

Vermont's Effective Income Tax Rate Dropped in 2010

by Jack Hoffman & Paul Cillo

In 2010, the latest year for which data are available, Vermont's effective income tax rate was 3.2 percent—26th nationally when the states were ranked from highest to lowest. That was down from 3.9 percent—23rd nationally—in 2008, as Public Assets Institute showed in a [study](#) published in 2010.

A state's effective rate is the total state income tax paid divided by the total income of the state's taxpayers—in this case, adjusted gross income (AGI) as reported to the IRS. AGI is income before deductions and other adjustments are made. Effective tax rates provide a way to compare states that have varying income tax brackets, levy different tax rates, and allow different deductions and exemptions.

Vermont has a progressive income tax system, which means that tax rates are higher on incomes above certain thresholds. Vermont has five tax brackets, and the rates charged on income in those brackets range from 3.55 percent to 8.95 percent. Few people pay at the highest rate because it applies only to taxable income above \$388,350.¹ Vermont also allows more deductions and exemptions than many other states.

The personal income tax is Vermont's largest single source of General Fund revenue—50 percent in fiscal 2013.²

¹ Tax Year 2012

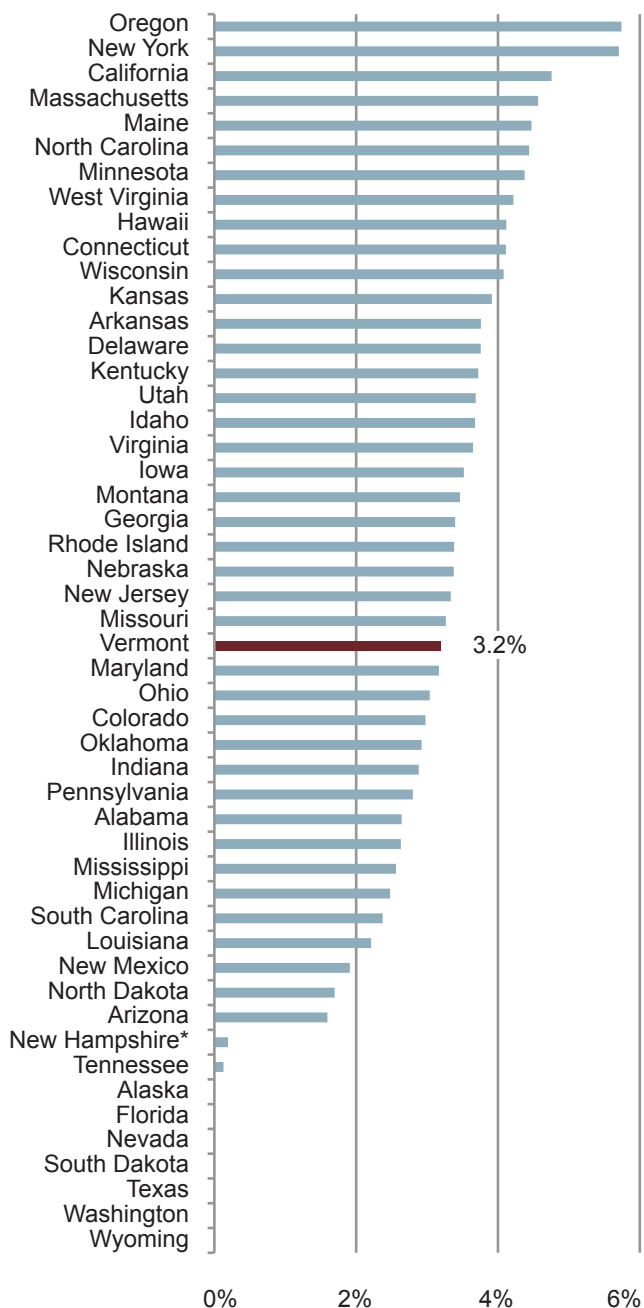
² [Economic Review and Revenue Forecast Update](#), July 2012

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Vermont is Still in the Middle Nationally

Income tax revenue as a percentage of AGI, 2010



Data source: IRS, AGI CY2010; U.S. Census, individual state income tax CY2010

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