



Vermont Household Budget Affordability Analysis

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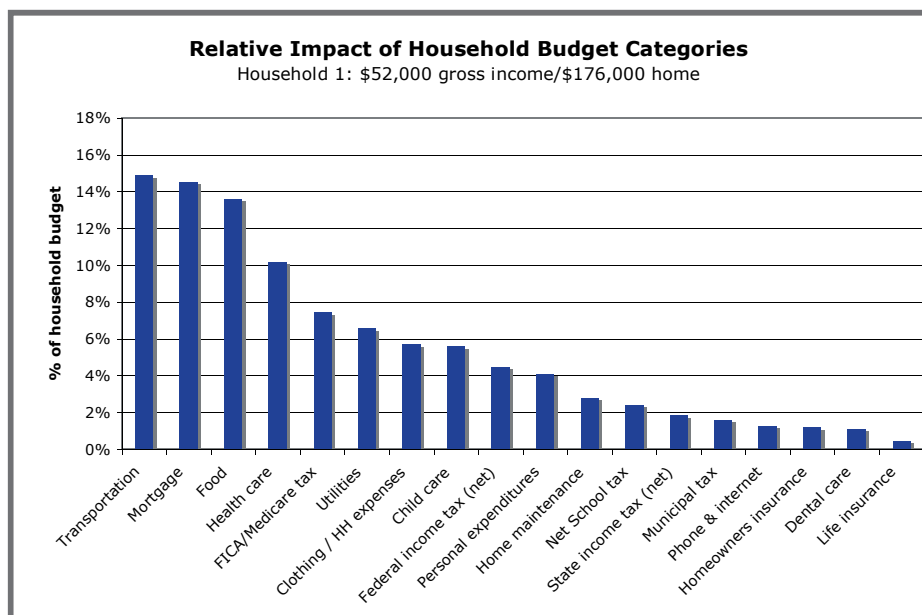
This analysis looks at two hypothetical three-person Vermont households to see where the families' money goes. Both households have two adults and one school-aged child. One family (Household 1) lives in the median-value Vermont home (\$176,000) and, based on information from the Vermont Department of Taxes, has a gross income of \$52,000. The other family (Household 2) has a gross household income equal to the average of the top five percent of Vermont income tax filers (\$357,934) and lives in a home assessed at \$280,578.

The charts below show the percentages of each budget needed for common household expenses in Vermont. In Household 1, there are eight budget categories that each consume more than five percent of the household budget. Four of these (transportation, mortgage, food, and health care) taken together account for over half (53.3%) of the household budget. This family has no money left for savings or discretionary spending. In fact, even after paring it down, this budget slightly exceeds household income.¹

For Household 2, only three of the budget categories consume more than five percent of the household budget. The two largest budget categories are federal income tax (20.7%) and state income tax (5.3%). However, after all the budgeted expenses are covered, this household has nearly forty percent left over in uncommitted funds to use for savings or for discretionary spending.

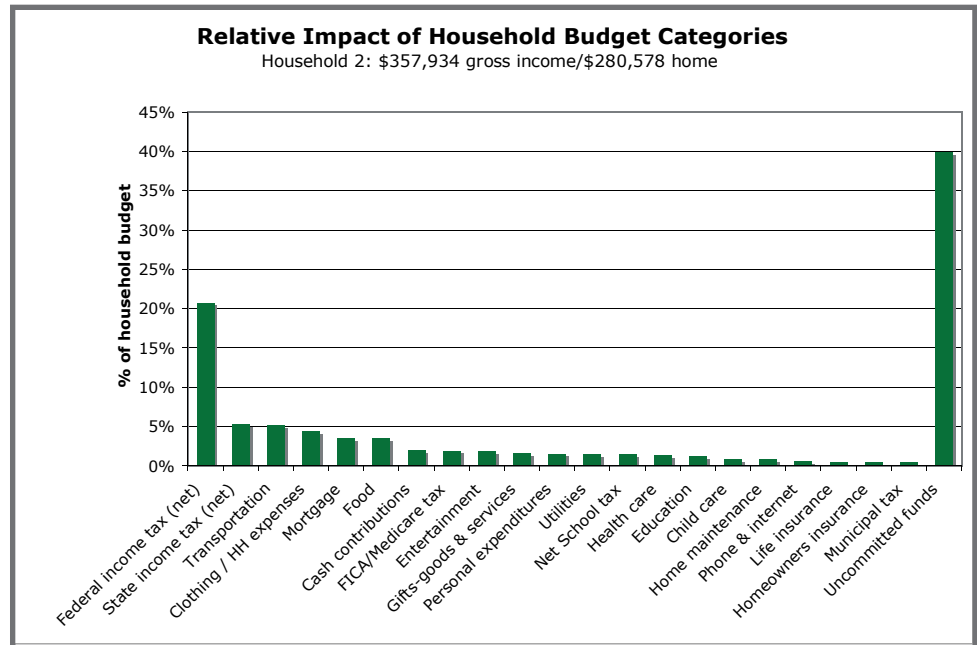
Comparing these two households sheds some light on the issue of affordability. An affordability policy that focuses on state income and school taxes as the problem misses the mark. For Household 1, the largest budget categories are not taxes, but transportation, housing, food, and health care, each consuming more than ten percent of the household budget.² In addition to being among the largest budget items, housing and health care costs have increased faster than inflation in recent years. This means that this household cannot continue to afford its current standard of living without increasing income or taking on debt. The other choice is to cut spending, which will likely reduce their standard of living.

For Household 2, affordability is not an issue. Even though federal and state income taxes are its largest fixed expenditures, considering that uncommitted funds amount to nearly forty percent of income for this household, taxes or any of their other budget cat-



egories cannot reasonably be called a burden.

The comparison of these two households also illustrates the relative progressivity of various taxes. Federal and Vermont state income taxes are progressive – those with higher incomes pay higher rates. For example, Household 1’s state and federal income taxes amount to 6.5% of household income compared with 26% for Household 2. The FICA/Medicare tax is regressive -- the lower income Household 1 pays nearly four times what Household 2 pays as a percentage of income. School and municipal taxes on homes, even after income sensitivity is applied³, are also regressive. Household 1 pays a higher percentage (2.4%) of income for these taxes compared to Household 2 (1.4%). ■



END NOTES

¹ One way that households like this deal with expenses that exceed income is to take on debt. According to the Federal Reserve’s 2004 Survey of Consumer Finances, a household with income between \$40,000 and \$60,000 had an average of \$5,200 in credit card debt.

² By comparison, state income and school taxes combined consume 4.3% of Household 1’s budget.

³ Income sensitivity allows Vermont households with income of \$85,000 or less to pay the school taxes on their primary residence based on the amount of their household income rather than on the value of their home.

Data and sources used in this analysis.

VERMONT

Household 1: \$52,000 gross income/\$176,000 home

Three-person family in the median value home

Household gross income		\$52,000		Taxable income = ~ \$32,500		home currently assessed at \$176,000 (\$647.51) mortgage payment (\$540.00) interest payment for tax calculation	
Category	Amt	% of Total	Source / Comments				
Transportation	\$7,948	14.9%	Assumes 2 drivers w/25,514 VMT (US DOT VMT for families earning \$35k - \$50k)				
Mortgage	\$7,770	14.6%	Mortgage for \$120,000 home purchased 6 yrs earlier w/10% down; \$108,000 financed @ 6% for 30 years				
Food	\$7,272	13.6%	2005 USDA moderate cost food plan (all food at home)				
Health care	\$5,437	10.2%	MVP Small Group HMO; \$500 in-patient co-pay; employer pays 73%; OOP = \$36/adult & \$27.33 OOP/child				
FICA/Medicare tax	\$3,978	7.5%	7.65% x gross income				
Utilities	\$3,509	6.6%	Heating oil (\$2,219) + Elec. (avg. statewide bill \$940) + water/wastewater (Burl. avg. bill \$475)				
Clothing / HH expenses	\$3,047	5.7%	Clothing, HH supplies, furnishing, etc. (CES - pop. size of residence - "outside urban area"; income = \$50,233)				
Child care	\$2,986	5.6%	1 young, school age child: 10 weeks FT and 42 weeks PT; 2003 CCS Market Study				
Federal income tax (net)	\$2,399	4.5%	Author's calculations; child care & dependent credits subtracted				
Personal expenditures	\$2,190	4.1%	\$2.00 / person / day (from JFO BNB)				
Home maintenance	\$1,500	2.8%	Estimate only; no reliable data				
Net School tax	\$1,301	2.4%	VT Tax Dept.				
State income tax (net)	\$992	1.9%	Author's calculations; VT child care credit subtracted				
Municipal tax	\$862	1.6%	VT Tax Dept.				
Phone & internet	\$684	1.3%	JFO BNB 2005 + \$20/mo. for internet				
Homeowners insurance	\$650	1.2%	Smith, Bell & Thompson Insurance (note: many variables; this is a rough estimate)				
Dental care	\$600	1.1%	Insufficient income for dental insurance; family pays as needed				
Life insurance	\$250	0.5%	6 x annual earnings x 0.80 per thousand (from JFO BNB)				
Total HH expenditures	\$53,375	100.0%	Budget exceeds income by \$1,375				

Household 2: \$357,934 gross income/\$280,578 home

Three-person family with household income equal to average of top 5% of filers

Household gross income		\$357,934 (avg. of Top 5% of VT filers)		home currently assessed at \$280,578 (\$1,055.21) mortgage payment (\$880.00) interest payment for tax calculation (\$10,560.00)		
Adjusted Gross Income		\$346,480		\$250,000 salary & wages \$50,000 interest & dividends \$57,934 capital gains (\$34,760 taxable in VT)		
Category	Amt	% of Total	Source / Comments			
Federal income tax (net)	\$74,178	20.7%	Author's calculations			
State income tax (net)	\$18,892	5.3%	Author's calculations			
Transportation	\$18,308	5.1%	2004 CES, Table 2301; high income; \$150,000+			
Clothing / HH expenses	\$15,746	4.4%	Clothing, HH supplies, furnishing, etc. (2004 CES, Table 2301; high income; \$150,000 and more)			
Mortgage	\$12,663	3.5%	Mortgage for \$220,000 home purchased 6 yrs earlier w/20% down; \$176,000 financed @ 6% for 30 years			
Food	\$12,555	3.5%	2004 CES, Table 2301; high income; \$150,000+			
Cash contributions	\$7,037	2.0%	2004 CES, Table 2301; high income; \$150,000+			
FICA/Medicare tax	\$6,724	1.9%	7.65% x gross income up to \$87,900			
Entertainment	\$6,570	1.8%	2004 CES, Table 2301; high income; \$150,000+			
Gifts-goods & services	\$5,473	1.5%	2004 CES, Table 2301; high income; \$150,000+			
Personal expenditures	\$5,342	1.5%	2004 CES, Table 2301; high income; \$150,000+ (personal products & services; reading; tobacco; alcohol & misc.)			
Utilities	\$5,159	1.4%	2004 CES, Table 2301; high income; \$150,000+			
Net School tax	\$5,022	1.4%	VT Tax Dept.			
Health care	\$4,581	1.3%	2004 CES, Table 2301; high income; \$150,000+			
Education	\$4,382	1.2%	2004 CES, Table 2301; high income; \$150,000+			
Child care	\$2,986	0.8%	1 young, school age child: 10 weeks FT and 42 weeks PT; 2003 CCS Market Study			
Home maintenance	\$2,786	0.8%	2004 CES, Table 2301; high income; \$150,000+			
Phone & internet	\$2,109	0.6%	Telephone - 2004 CES, Table 2301; high income; \$150,000 and more; internet - assumes \$40/month			
Life insurance	\$1,718	0.5%	6 x annual earnings x 0.80 per thousand (from JFO BNB)			
Homeowners insurance	\$1,500	0.4%	Smith, Bell & Thompson Insurance (note: many variables; this is a rough estimate)			
Municipal tax	\$1,375	0.4%	VT Tax Dept.			
Uncommitted funds	\$142,827	39.9%	Savings, investments, vacations, etc. (no CES data)			
Total HH expenditures	\$357,934	100.0%				

