Currently, Vermont allows taxpayers two options to subtract certain kinds of expenses from their income. They can take a standard, lump-sum deduction that covers things like health care, state and local taxes, and mortgage interest. Or they can list each of these expenses and take a larger deduction if the itemized expenses are greater than the standard deduction. Itemized deductions reduce taxable income, providing disproportionate benefit to wealthy taxpayers, who pay higher marginal tax rates .

Itemized Decoctions are regressive:
Unlike tax credits, the benefit taxpayers receive from reducing taxable income with itemized deductions depend on their top marginal tax rate. For instance, when a middle income taxpayer with a top marginal rate of 15% contributes $100 to a charity, they receive a $15 deduction, while a millionaire with a top marginal tax rate of 39.6% who contributes $100 to charity receives a $39.60 deduction .

Support the Governor's Proposal:
Nearly every state allowing itemized deduction utilize federal itemized deductions rules for simplicity, however most states require itemizers to add back state income taxes paid when calculating their state income tax itemized deductions. Vermont is one of half a dozen states that allow taxpayers to itemize and deduct state income taxes paid from their state income tax. Vermont could raise $15 million while making its income tax code simpler and more progressive by eliminating the itemized deduction for state income taxes.

Encourage them to go farther:

- Itemized Tax Deductions cost Vermont roughly $67 million in 2014, while providing little benefit to low- and middle-income taxpayers.

- Vermont is currently one of 26 states which generally follow federal rules for itemized tax deductions.

- In New England, Vermont and Maine are the only two states that mirror federal rules for itemized tax deductions, while New York limits itemized deductions.

- Raising revenue through the state income tax is also supported by the federal deduction for state income taxes, or federal offset. Essentially the federal government will cover 25%-39.6% of the tax increase for itemizers through federal itemized deductions for state income taxes .

1) Cap Mortgage Interest Deduction

- Currently, fifteen of 41 states who assess a state income tax limit or disallow mortgage interest deductions.
- Income tax deductions disproportionately benefit wealthy tax payers, as the value of the deduction is based on the top marginal income tax rate paid by the tax filer.
- The mortgage interest deduction further exacerbates inequality by providing preferential tax treatment to homeowners, while generally lower-income renters do not receive a tax break
- Capping the mortgage interest deduction at $15,000 would raise $4-5 million.
- JFO Estimates that the mortgage interest deduction, if left unchanged, will cost Vermont $31.2 million in FY16