



## No New Taxes, but...

by Jack Hoffman

Despite a pattern of declining state revenues, the administration and the Legislature managed to avoid raising taxes in an election year — at least taxes that are likely to affect a broad range of voters. Candidates seeking re-election will be free to campaign in the fall by saying they (almost) balanced the fiscal 2009 budget with (hardly any) new taxes.

That doesn't mean that some people won't be paying more for government services, though. General Fund revenues are expected to increase nearly \$10 million as a result of actions by the Legislature.

The bulk of the new revenue — almost \$6 million — will come from tax law changes. One change is a cap on Vermont capital gains exclusion. In most instances, Vermonters can subtract 40 percent of their capital gains when they calculate their state income tax liability. Under certain circumstances, the exclusion can wipe out taxable income altogether. Now taxpayers can exclude capital gains, but the exclusion cannot exceed 40 percent of their taxable income. The Joint Fiscal Office estimates the change will produce about \$1.5 million in new revenue next year.

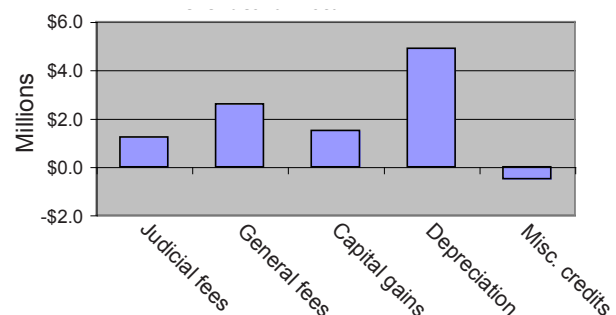
As part of the federal economic stimulus package approved earlier this year, Congress will allow taxpayers to depreciate some assets more quickly. Because Vermont follows many federal tax laws, next year's revenue estimate was lowered April after Congress approved the so-called "bonus depreciation." At the end of the session, however, the Legislature voted to block the accelerated depreciation in the calculation of state taxes. The money is being treated as new revenue; it's really recouping lost revenue.

Some provisions of the Miscellaneous Tax Bill will reduce revenues. These include sales tax holidays and property tax exemptions for skating rinks. Other provisions will redirect revenues. For instance, through "tax increment financing" (TIFs), new property tax revenues generated in a designated economic development area are dedicated to paying back bonds for infrastructure improvements in that area.

A variety of fees are going up as a result of another new law. These include court fees, sheriffs' fees, registration fees charged by the secretary of state's office, and hazardous-materials fees. In all, the so-called "fee bill" is expected to generate about \$3.9 million in new revenue for the General Fund. Other fee increases will bring in additional money for the Transportation Fund (\$345,000) and Special Funds (\$1.8 million).

Election year tax phobia compels legislators to limit their own policy options. They deny themselves the opportunity to determine the need for revenue first and then decide the best ways to generate it. That's not to say that government shouldn't collect fees for certain services. But the Legislature often turns to fees as an inconspicuous way to raise money. The problem is, they often take a bigger bite out of lower incomes than higher ones — so they're not always the fairest.

**Figure 1. New General Fund Revenues FY2009**



Source: Joint Fiscal Office

**Figure 1 shows the amount of new revenue expected from new fees, changes to Vermont's capital gains law, a change in federal depreciation rules as they apply to Vermont income taxes, and new or expanded property tax breaks.**

