

# Vermont's Income Taxes Are Lower than Many Other States

by Jack Hoffman

Tax rates tell only part of the story when comparing state tax policies. To determine what people actually pay, you also need to know what the rates are applied to.

Vermont has a progressive income tax system. There are five [tax rates](#)—3.55 percent to 8.95 percent—with higher rates applying to higher levels of taxable income. The state's top tax rate is comparatively high, but few people pay at that rate because it applies to taxable income above \$372,950. Other states have top tax rates that are lower than Vermont's, but they apply to income far lower than \$372,000.

What's counted as taxable income also makes a difference. Vermont allows more deductions and exemptions than many other states.

A 2007 [study](#) for the Legislature, for example, showed that a typical couple making \$1 million a year would pay less income tax in Vermont than in New York or Maine, where the top rates were lower.

Another way to compare states is to look at the effective tax rate—total income taxes paid in the state, divided by the total of residents' adjusted gross income (AGI); AGI is income before deductions and other adjustments are made.

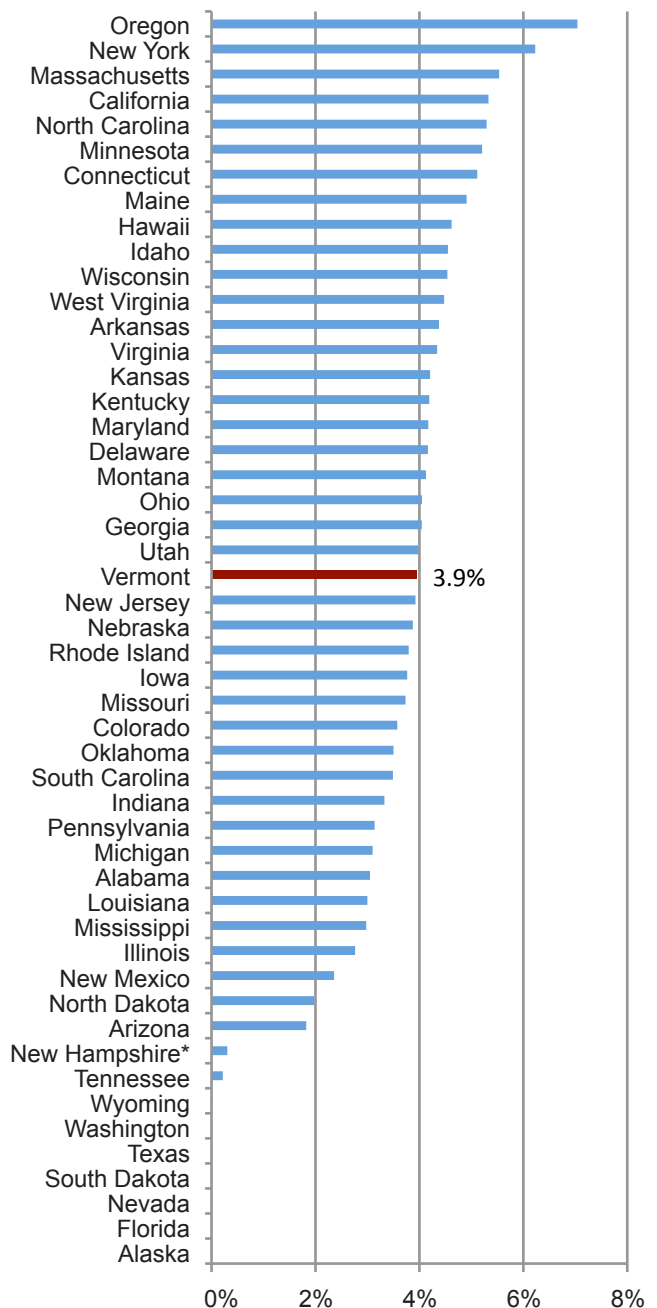
Vermont's effective tax rate in 2008 was 3.9 percent. By that measure, Vermont comes in 23rd when the states are ranked from highest to lowest.

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*This research was funded in part by the Annie E. Casey Foundation and the Public Welfare Foundation. We thank them for their support but acknowledge that the findings presented in this report are those of the Public Assets Institute and do not necessarily reflect the opinions of the foundations.*

## Vermont is in the Middle of the Pack

State income taxes as a percentage of AGI



Data source: IRS, adjusted gross income, tax year 2008; U.S. Census, individual state income tax, tax year 2008

\*New Hampshire's income tax applies only to dividend and interest income.