

Vermont Legislative Joint Fiscal Office

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ISSUE BRIEF

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DRAFT Response to the Recent Tax Foundation Tax Burden Study cited by the Governor

(The full report can be found at: <http://www.taxfoundation.org/files/sr153.pdf>)

The Tax Foundation's special report found Vermont's state and local taxes as a percent of personal income to be the highest in the country. The states' per capita tax burden ranked 5th according to the report. Any examination of tax types involves numerous details that make accurate and meaningful comparisons difficult and contingent on caveats. Each state's tax structure is a complex, layered system of local, county and state taxes that affect individuals and businesses in a variety of ways. While taxes are not low in Vermont, there is some important information not included in the report that makes these statistics misleading.

The US Census data on state and local property tax collections do not account for Vermont's education property tax adjustment. This is due to the state's practice of reporting the gross property tax amount rather than the net, or actual, amount of taxes owed after income sensitivity adjustments. More than half of the homestead property taxpayers in Vermont pay a reduced amount of education tax based on their household income. In 2006, the adjustment to the education property tax for these taxpayers amounted to more than \$106.6 million. Consequently, Vermont's per capita state and local property tax revenue is overstated by about \$171 per person. If the figures are adjusted, Vermont's rank drops from 1st to 3rd in tax burden as a percent of personal income (reduced from 14.1% to 13.6%) and the per capita tax burden moves from 5th at \$5,387 to 7th at \$5,216.

The Tax Foundation study, through an "economic incidence analysis" accounts for some, but not all, tax types that are imported or exported between the various states. According to the Tax Foundation, Vermont imports from other states \$55.3 million in tax incidence from other states' severance, corporate income, and "tourism" taxes to resident Vermont taxpayers. **This partial incidence analysis does not consider property taxes paid by non-Vermont residents, or the amount of captive insurance premiums exported to multinational corporations, among other tax incidence issues.** Failure to consider these elements of tax incidence, while including others, overstates the amount of taxes paid in Vermont.

Vermont has the second highest percentage of second homes in the country after Maine according to the US Census data.¹ Because property taxes comprise approximately 30% of total revenue in Vermont, it is especially important to consider the economic versus legal incidence in this area. Vermont exports approximately \$244.0 million of the property taxes paid on second homes and commercial properties by non-residents or \$391 per person. Another contributing factor to Vermont's high rank is due to the state being the largest domicile for the captive insurance industry in the country. The businesses that take advantage of the benefits of captive insurance are multi-state or multinational corporations, not resident Vermont taxpayers. Insurance premiums taxes collected from this unique industry accounted for \$22.7 million in FY 2006 or \$37 per person. Vermont's tax burden is exaggerated by the Tax Foundation's failure to consider these tax types in its incidence analysis while including others that are more beneficial to state with different tax systems.

¹ 14.6%, second to Maine at 15.6% (<http://www.census.gov/hhes/www/housing/census/historic/vacation.html>)

Lastly, this report does not take into account the distribution of the tax burden. Per capita income measures are an average of total taxes divided by the population of a state. These do not measure the distribution of the tax burden among taxpayers of various income levels. Vermont has a small population and personal income per capita ranks in the middle of the 50 states. Vermont is often cited as having one of the more progressive tax structures in the country meaning that the higher a taxpayer's income, the higher the rate of tax. The Tax Foundation's report does not include any analysis of the equity of a state's tax system.