Finance Committee Testimony

Reasons why raising Revenue Is the right choice.

What are the implications of cuts vs revenue?

- The State of Vermont is Vermont’s largest employer
- The designated agencies and other home and community based services account for a significant amount of additional employment
- What happens when these middle and lower class employees endure pay cuts and reductions in force?

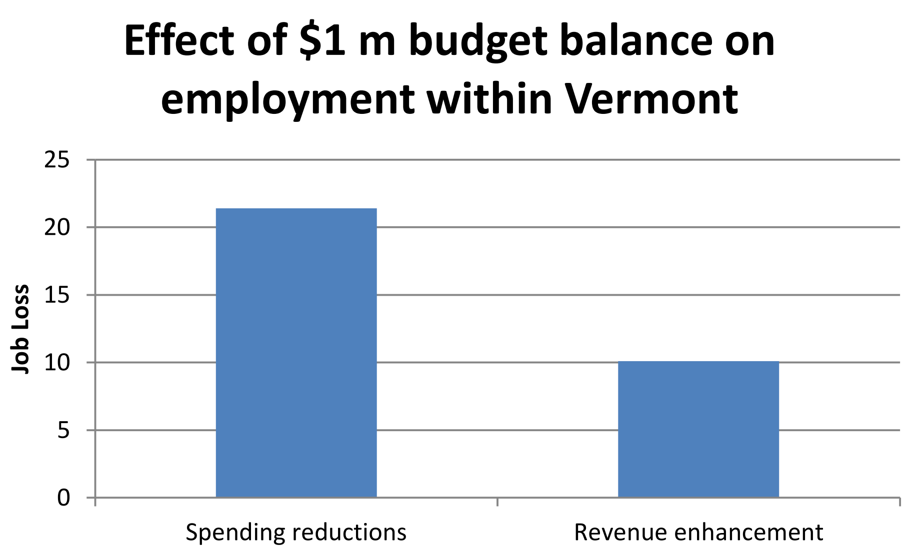
LESS TAX REVENUE

- See the attached discourse from Gerald Friedman, Professor of Economics and Department Chair, the University of Massachusetts at Amherst:

Table 1. Employment reductions in Vermont associated with alternative budget balancing measures, state layoffs versus revenue enhancements.

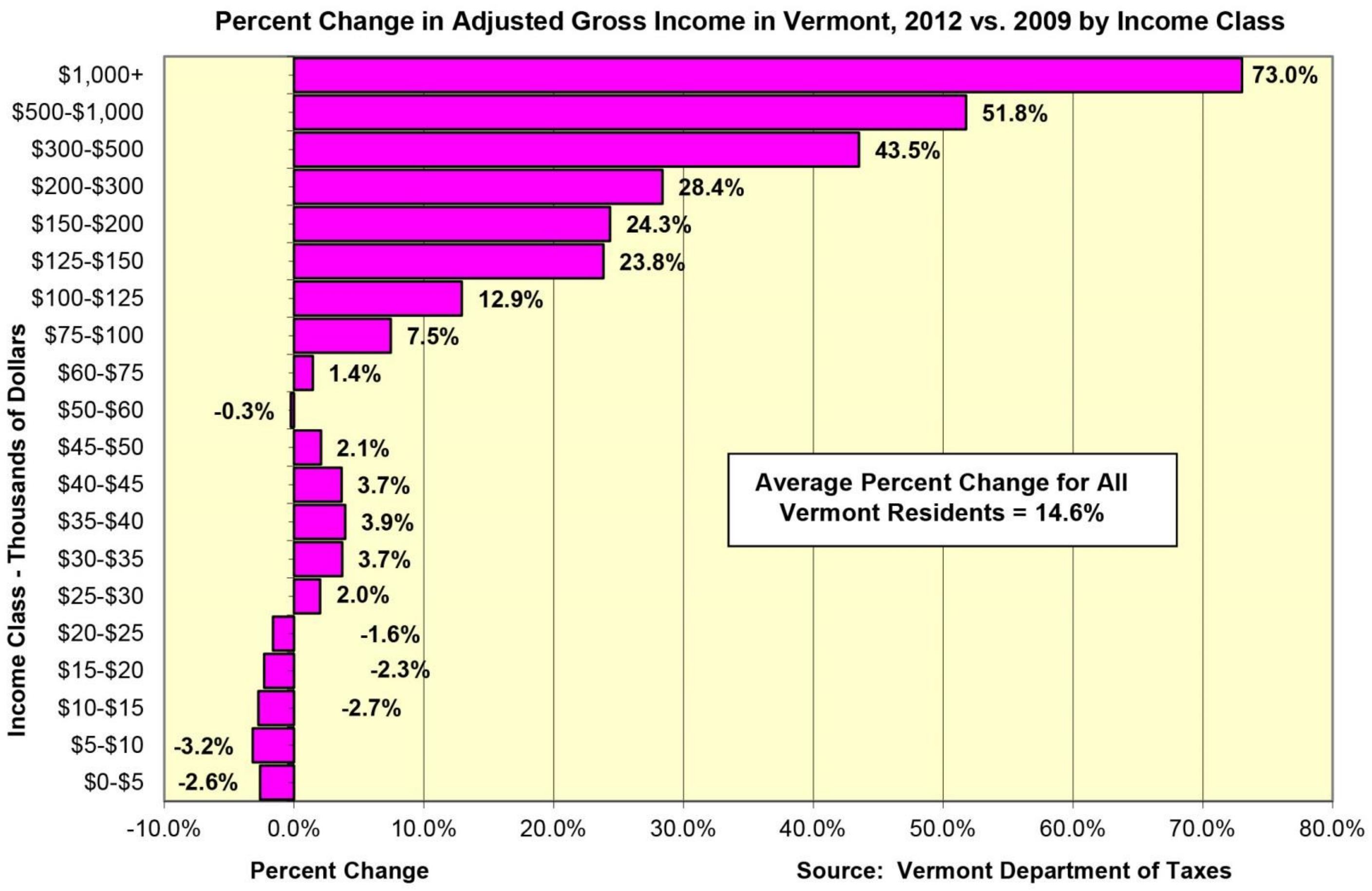
Budget balancing	Effects of state layoffs	Effects of revenue enhancements	Extra job losses caused by state spending reductions
$5 million	145	55	90
$10 million	290	111	179
$15 million	435	166	269

Source: Implan program with an addition 10% added for effect of income reductions on state budget balance.



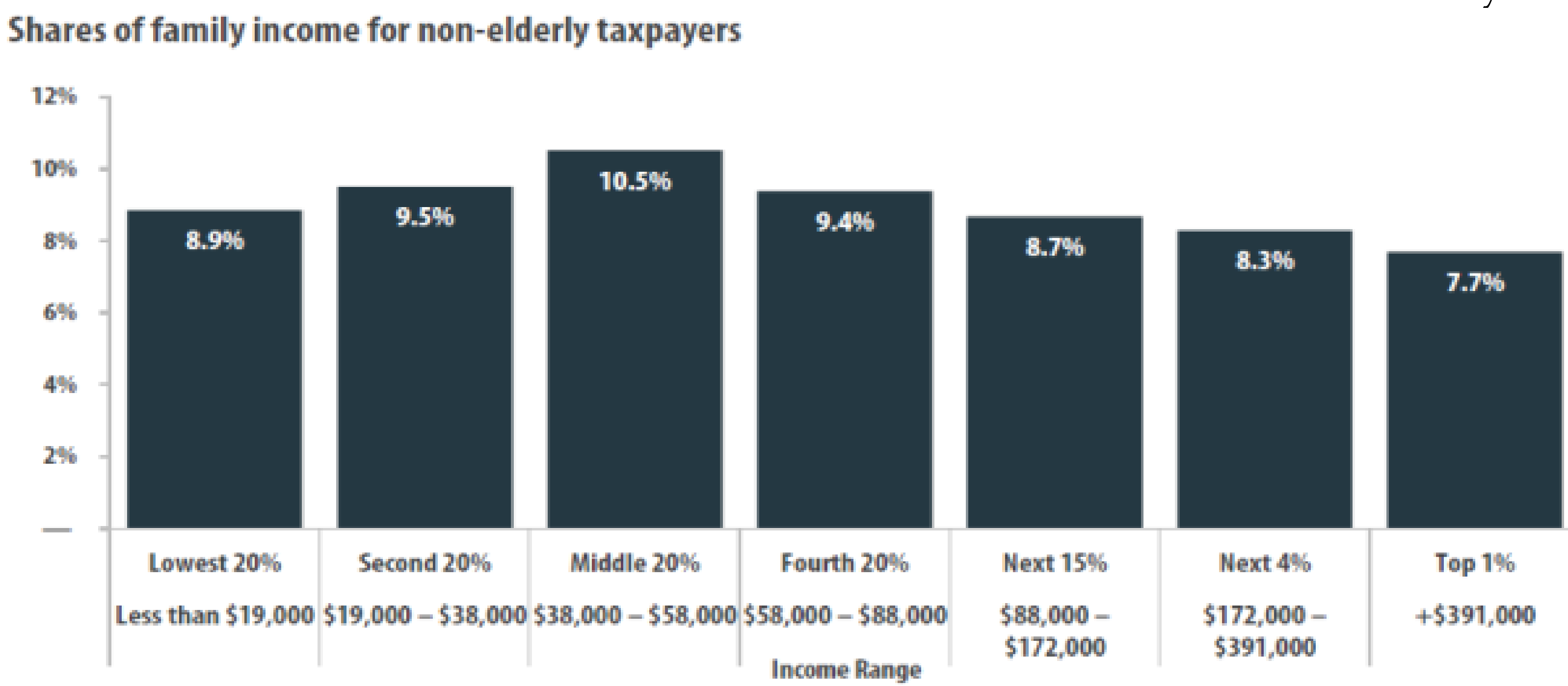
Where should the Revenue come from?

- We must ask ourselves, who has been gaining these past years, and who is losing?



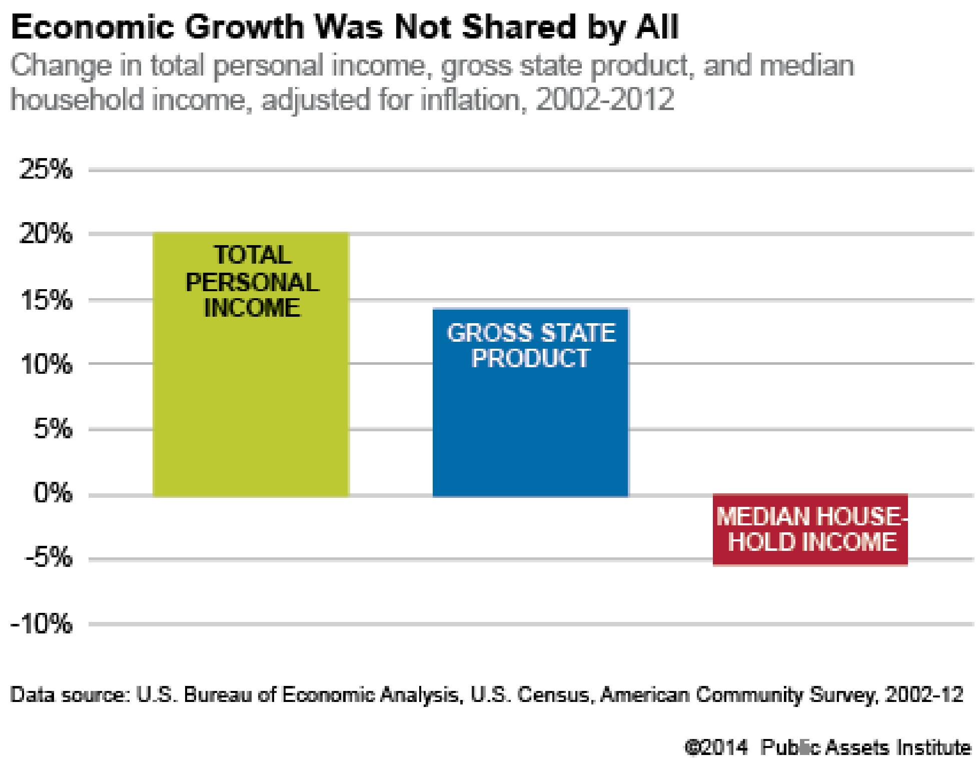
Who is providing the Revenue now?

- Middle and lower class households are paying more of the revenue the State requires than the highest earners.
- Additional cuts will equate to less revenue and more spending.
    - from Institute for Taxation and Economic Policy



What does this mean?

- What is the impact of these realities? Clearly trickle down economics has failed.



How do we fix this problem?

- 1) Tax capital gains like Wages
- 2) Cap Mortgage Interest Deduction
- 3) The Hotel Occupancy Fee
- 4) Minimum Income Tax on High-Earners

1) Tax capital gains like Wages

- Capital gains = profits from sale of assets (i.e. stocks, bonds, investment real estate)

- Eliminates $5000 OR 40% Capital Gains income exclusion raises $11.5 million.

- Vermont is one of eight states offering this kind of tax break for capital gains income.

- In 2013, 83% of the Capital Gains Tax Break went to Vermonters earning over $150,000 and out-of-state tax filers.

2) 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.
- Capping the Mortgage Interest Deduction would affect 6,800 Vermonters and 1,700 out-of-state tax filers.

3) The Hotel Occupancy Fee

- A new revenue idea which imposes a $2 nightly fee per hotel room occupied.
- The fee would be well targeted, raising revenue predominantly from out-of-state tourists.
- Vermont's tourists have more disposable income due to unprecedented income inequality and low gas prices.
- The hotel occupancy fee is estimated to raise $11 million.

4) Minimum Income Tax on High-Earners

- Due to Vermont's loophole-ridden income tax code (largely income tax deductions)
- Some high-income earners paid no income tax at all.
- Vermont's average effective income tax is 3.35%.
- In 2013, 139 Vermont income tax filers with incomes above $125,000 paid no tax.
- In 2013, five of 422 Vermonter's with income above $1 million paid no income tax.
- A minimum tax of 3% on tax filers earning over $125,000 would yield $1-$2 million in revenue.

In closing

- When looking for revenue, lets look to a progressive tax code, rather than the regressive code we currently endure.
- As a 22 year resident of Montpelier, please consider asking your colleagues to raise the PILOT for State Buildings.
- This payment has been stagnant for nearly as long as I've lived in Montpelier, and shifts the tax burden to regressive property taxes, especially in Montpelier.