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### Studying Vt. tax structure proves taxing

By [Peter Hirschfeld](#) Vermont Press Bureau

MONTPELIER – Earlier this week, during a daylong hearing at the Statehouse, business leaders from Vermont companies large and not-so-large delivered a stern ultimatum.

"As a small business owner in Vermont I am frightened," Kevin Owens, owner of a Winooski marketing firm, told a three-person commission appointed to study the state's tax structure. "I have to say, quite honestly, I'm also slightly bitter."

Owens said Vermont's steeply progressive tax system – one in which high-income earners shoulder the lion's share of government's total revenue needs – has alienated the successful entrepreneurs that drive the state's economy. Push them any further, he said, and the state will force them out of Vermont.

"How is it we have a culture in state politics that seems to see successful entrepreneurs and risk-takers as selfish and evil?" Owens asked. "... Our tax policy in Vermont is a loud statement to all the present and future risk-takers. Are they encouraged to come and stay here? Or are they not?"

Owens was one of seven business leaders testifying before the Blue Ribbon Tax Structure Commission, a panel created in by the Legislature during the last session. The commission, which includes appointees tapped by the Speaker of the House, Senate President and Governor, has become a new outlet for the rising frustrations of Vermont's business community.

On Tuesday, members of the Lake Champlain Regional Chamber of Commerce and Greater Burlington Industrial Corporation spoke in a united front: broaden the tax base and ease up on rich folks and successful companies, or suffer the consequences.

"Every year, when I get my tax statement from my accountant, he says, 'well, this is the cost of living in paradise,'" Ted Adler, a 1999 graduate of Middlebury College and owner of a 20-employee media company, told the commission. "There are other paradises to be found."

Ernie Pomerleau, a member of the chamber, treasurer of the GBIC and principal at Pomerleau Real Estate, said changes in tax code enacted during the last legislative session elevated longstanding concerns to a crescendo. Higher rates on most capital-gains income, and the elimination of tax deductions for people paying taxes outside Vermont, he said, have increased the burdens on high-income earners despite a modest decrease in the top marginal rate.

"They claim they dropped the rate, but I am paying significantly more in state taxes this year because they changed all the schedules," Pomerleau said, noting the \$26 million in additional tax revenue raised as a result of changes will come largely out of the pockets of high-income earners. "I'm looking at this going, 'dear God, when does it end?'"

The Lake Champlain Regional of Commerce presented the Blue Ribbon commission with recommendations drafted by its own summer tax-study committee. Cutting fat from state government, broadening the tax base and lowering rates for successful individuals and businesses, the Chamber says, will energize commercial activity and spark the job creation needed to buoy Vermont's sinking economic indicators.

"We have to groom more employees, we don't have to take more money from employers. Our mantra is that the top people are already paying more than their fair share," Pomerleau says. "Every politician talks about jobs. Why not go to people who provide jobs and ask them how to do it?"

It's unclear whether the tax-structure commission will become the vehicle for the kind of change Pomerleau and other business leaders seek. House Speaker Shap Smith is largely responsible for the creation of the commission but says he has no preconceived ideas about how to change the tax system.

"We frequently hear concerns expressed about our tax structure I wanted to put together a group of people outside of the political discourse to look at those concerns and make some recommendations," Smith says. "I'm not coming at this from a particular angle. What I want is some objective answers to the questions we hear."

Smith says he doesn't want a system that raises less revenue, nor is he angling for one that raises more. Vermont could, however, change the way in which it raises the money needed to fund state government. Pomerleau and others hope any alterations will take some of the sting off the state's highest earners.

According to a study by legislative staff, Vermonters making more than \$100,000 annually comprise slightly more than 10 percent of total taxpayers, yet will foot more than two-thirds of Vermont's total tax bill this year.

The more a Vermonter makes, the more disproportionate his or her share of total taxes becomes. People making \$1 million or more amount to one-fifth of one percent of all taxpayers; they will be responsible for a full 15 percent of total tax revenue.

But neither Democratic leadership in the House or Senate, nor the Administration of Gov. James Douglas, it seems, want to increase tax burdens on middle- and lower-income residents.

"I think it's fair to say all Vermonters feel like they're bearing too much of the tax burden in Vermont," Shumlin says. "We are taxed out in Vermont. There isn't any more tax capacity."

Shumlin says he's looking for tax reforms that revise the revenue-generating structure in such a way as to stimulate new economic growth. Tweaking the state's reliance on its main revenue generators – sales, income and property taxes – could, according to Shumlin, raise the same amount of money in a more business-friendly way.

"The question is, is there a tax structure that would grow wealth, grow jobs and eventually create more revenue for Vermont?" Shumlin says. "Vermont's problem now is our spending is outstripping revenue, and we have to look at that structure and ask what are we doing wrong?"

Smith says other states have undertaken similar studies of late. He points to a study of California's tax code, released last week, that calls on the state to repeal its sales and corporate taxes, flatten the income tax rate, and tax a wider variety of businesses. The proposal also suggests a "business net receipts tax" that would apply to all companies doing business in California, including many based in other states.

Smith says he's intrigued by the findings, and wants to see whether Vermont could benefit from similar tax-structure overhauls.

"There is this argument made that if you have a different tax structure, you will have more economic activity and therefore will have more revenue generated," Smith says. "I'm not convinced that's the case, but if somebody wants to make the argument, I will at least listen."

William Schubart, Smith's appointee to the Blue Ribbon commission, currently serves as the panel's chair. Schubart, chairman and founder of Resolution, Inc., says that in its three meetings, the commission has only begun to parse the nuances of tax structure and its implications on payers in the system.

The commission also includes Shumlin appointee Kathy Hoyt, former secretary of administration under Gov. Howard Dean; and Douglas pick William Sayre, chairman of the board of Associated Industries of Vermont.

Eventually, Schubart says, the commission will craft recommendations based on the expert testimony it receives over the course of its two-year life span.

"I think the assumption often is these kinds of exercises are focusing on how do we get more money, and that is not the discussion," Schubart says. "The discussion really is about fairness, and what are the principals of good tax structure. And we're not there yet."

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