

CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

VERMONT

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Vermont is rated as having a moderate risk of a structural deficit based on its score of four on the risk scale for structural deficits.



- In Vermont, the percent of sales subject to sales tax declined by 11 percentage points from 1990-2003, exceeding the US median decline of 8.0 percentage points. Moreover, Vermont's sales tax covers less household services than the average state.
- In Vermont, corporate income taxes as a share of total taxes declined by 6.5 percentage points from 1979-2002, surpassing the US average decline of 5.5 percentage points.
- Between 1994 and 2000, Vermont reduced its personal income tax rate. Between 2001 and 2004, Vermont increased sales and cigarette taxes. This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.
- Vermont's income taxes are also linked to the federal standard deduction, so that any increase in the federal standard deduction results in an increase in the Vermont standard deduction, which reduces Vermont tax revenue.
- Lastly, although this paper did not categorize Vermont as having unusually high spending needs, it does face some spending pressures from: a growing elderly population and the number of students with special needs.