Public Assets Institute
government for the **people**

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Vermont Has Options to Raise Revenue for Smart Investments

Gov. Peter Shumlin has the right idea when he says we should invest in expanding the availability of child care for working Vermonters. However, it just doesn't make sense to take money from low-wage working families to pay for this initiative. Other changes to Vermont's income tax code could produce about as much revenue as the governor is seeking—or more—and make the state's tax system more equitable.

Currently, Vermont allows taxpayers two options for subtracting certain kinds of expenses from their income. They can take a standard, lump-sum deduction that covers things like health care, state and local taxes, and mortgage interest. Or they can list each of these expenses and take a larger deduction if the itemized expenses are greater than the standard deduction. Vermont could change the way it treats itemized deductions or it could modify or eliminate certain deductions.

The Institute on Taxation and Economic Policy (http://www.itepnet.org/) in Washington, D.C., analyzed several options for Public Assets Institute and estimated how each would affect Vermonters in various income categories in 2013. Revenue estimates are calculated for each option separately and should not be added together.

Option 1: Increase the standard deduction and eliminate itemized deductions

Additional revenue: $25 million

Change to standard deduction

Filer	Current	New
Married filing jointly	$12,200	$15,000
Single	$6,100	$7,500
Head of household	$8,950	$12,000

Filers in upper income brackets tend to claim itemized deductions more than filers in the lower brackets, who tend to use the standard deduction. Increasing the standard deduction and eliminating the itemized deduction would generally reduce taxes on those with lower incomes and increase taxes for those in the upper brackets.

Effect of change by income group

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than $22k	$22k –$39k	$39k –$61k	$61k –$94k	$94k- $179k	$179k –$371k	$371k+
Average Income	$13,000	$30,000	$49,000	$75,000	$124,000	$246,000	$942,000
Average tax change	–$21	–$32	–$23	–$7	+$165	+$853	+$4,099

Option 2: End deduction for state income taxes

Additional revenue: $16 million

Vermont currently allows filers to include up to $5,000 of state income taxes among their itemized deductions. This option would eliminate this itemized deduction entirely. The maximum increase would be $450 for a filer with taxable income greater than $388,000.

Effect of change by income group

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than $22k	$22k –$39k	$39k –$61k	$61k –$94k	$94k- $179k	$179k –$371k	$371k+
Average Income	$13,000	$30,000	$49,000	$75,000	$124,000	$246,000	$942,000
Average tax change	$0	+$2	+$9	+$34	+$184	+$322	+$398

Option 3: Cap itemized deductions

Additional revenue: $16 million

New limits for itemized deductions	
Filer	**Maximum**
Married filing jointly	$40,200
Single	$20,000
Head of household	$32,000

This option would set an upper limit on the total amount of itemized deductions filers could claim. Filers could choose to itemize deductions if they exceeded the standard deduction, but they could claim no more than the maximum.

Effect of change by income group

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than $22k	$22k –$39k	$39k –$61k	$61k –$94k	$94k- $179k	$179k –$371k	$371k+
Average Income	$13,000	$30,000	$49,000	$75,000	$124,000	$246,000	$942,000
Average tax change	—	—	+$3	+$9	+$62	+$248	+$3,039

Option 4: Convert itemized deductions and standard deductions to a tax credit

Additional revenue: $18 million

This option would convert tax deductions to tax credits. Deductions reduce taxable income; credits directly reduce taxes owed. The credit would be equal to 5 percent of a filer's standard deduction or allowable itemized deduction. Changing to a credit would generally reduce taxes on Vermonters with lower incomes and increase taxes for those in higher income brackets.

Effect of change by income group

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than $22k	$22k –$39k	$39k –$61k	$61k –$94k	$94k $179k	$179k –$371k	$371k+
Average Income	$13,000	$30,000	$49,000	$75,000	$124,000	$246,000	$942,000
Average tax change	–$32	–$70	–$85	–$36	+$306	+$819	+$2,429

Option 5: Eliminate itemized deductions, use standard deductions

Additional revenue: $67 million

This option would end itemized deductions, and all filers would use the current standard deduction (see Option 1).

Effect of change by income group

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than $22k	$22k –$39k	$39k –$61k	$61k –$94k	$94k $179k	$179k –$371k	$371k+
Average Income	$13,000	$30,000	$49,000	$75,000	$124,000	$246,000	$942,000
Average tax change	$0	+$8	+$58	+$134	+$529	+$1,393	+$4,724

Governor's plan: Reduce the Vermont EITC

Additional revenue: $17 million

The governor proposed a cut to the state Earned Income Tax Credit (EITC), which would increase personal income tax revenue by about $17 million. The governor's plan would affect more than 100,000 Vermonters, about half of whom are children. Hardest hit would be working families with incomes of less than about $23,000. The administration's proposal would cost an eligible family with three children and wage income of $13,000 a year about $1,200. This is three times the average tax increase that the top 1 percent of Vermonters would be asked to pay under Option 2 above, which would raise about the same amount of money as the governor's plan.

The additional revenue in this plan comes from low-wage working Vermonters. For example, $1,200/year from a family earning $13,000/year.

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