr Ave Profits	0.5% Foreign	2%

### Captive Insurance Tax Rate Comparisons

State	Rate	Notes	Estimated #
<b>AZ</b>	None		<b>53</b>
<b>AK</b>	<u>Direct</u>		<b>1</b>
First \$20 m	0.225%	Producer reinsurance captives don't have to pay premium tax if they keep 50% of their assets in Arkansas obligations.	
\$20 - \$40 m	0.150%		
\$40 - \$60 m	0.050%		
Over \$60 m	0.025%		
<b>CO</b>	<u>Direct</u>	<u>Assumed</u>	<b>16</b>
First \$25 m	0.50%	0.25%	
Next \$50 m	0.25%	N/A	
Thereafter	0.10%	0.10%	
<b>DE</b>	<u>Direct</u>	<u>Assumed</u>	<b>&lt;20</b>
	0.2%	0.1%	
Maximum =	\$125,000	\$75,000	
<b>DC</b>	<u>Direct</u>	<u>Reinsurance</u>	<b>47</b>
First \$20 m	0.400%	0.225%	
\$20 - \$40 m	0.200%	0.150%	
Over \$40 m	0.075%	0.025%	
	Minimum =	\$5,000	
<b>GA</b>			<b>16</b>
2.25% on Georgia risks; 2.5% max. county and muni tax on Georgia risks; 1.0% intangibles tax on some investments; no minimum premium.			
<b>HI</b>	<u>Direct</u>		<b>153</b>
First \$25 m	0.25%		
\$25 - \$50 m	0.15%		
Over \$50 m	0.05%		
<b>IL</b>	No premiums tax.		<b>8</b>
6.5% income tax on IL net income			
<b>KY</b>	<u>Direct</u>	<u>Reinsurance</u>	<b>7</b>
First \$20 m	0.400%	0.225%	
\$20 - \$40 m	0.300%	0.150%	
\$40 - \$60 m	0.200%	0.050%	
Over \$60 m	0.075%	0.050%	
<b>ME</b>	<u>Direct</u>	<u>Reinsurance</u>	<b>0</b>
First \$20 m	0.375%	0.225%	
\$20 - \$40 m	0.300%	0.150%	
\$40 - \$60 m	0.200%	0.050%	
Over \$60 m	0.075%	0.025%	

### Captive Insurance Tax Rate Comparisons

State	Rate	Notes	Estimated #
<b>MT</b>	<u>Direct</u>	<u>Reinsurance</u>	<b>12</b>
First \$20 m	0.400%	0.225%	
\$20 - \$40 m	0.300%	0.150%	
\$40 - \$60 m	0.200%	0.050%	
Over \$60 m	0.075%	0.050%	
Minimum =	\$5,000		
<b>NY</b>			<b>18</b>
Responsible for Franchise Taxes			
<b>NV</b>	<u>Direct</u>	<u>Reinsurance</u>	<b>60</b>
First \$20 m	0.400%	0.225%	
\$20 - \$40 m	0.200%	0.150%	
Over \$40 m	0.075%	0.025%	
Minimum =	\$5,000	\$5,000	
<b>RI</b>			<b>2</b>
No minimum premium for pure and association captives; minimum aggregate annual premium of at least \$25,000 for industrial insured. Premium tax of 1.0% on gross written premiums not otherwise taxed.			
<b>SC</b>	<u>Direct</u>	<u>Reinsurance</u>	<b>119</b>
First \$20 m	0.400%	0.225%	
\$20 - \$40 m	0.300%	0.150%	
\$40 - \$60 m	0.200%	0.050%	
Over \$60 m	0.075%	0.025%	
Minimum =	\$5,000	\$5,000	
<b>SD</b>			<b>1</b>
No minimum premium; premium tax 0.25% on all tax not otherwise taxed, minimum tax of \$5,000.			
<b>TN</b>			<b>4</b>
Min. fee of \$5,000 for pure and mutuals \$10,000 for association captives and industrial insureds; Premium tax 1.0% otherwise.			
<b>UT</b>	<u>Direct</u>	<u>Reinsurance</u>	<b>2</b>
First \$20 m	0.400%	0.225%	
\$20 - \$40 m	0.300%	0.150%	
\$40 - \$60 m	0.200%	0.050%	
Over \$60 m	0.075%	0.025%	
Minimum =	\$5,000	\$5,000	

**Captive Insurance Tax Rate Comparisons**

**Estimated #**

<b>VT</b>	<u>Direct</u>	<u>Assumed</u>	<b>740</b>
First \$20 m	0.380%	0.214%	
\$20 - \$40 m	0.285%	0.143%	
\$40 - \$60 m	0.190%	0.048%	
Over \$60 m	0.072%	0.024%	
	Min = \$7,500	Max = \$200,000	
<b>VA</b>			<b>0</b>
Premium tax of 2.25% for business written in VA and out of state business not taxes by another state.			

### State Beer Excise Tax Rates (as of January 1, 2006)

STATE	TAX RATE (\$ per gallon)	RANK	SALES TAXES APPLIED	OTHER TAXES
Alabama	0.53	4	Yes	\$0.52/gallon local tax
Alaska	1.07	1	n.a.	\$0.35/gallon small breweries
Arizona	0.16	30	Yes	
Arkansas	0.23	20	Yes	under 3.2% - \$0.16/gallon; \$0.008/gallon and 3% off- 10% on-premise
California	0.2	21	Yes	
Colorado	0.08	44	Yes	
Connecticut	0.19	23	Yes	
Delaware	0.16	30	n.a.	
Florida	0.48	6	Yes	2.67¢/12 ounces on-premise retail tax
Georgia	0.48	6	Yes	\$0.53/gallon local tax
Hawaii	0.93	2	Yes	\$0.54/gallon draft beer
Idaho	0.15	34	Yes	over 4% - \$0.45/gallon
Illinois	0.185	26	Yes	\$0.16/gallon in Chicago and \$0.06/gallon in Cook County
Indiana	0.115	39	Yes	
Iowa	0.19	23	Yes	
Kansas	0.18	27	--	over 3.2% - (8% off- and 10% on-premise), under 3.2% - 4.25% sales tax
Kentucky	0.08	44	Yes*	11% wholesale tax
Louisiana	0.32	13	Yes	\$0.048/gallon local tax
Maine	0.35	12	Yes	additional 5% on-premise tax
Maryland	0.09	43	Yes	\$0.2333/gallon in Garrett County
Massachusetts	0.11	40	Yes*	0.57% on private club sales
Michigan	0.2	21	Yes	
Minnesota	0.15	34	--	under 3.2% - \$0.077/gallon. 9% sales tax
Mississippi	0.43	8	Yes	
Missouri	0.06	48	Yes	
Montana	0.14	36	n.a.	
Nebraska	0.31	14	Yes	
Nevada	0.16	30	Yes	
New Hampshire	0.3	15	n.a.	
New Jersey	0.12	38	Yes	
New Mexico	0.41	9	Yes	
New York	0.11	40	Yes	\$0.12/gallon in New York City
North Carolina	0.53	4	Yes	\$0.48/gallon bulk beer
North Dakota	0.16	30	--	7% state sales tax, bulk beer \$0.08/gal.
Ohio	0.18	27	Yes	
Oklahoma	0.4	11	Yes	under 3.2% - \$0.36/gallon; 13.5% on-premise
Oregon	0.08	44	n.a.	
Pennsylvania	0.08	44	Yes	
Rhode Island	0.1	42	Yes	\$0.04/case wholesale tax
South Carolina	0.77	3	Yes	
South Dakota	0.28	16	Yes	
Tennessee	0.14	36	Yes	17% wholesale tax
Texas	0.19	23	Yes	over 4% - \$0.198/gallon, 14% on-premise and \$0.05/drink on airlines
Utah	0.41	9	Yes	over 3.2% - sold through state store
<b>Vermont</b>	<b>0.265</b>	<b>17</b>	<b>no</b>	<b>10% on-premise sales tax</b>
Virginia	0.26	19	Yes	
Washington	0.261	18	Yes	
West Virginia	0.18	27	Yes	
Wisconsin	0.06	48	Yes	
Wyoming	0.02	50	Yes	
D.C.	0.09		Yes	8% off- and 10% on-premise sales tax
U.S. Median	0.19			

\* Sales tax is applied to on-premise sales only. SOURCE: Compiled by FTA from various sources. (<http://www.taxadmin.org/fta/rate/beer.html>)

**State Wine Excise Tax Rates (as of January 1, 2006)**

<b>STATE</b>	<b>TAX RATE (\$ per gallon)</b>	<b>RANK</b>	<b>SALES TAXES APPLIED</b>	<b>OTHER TAXES</b>
Alabama	\$1.70	4	Yes	over 14% - sold through state store
Alaska	2.5	1	n.a.	
Arizona	0.84	17	Yes	
Arkansas	0.75	19	Yes	under 5% - \$0.25/gallon; \$0.05/case; and 3% off- and 10% on-premise
California	0.2	43	Yes	sparkling wine - \$0.30/gallon
Colorado	0.32	37	Yes	
Connecticut	0.6	25	Yes	over 21% and sparkling wine - \$1.50/gallon
Delaware	0.97	12	n.a.	
Florida	2.25	2	Yes	over 17.259% - \$3.00/gallon, sparkling wine \$3.50/gallon 6.67¢/4 ounces on-premise retail tax
Georgia	1.51	6	Yes	over 14% - \$2.54/gallon; \$0.83/gallon local tax
Hawaii	1.38	8	Yes	Sparkling wine - \$2.12/gallon and wine coolers - \$0.85/gallon
Idaho	0.45	34	Yes	
Illinois	0.73	20	Yes	over 20% - \$4.50/gallon; \$0.246/gallon in Chicago and (\$0.16-\$0.30)/gallon in Cook County
Indiana	0.47	33	Yes	over 21% - \$2.68/gallon
Iowa	1.75	3	Yes	under 5% - \$0.19/gallon
Kansas	0.3	38	no	over 14% - \$0.75/gallon; 8% off- and 10% on-premise
Kentucky	0.5	31	Yes*	11% wholesale
Louisiana	0.11	46	Yes	14% to 24% - \$0.23/gallon, over 24% and sparkling wine - \$1.59/gallon
Maine	0.6	25	Yes	over 15.5% - sold through state stores, sparkling wine - \$1.25/gallon; additional 5% on-premise sales tax
Maryland	0.4	35	Yes	
Massachusetts	0.55	28	Yes*	sparkling wine - \$0.70/gallon;
Michigan	0.51	30	Yes	over 16% - \$0.76/gallon
Minnesota	0.3	38	--	14% to 21% - \$0.95/gallon, under 24% and sparkling wine - \$1.82/gallon; over 24% - \$3.52/gallon; \$0.01/bottle (except miniatures) and 9% sales tax
Mississippi	0.35	36	Yes	over 14% and sparkling wine - sold through the state
Missouri	0.3	38	Yes	
Montana	1.06	10	n.a.	over 16% - sold through state stores
Nebraska	0.95	13	Yes	
Nevada	0.7	22	Yes	14% to 22% - \$1.30/gallon, over 22% - \$3.60/gallon
New Hampshire	see footnote (1)	N/A	n.a.	
New Jersey	0.7	22	Yes	
New Mexico	1.7	4	Yes	over 14% - \$5.68/gallon
New York	0.19	45	Yes	
North Carolina	0.79	18	Yes	over 17% - \$0.91/gallon

### State Wine Excise Tax Rates (continued)

STATE	TAX RATE	RANK	SALES TAXES	OTHER TAXES
North Dakota	0.5	31	--	over 17% - \$0.60/gallon, Sparkling wine - \$1.00/gallon; 7% state sales tax
Ohio	0.3	38	Yes	over 14% - \$0.98/gallon, vermouth - \$1.08/gallon and sparkling wine - \$1.48/gallon
Oklahoma	0.72	21	Yes	over 14% - \$1.40/gallon, sparkling wine - \$2.08/gallon; 13.5% on-premise
Oregon	0.67	24	n.a.	over 14% - \$0.77/gallon
Pennsylvania	see footnote (1)	N/A	Yes	
Rhode Island	0.6	25	Yes	sparkling wine - \$0.75/gallon
South Carolina	0.9	15	Yes	\$0.18/gallon additional tax
South Dakota	0.93	14	Yes	14% to 20% - \$1.45/gallon, over 21% and sparkling wine - \$2.07/gallon; 2.0% wholesale tax
Tennessee	1.21	9	Yes	\$0.15/case and 15% on-premise.
Texas	0.2	43	Yes	over 14% - \$0.408/gallon and sparkling wine - \$0.516/gallon; 14% on-premise and \$0.05/drink on airline sales
Utah	see footnote (1)	N/A	Yes	
Vermont	0.55	28	Yes	over 16% - sold through state store, 10% on-premise sales tax
Virginia	1.51	6	Yes	under 4% - \$0.2565/gallon and over 14% - sold through state store
Washington	0.87	16	Yes	over 14% - \$1.72/gallon
West Virginia	1	11	Yes	5% local tax
Wisconsin	0.25	42	Yes	over 14% - \$0.45/gallon
Wyoming	see footnote (1)	N/A	Yes	
DC	0.3		Yes	8% off- and 10% on-premise sales tax,
U.S. Median	0.69			

\* Sales tax is applied to on-premise sales only.

(1) All wine sales are through state stores. Revenue in these states is generated from various taxes, fees and net profits.

Source: Compiled by FTA from various sources (<http://www.taxadmin.org/fta/rate/wine.html>)

### State Liquor Excise Tax Rates

STATE	TAX RATES (\$ per gallon)	SALES TAXES APPLIED	OTHER TAXES
Alabama	see footnote (1)	Yes	
Alaska	\$12.80	n.a.	under 21% - \$2.50/gallon
Arizona	3	Yes	
Arkansas	2.5	Yes	under 5% - \$0.50/gallon, under 21% - \$1.00/gallon; \$0.20/case and 3% off- 14% on-premise retail taxes
California	3.3	Yes	over 50% - \$6.60/gallon
Colorado	2.28	Yes	
Connecticut	4.5	Yes	under 7% - \$2.05/gallon
Delaware	5.46	n.a.	under 25% - \$3.64/gallon
Florida	6.5	Yes	under 17.259% - \$2.25/gallon, over 55.780% - \$9.53/gallon 6.67¢/ounce on-premise retail tax
Georgia	3.79	Yes	\$0.83/gallon local tax
Hawaii	5.98	Yes	
Idaho	see footnote (1)	Yes	
Illinois	4.5	Yes	under 20% - \$0.73/gallon; \$1.845/gallon in Chicago and \$2.00/gallon in Cook County
Indiana	2.68	Yes	under 15% - \$0.47/gallon
Iowa	see footnote (1)	Yes	
Kansas	2.5	no	8% off- and 10% on-premise retail tax
Kentucky	1.92	Yes*	under 6% - \$0.25/gallon; \$0.05/case and 11% wholesale tax
Louisiana	2.5	Yes	under 6% - \$0.32/gallon
Maine	see footnote (1)	Yes	
Maryland	1.5	Yes	
Massachusetts	4.05	Yes*	under 15% - \$1.10/gallon, over 50% alcohol - \$4.05/proof gallon; 0.57% on private club sales
Michigan	see footnote (1)	Yes	
Minnesota	5.03	--	\$0.01/bottle (except miniatures) and 9.0% sales tax
Mississippi	see footnote (1)	Yes	
Missouri	2	Yes	
Montana	see footnote (1)	n.a.	
Nebraska	3.75	Yes	
Nevada	3.6	Yes	under 14% - \$0.70/gallon and under 21% - \$1.30/gallon.
New Hampshire	see footnote (1)	n.a.	
New Jersey	4.4	Yes	
New Mexico	6.06	Yes	
New York	6.44	Yes	not more than 24% - \$2.54/gallon; \$1.00/gallon New York City
North Carolina	see footnote (1)	Yes*	
North Dakota	2.5	--	7% state sales tax
Ohio	see footnote (1)	Yes	
Oklahoma	5.56	Yes	13.5% on-premise
Oregon	see footnote (1)	n.a.	
Pennsylvania	see footnote (1)	Yes	
Rhode Island	3.75	Yes	
South Carolina	2.72	Yes	\$5.36/case and 9% surtax

### State Liquor Excise Tax Rates (continued)

STATE	TAX RATE	SALES TAXES	OTHER TAXES
South Dakota	3.93	Yes	under 14% - \$0.93/gallon, 2.0% wholesale tax
Tennessee	4.4	Yes	\$0.15/case and 15% on-premise; under 7% - \$1.21/gallon.
Texas	2.4	Yes	14% on-premise and \$0.05/drink on airline sales
Utah	see footnote (1)	Yes	
Vermont	see footnote (1)	no	10% on-premise sales tax
Virginia	see footnote (1)	Yes	
Washington	see footnote (1)	Yes*	
West Virginia	see footnote (1)	Yes	
Wisconsin	3.25	Yes	
Wyoming	see footnote (1)	Yes	
Dist. of Columbia	1.5	Yes	8% off- and 10% on-premise sales tax
U.S. Median	\$3.75		

\* Sales tax is applied to on-premise sales only.

(1) In 18 states, the government directly controls the sales of distilled spirits.

Revenue in these states is generated from various taxes, fees and net liquor profits.

Source: Compiled by FTA from various sources.

## GLOSSARY

### Compound Annual Growth Rate

The year-over-year growth rate of a value over a specified period of time. The formula implicitly takes compound interest into account.

### Effective Tax Rate

The ratio of taxes paid to a given tax base. For individual income taxes, the effective tax rate is typically expressed as the ratio of taxes paid to adjusted gross income. The effective tax rate is a useful measure because the tax code's various exemptions, credits, deductions, and tax rates make actual ratios of taxes to income different from statutory tax rates.

### Marginal Tax Rate

The marginal tax rate is the income tax rate paid on the last dollar of income earned.

### Nominal Dollars

Amounts that have not been adjusted to remove the effect of changes in the purchasing power of the dollar.

### Real or Constant Dollars

Amounts that are inflation-adjusted to account for the changes in the purchasing power of the dollar.

### Price Elasticity of Demand

The change in demand relative to a change in price for a product or service. The Price Elasticity of Demand (commonly known as just price elasticity) measures the rate of response of quantity demanded due to a price change.

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