

Vermont Has the Capacity to Avoid 2016 Budget Cuts

Vermont's income tax is among the lowest in the country: 2.7 percent of the state's total personal income.¹ Eliminating tax breaks and lowering income tax rates would balance the fiscal 2016 budget without cuts and still leave Vermont's effective income tax rate lower than those of 24 other states.

Despite the high rates that filers see on their state income tax returns, Vermonters pay less than taxpayers in most states. That's because Vermont provides so many tax breaks. As a percentage of total personal income Vermont's income tax is the 13th lowest among the 44 states that impose an income tax.

Some states also collect local income taxes in addition to state taxes. Count those in and Vermont's income tax, as a percentage of total personal income, is the 10th lowest among the states that tax income.

A plan proposed by One Vermont (onevt.org) would reform the state's income tax structure and generate approximately \$80 million in new revenue for fiscal 2016. The plan would eliminate tax breaks for the upper income brackets and lower rates across the board. On average, the 60 percent of Vermonters with incomes below \$65,000 would get a tax cut under the proposed plan.

¹ "Total personal income" is a broad measure of income used by the Institute on Taxation and Economic Policy (ITEP). It is based on filers under age 65 and includes adjusted gross income, which is the starting point used by most states to determine taxable income, as well as income typically not subject to tax, such as Social Security benefits, Worker's Compensation benefits, unemployment compensation, and other payments. The ITEP computer model also estimates unreported income for each state. The ITEP estimates are consistent across all states and are intended to be a more accurate assessment of a tax change in relation to a taxpayer's ability to pay. Rankings are based on 2012 income but reflect 2015 tax laws.

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Vermont's Income Tax is Lower Than Most States' Income taxes as percentage of total personal income in states that tax income

