



## Federal Tax Cuts

By Jack Hoffman

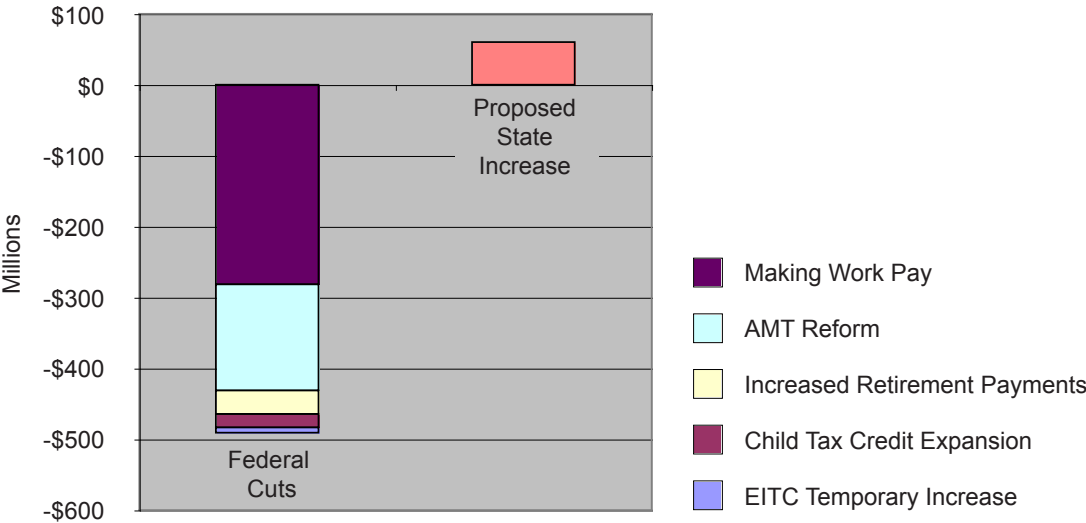
Vermonters will save more than \$490 million in federal taxes in the next two years through the economic stimulus provisions in the American Recovery and Reinvestment Act.

A new analysis shows that more than half the savings will come from the “Making Work Pay” program—a middle-class tax credit that will go to more than 250,000 Vermont taxpayers.<sup>1</sup> The credit amounts to \$400 a year for workers earning up to \$75,000 and \$800 for couples with incomes up to \$150,000. Instead of a lump sum payment, however, the tax cut is showing up as a reduction in federal withholding taxes in each paycheck. Eligible workers should take home an average of about \$40 more a month.

The stimulus package also corrected problems with the alternative minimum tax (AMT), which was originally designed to target wealthy taxpayers who had been avoiding taxes. The “alternative minimum” was never adjusted for inflation, however, so over the years it has affected people who were never meant to be included in the category to which the tax applies. The change will mean a two-year savings of about \$150 million for some 50,000 Vermont taxpayers.

Expansion of child tax credits, a temporary increase in the earned income tax credit (EITC), and increased disability and retirement payments will provide almost \$60 million in additional tax savings for 2009 and 2010.

**Federal Tax Cuts Exceed Proposed State Tax Increase, 2009-2011**



Data source: Joint Fiscal Office

**The federal income tax cuts in the American Recovery and Reinvestment Act dwarf the proposed state income tax increase approved by the Vermont House. The net result: Vermonters pay \$430 million less in taxes over three years.**

The tax cuts are intended to put money in the hands of people who are likely to spend rather than save it. The goods and services they buy with the extra cash will keep the economy going, allow businesses to continue, and prevent job cuts.

The federal cuts also give Vermont an opportunity to avoid devastating budget reductions and layoffs of state workers that are compounding current unemployment problems. The Legislature is considering raising about \$60 million in new state income taxes over the next three years. The proposed increases are modest: \$9 a year for a single person earning \$28,000; \$34 a year for a family of three with income of \$85,000; and \$300 a year for a family of three making \$250,000.<sup>2</sup> These relatively small increases would allow Vermont to continue to provide prescription drugs to poor seniors and save the jobs of state employees. And Vermonters would still have a net savings in their state and federal income taxes of more than \$430 million.

#### ENDNOTES

1 Joint Fiscal Office, Miscellaneous Tax Bill analysis, document VTLEG 243 197.v1, 4/9/2009.

2 Joint Fiscal Office calculations assume standard deductions.

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