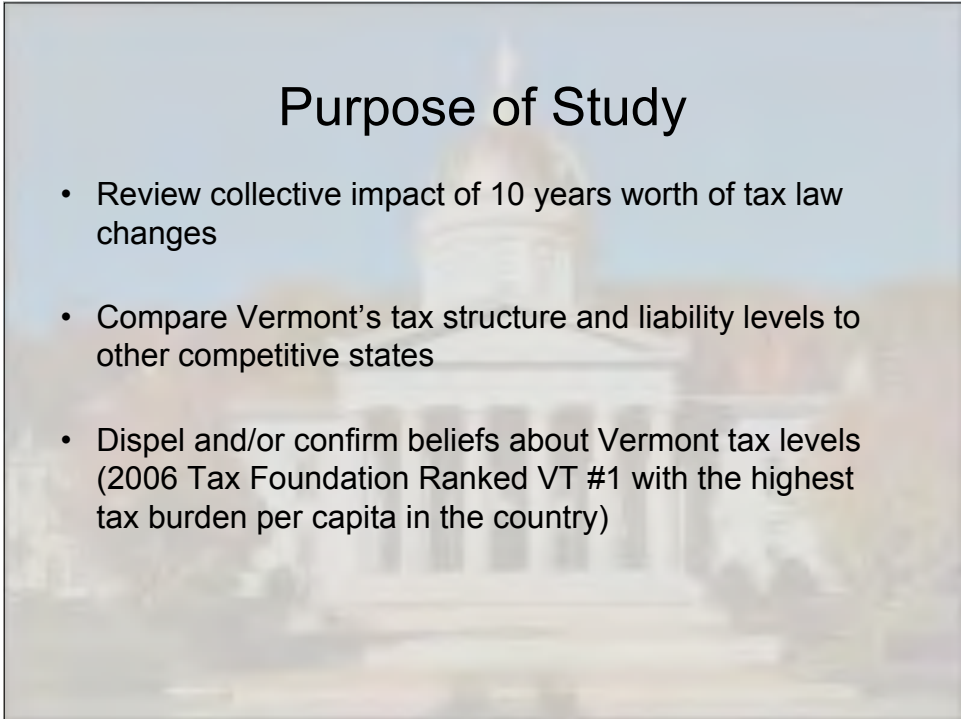


Vermont Tax Study
Volume II
Analyzing and Comparing
Tax Levels Using the Representative
Individual/Firm Approach



Purpose of Study

- Review collective impact of 10 years worth of tax law changes
- Compare Vermont's tax structure and liability levels to other competitive states
- Dispel and/or confirm beliefs about Vermont tax levels (2006 Tax Foundation Ranked VT #1 with the highest tax burden per capita in the country)

10-Year Update of the 1996 Study

- Volume I is a comparative analysis using census and other data
- Volume II uses case studies to compare individual and corporate tax levels
- Vermont is compared to 11 other states: New England (ME, NH, NY, MA, CT) plus Florida, Minnesota, North Carolina, Washington, Oregon and Wisconsin
- 2005 tax year data used throughout the study

Individual Case Studies

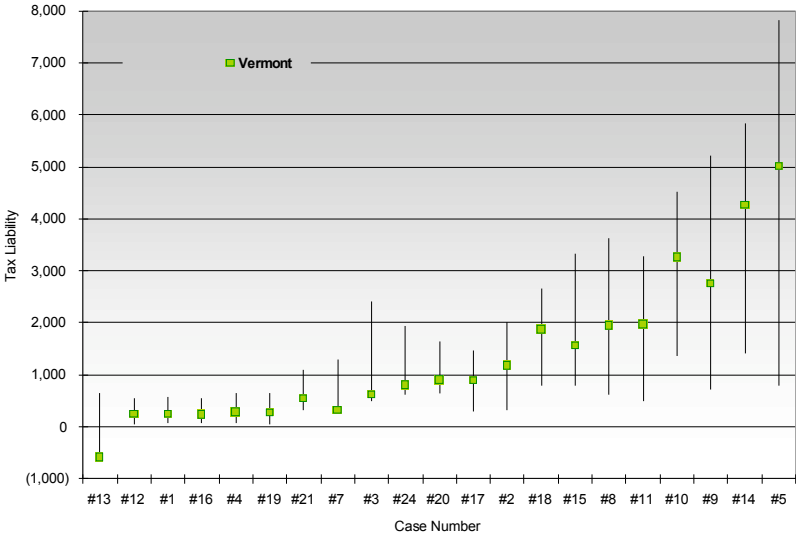
Estimate of total tax liability includes

- **Income Taxes** 312 personal income tax returns completed (24 federal and 288 state returns)
- **Sales Taxes** (including meals and gasoline where applicable).
- **Gasoline Excise Tax**
- **Motor vehicle license and registration fees**

Individual Cases List

Case #	AGI	Status	Exempt	Case #	AGI	Status	Exempt
#4	1,868	Single	0	#20	26,810	MFJ	2
#1	9,800	Single	1	#11	45,000	MFS	1
#16	9,800	Single	1	#18	45,624	Single	1
#12	13,200	MFJ	2	#15	50,000	HOH	4
#13	13,200	HOH	2	#8	50,372	MFJ	4
#19	13,200	MFJ	2	#10	63,894	Single	1
#21	17,504	MFJ	2	#9	80,743	MFJ	4
#17	19,429	Single	1	#14	88,011	Single	1
#24	23,862	Single	1	#5	109,320	MFJ	4
#7	24,135	MFJ	3	#22	357,934	MFJ	5
#2	24,500	Single	1	#6	715,868	HOH	2
#3	24,981	MFJ	4	#23	1,066,309	MFJ	4

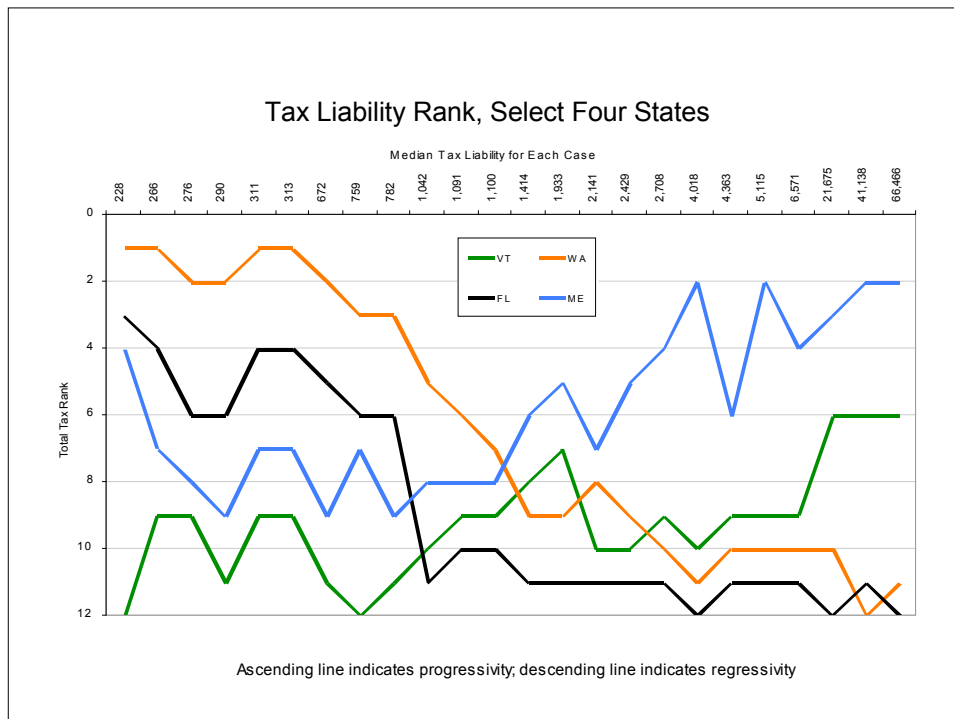
Tax Liability Range and Vermont Rank for Individual Case Studies



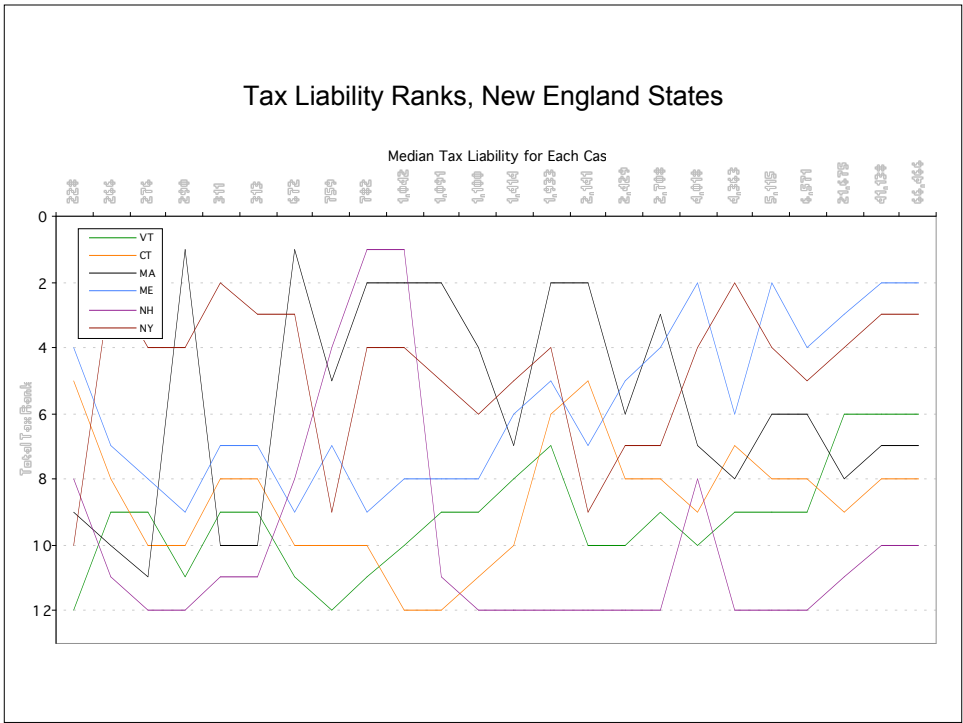
The range of total tax liability in each of the comparison states is depicted with a vertical line, and Vermont's relative ranking is shown by the green square.

Summary Findings Individual Cases

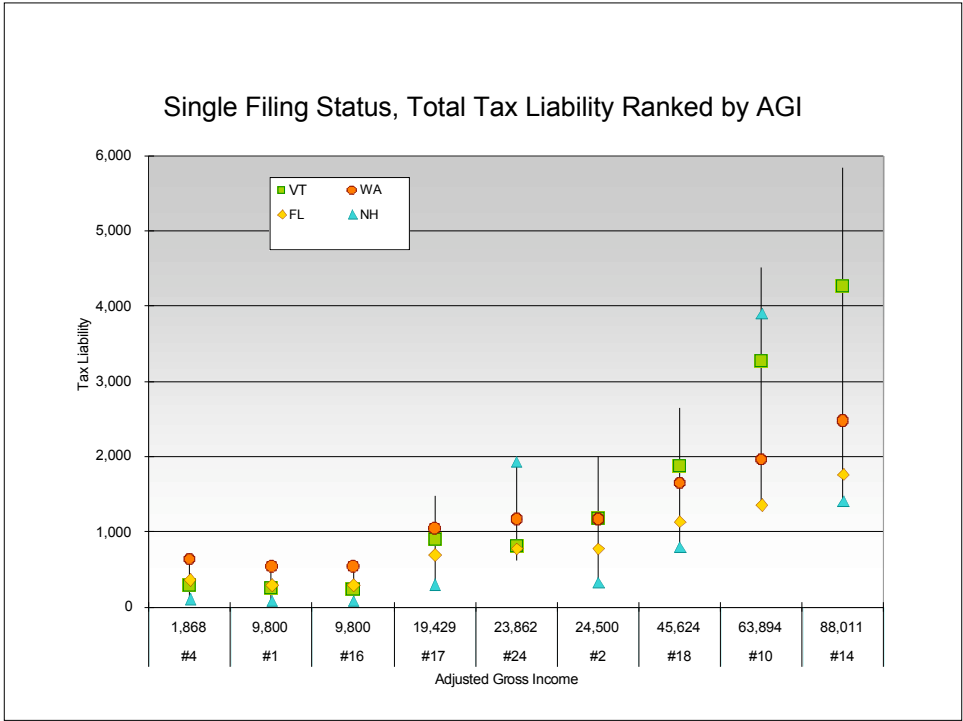
- Vermont has a highly progressive overall state tax structure with relatively low taxes on lower-income taxpayers; relatively higher taxes on upper-income taxpayers.
- Driving the results is the individual income tax, which comprises the majority of the overall tax liability calculated for most taxpayers.
- Many of the comparison states have progressive state tax structures, Vermont's tends to be the most progressive.
- Difficult to draw unambiguous conclusions when comparing state and local taxation, illustrated by outliers that contradict the overall conclusions.

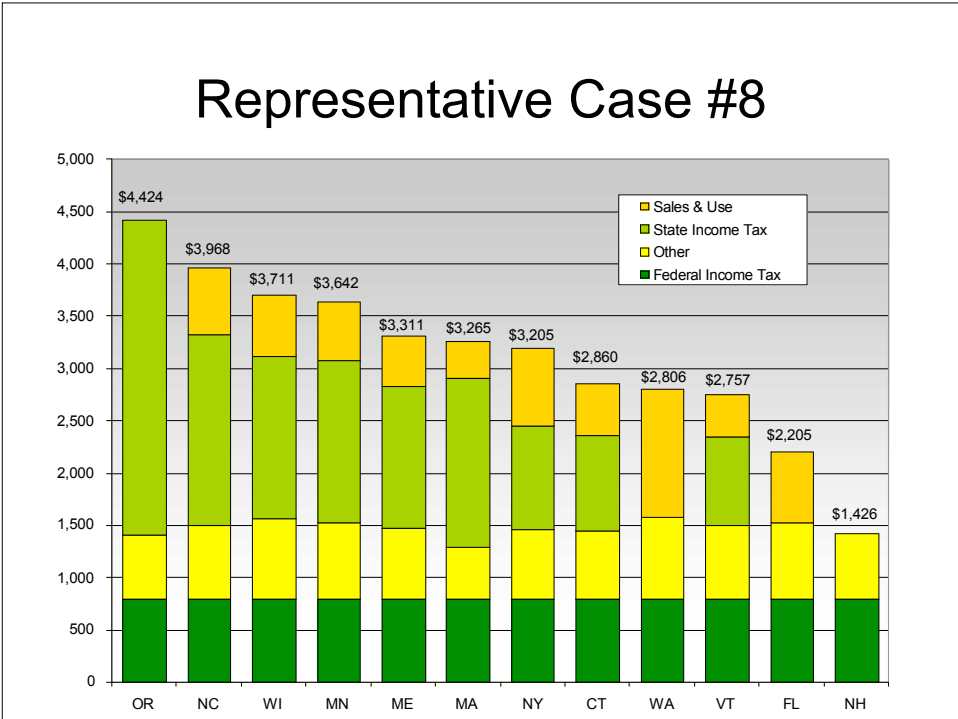
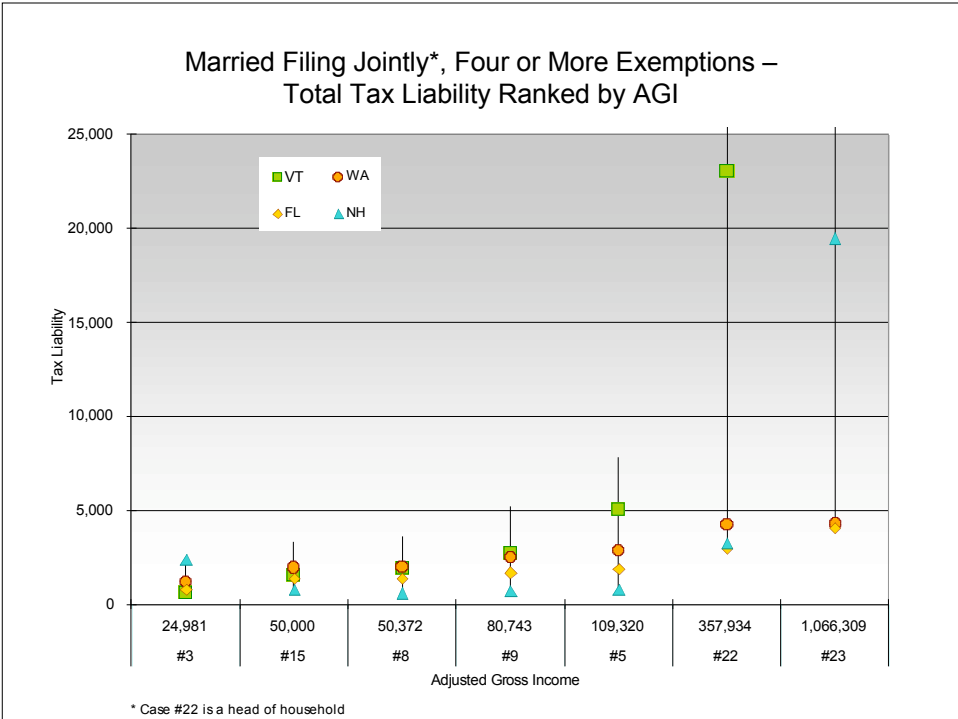


Tax Liability Ranks, New England States

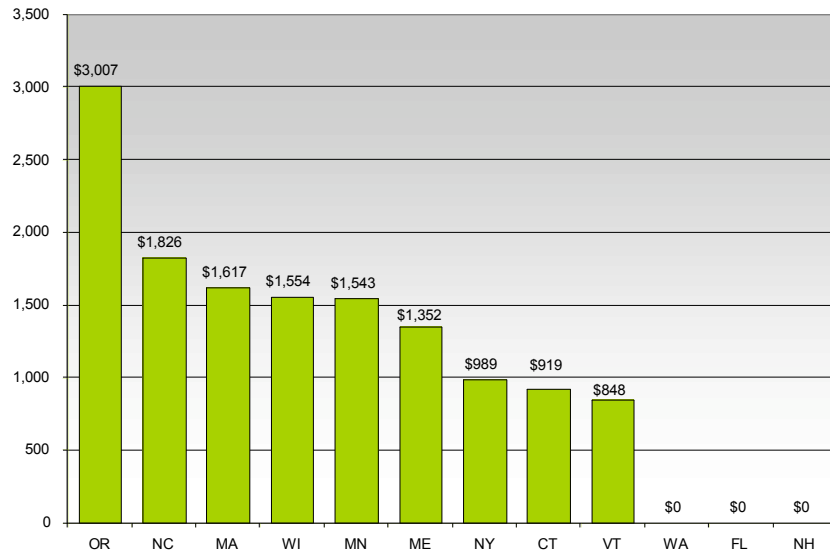


Single Filing Status, Total Tax Liability Ranked by AGI





Case #8 Estimated State Income Taxes



Summary Findings Continued

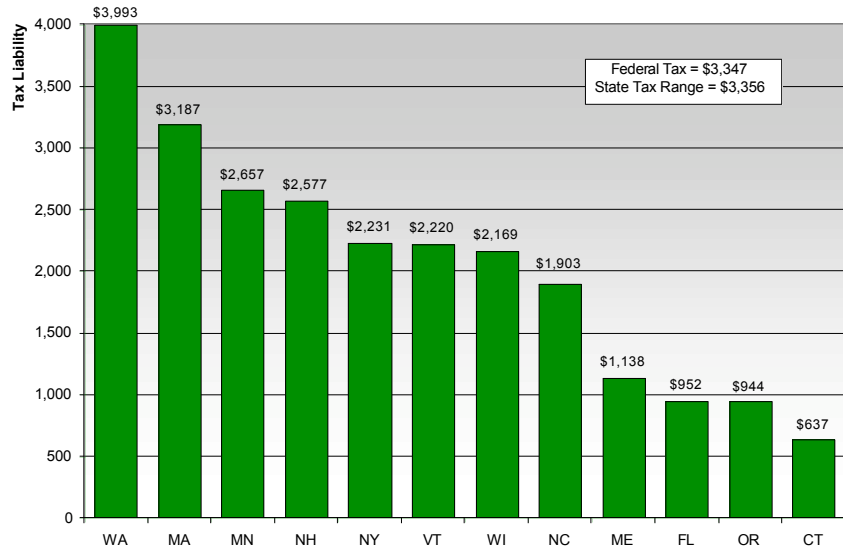
- **Income Tax Liability** – Income tax levels for Vermont taxpayers ranked in the middle or lower half among the comparison states for nearly all of the case studies.
- **Sales and Use Tax Liability** – Vermont ranked ninth among the 12 comparison states in sales and use tax liability, up from 10th a decade ago.
- **Selected Other Taxes** – Vermont has the highest taxes on served meals and among the highest motor vehicle license and registration fees. Vermont has the second lowest gasoline excise tax rate of the comparison states.

Corporate Case Studies

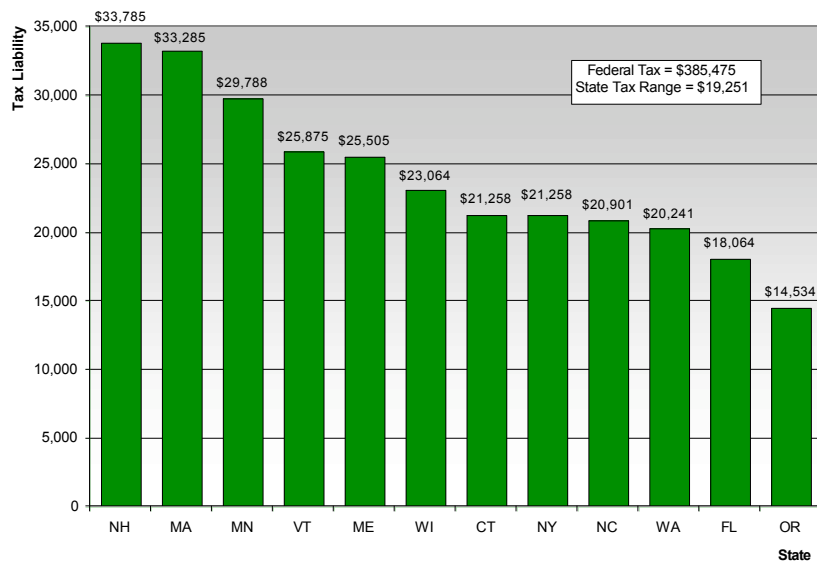
Brief Description

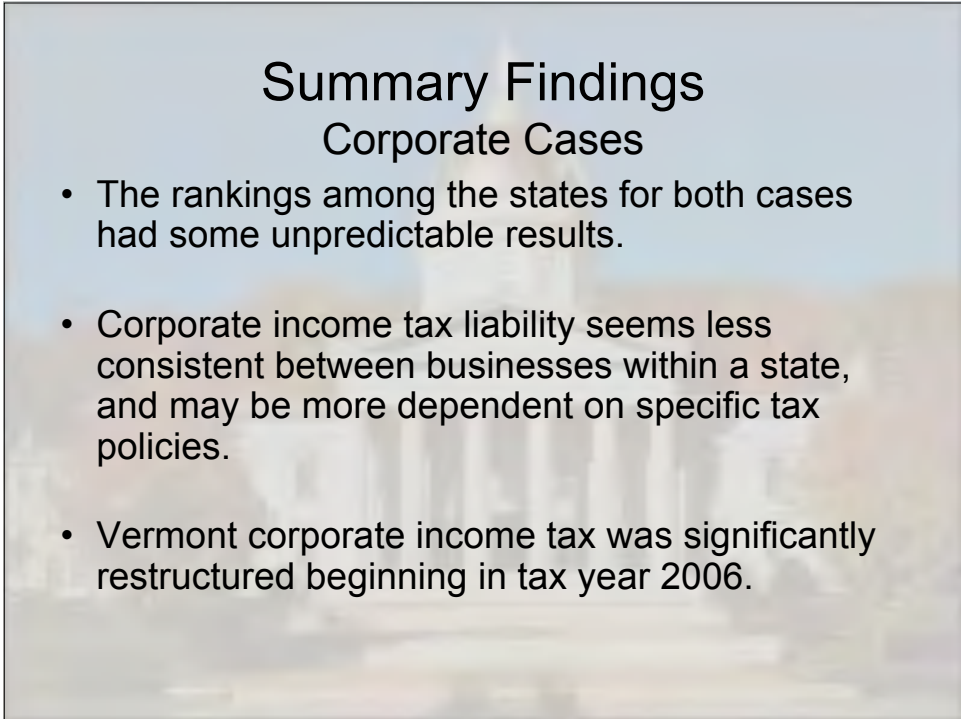
Corporate Case Study A	Corporate Case Study B
Single state corporation	Multi-state corporation; 25% of business in each of 4 states
Taxable income = \$22,315 8.1% marginal rate bracket in Vermont	Taxable income = \$1.1 million 9.75% marginal rate bracket in Vermont
Claims federal bonus depreciation	Has a net operating loss (NOL)
	Claims a federal qualified production activities deduction (QPAI)

Corporate Case Study A



Corporate Case Study B






Summary Findings

Corporate Cases

- The rankings among the states for both cases had some unpredictable results.
- Corporate income tax liability seems less consistent between businesses within a state, and may be more dependent on specific tax policies.
- Vermont corporate income tax was significantly restructured beginning in tax year 2006.



Criticism and Support

Negative

“The two most serious problems with the report are that it ignores the property tax and that it only looks at 12 states. These limitations are understandable, but they still significantly weaken the study.”

Art Woolf, Rutland Herald

“Today’s news report about the Legislature’s new report on Vermont’s tax burden – and their effort to exclude the property tax from the calculation – is another indication of how out of touch the majority controlling the Legislature is with the day-to-day challenges of our working families and small businesses. The underlying argument of this report – that our taxpayers could afford to pay a little more – is disturbing and fundamentally disrespectful to working Vermonters all across our state who are struggling to make ends meet.”

Official Statement of the Governor on House Democrat’s Study of State Tax Burden

Positive

“The JFO study is helpful, but is really a detailed look at a handful of “trees in the forest” and not a study of the larger tax system. Case studies always add helpful insights on the impact of tax policy on the ground and comparing them to other states is helpful.”

Tom Pelham, Vermont Tax Commissioner (Rutland Herald article)

“It contains important information that helps debunk the mantra about VT having the highest “tax burden” in the country. Unlike the flawed per capita approach, the JFO study gets to the heart of the matter.”

Doug Hoffer, High Road Vermont

