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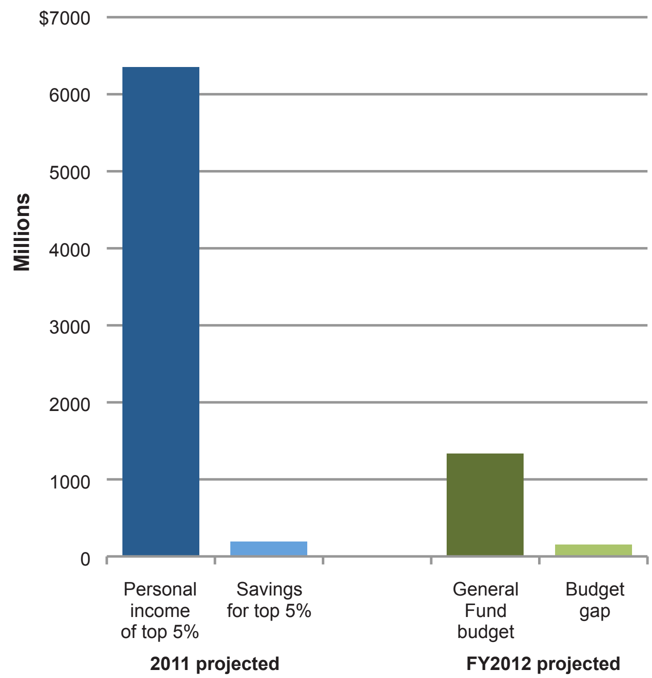
Federal Tax Cuts Can Help Close Vermont's Budget Gap

For Wealthiest Vermonters, Bush Tax Savings Equal 3% of Personal Income



Data sources: Institute on Taxation and Economic Policy (ITEP), Joint Fiscal Office

Vermont's wealthiest taxpayers will save $190 million this year, thanks to Congress's decision last month to extend the Bush tax cuts.

According to an analysis prepared for Public Assets Institute by the Washington-based nonpartisan Institute on Taxation and Economic Policy (ITEP), the tax cut extension will save the top 1 percent of the Vermont income tax filers about $102 million in 2011. The average personal income for these taxpayers is $940,000; their average savings will be a little more than $34,000 this year.

The next 4 percent of tax filers—those with average annual personal income of about $233,000—will save a little more than $88 million. The average savings per household for that group in 2011 will be about $7,300.

The tax cuts were extended for two years, so these Vermonters will reap a similar savings in 2012.

Two major tax bills were passed in 2001 and 2003, during President George W. Bush's first term. The laws lowered income tax rates, reduced taxes on capital gains, and cut the estate tax, among other provisions. The cuts were due to expire at the end of 2010. Had that happened, federal income taxes would have returned to pre-2001 levels.

Analyses show that the extension of these tax cuts was among the least effective ways to get the economy back on track.[1]

Nevertheless, the cuts give Governor Shumlin and the Legislature one more option for closing Vermont's $150 million projected budget gap for fiscal 2012. A temporary state income tax increase on the highest 5 percent of Vermont taxpayers—similar to the tiered tax rates adopted in 1991 under Gov. Richard Snelling—would generate additional revenue to maintain critical public services. Vermont could reduce—even eliminate—its budget gap and still leave the state's most prosperous residents paying less in state and federal income taxes than they would have if Congress had allowed federal tax rates to return to pre-2001 levels.

1. "The Economic Outlook and Fiscal Policy," Congressional Budget Office, Sept. 28, 2010.

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