

# Overview of ITEP's Report, “Who Pays?” 7<sup>th</sup> Edition

House Committee on Ways and Means

Joyce Manchester

January 18, 2024

DM #373781



**JFO**

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://ljfo.vermont.gov>

# Outline

- What is ITEP?
- What does the “Who Pays?” report look at?
- Where does Vermont rank?
- How do “sister states” or neighboring states rank?
- What is included/not included in the analysis?



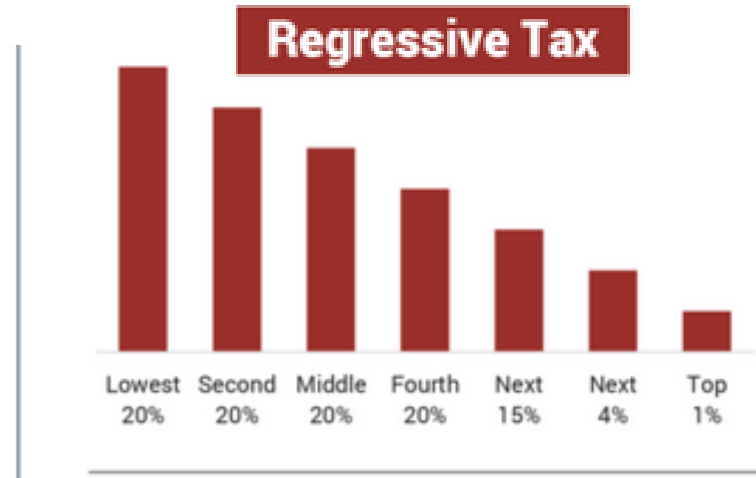
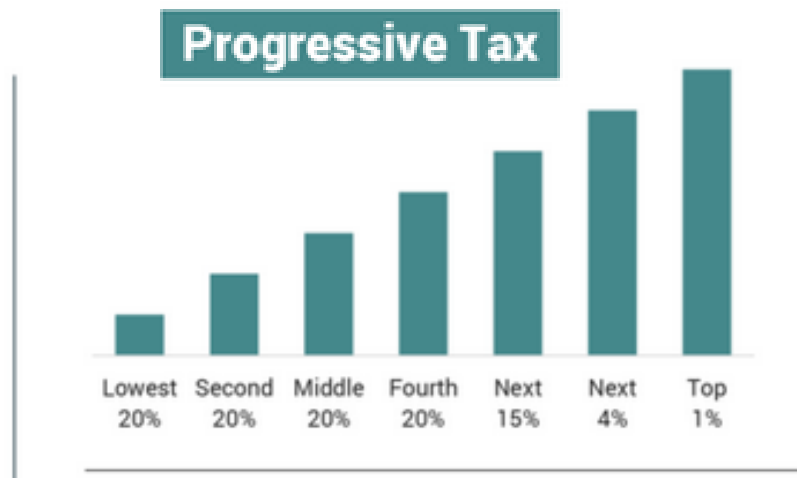
# What is ITEP, and what does the “Who Pays” report look at?

- ITEP is the Institute on Taxation and Economic Policy, a tax and budget policy advocacy group and 501(c)3 that focuses on state and federal tax policy issues
- *Who Pays?* examines how, and from whom, state and local governments collect tax revenue
- The report shows the impact of permanent tax laws on non-senior taxpayers, including the impact of all tax changes enacted through January 1, 2024, at 2023 income levels
  - Includes income taxes, consumption taxes, and property/education taxes at the state and local level
- Caveat: non-tax revenue is largely excluded from the analysis



# Ideally, how would states collect tax revenue?

- One of the “principles of a high-quality tax system” is fairness
- Do taxpayers with higher income pay larger shares of income as taxes?
  - Vertical equity: households with greater income pay a greater share of income in taxes; known as a “progressive tax”



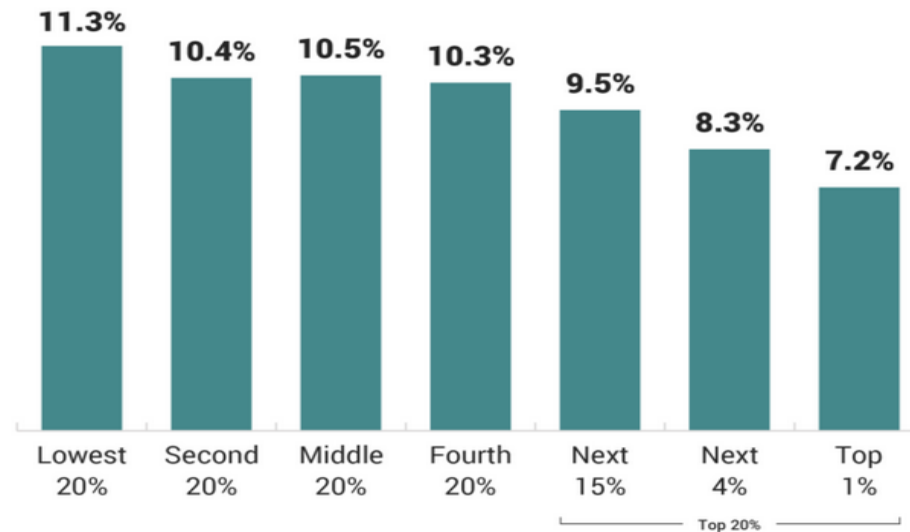
# Findings of the “Who Pays?” report

- Most state tax systems are regressive, meaning lower-income people are taxed at higher rates than higher-income taxpayers.

FIGURE 1

## Average Effective State and Local Tax Rates in the U.S.

State and local taxes paid by residents to their home states, as a share of income, for non-senior residents



Source: Institute on Taxation and Economic Policy (ITEP)



# Vermont



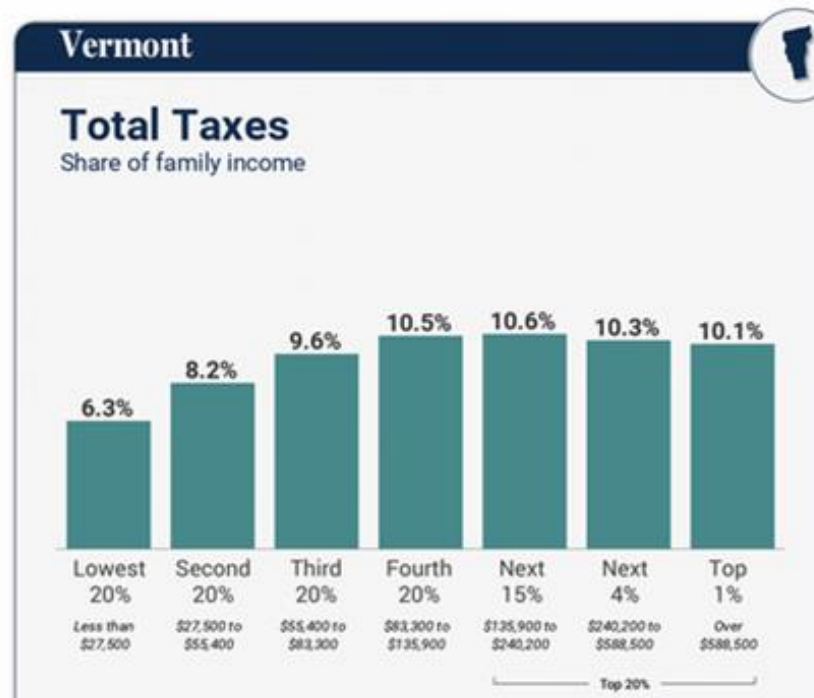
## ITEP Tax Inequality Index Ranking

RANK **49**

Vermont's state and local tax system does not worsen income inequality and ranks 49th on ITEP's Tax Inequality Index.

### State and Local Taxes as Share of Family Income

Lowest 20 percent	6.3%
Second 20 percent	8.2%
Middle 20 percent	9.6%
Fourth 20 percent	10.5%
Next 15 percent	10.6%
Next 4 percent	10.3%
Top 1 percent	10.1%



# The “more equitable” jurisdictions

- Vermont is among the ten jurisdictions with more equitable state and local tax systems
- Seven of the ten do not worsen income inequality overall and lessen inequality across some groups
  - California, DC, Maine, Minnesota, New Jersey, New York, and Vermont
- The other three have tax codes that tilt slightly regressive overall
  - Massachusetts, New Mexico, and Oregon
- None of the tax systems in the ten states are robustly progressive in a traditional sense
  - DC is least regressive overall, but the top 5 percent of DC families pay a lower rate (11.2 percent) than the bottom 95 percent (11.6 percent)



# Factors in states with more equitable tax systems

- Highly progressive income tax brackets and rates
- Use of targeted, refundable low-income credits
- Broad-based income taxes
- Higher reliance on income taxes and lower reliance on regressive consumption taxes





# States with rankings close to Vermont; neighboring states

- Least regressive states

- Minnesota: Rank 50
- Vermont: Rank 49
- New York: Rank 48
- California: Rank 47

- Neighboring states

- Connecticut: Rank 21
- Maine: Rank 45
- Massachusetts: Rank 44
- New Hampshire: Rank 18
- Rhode Island: Rank 31



# Minnesota



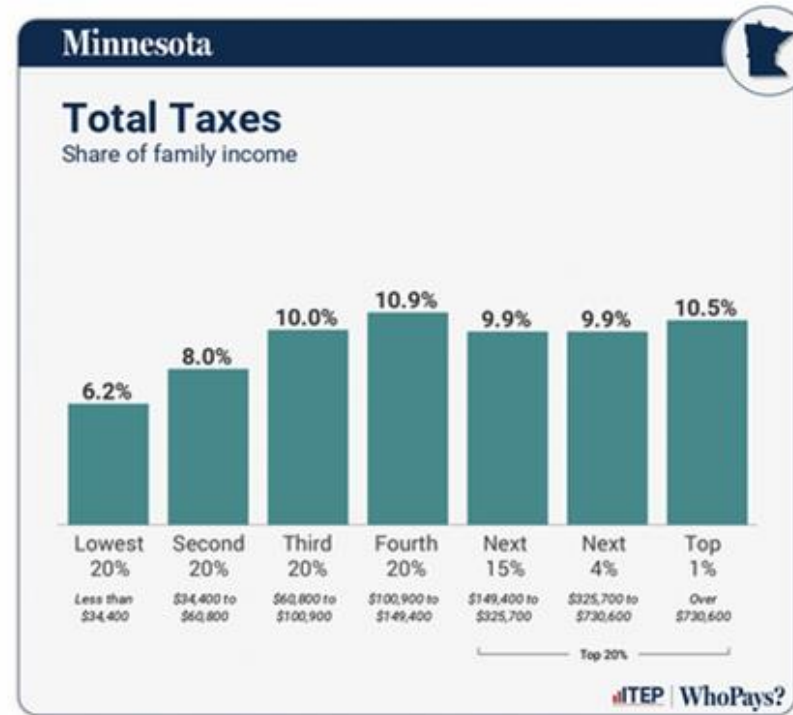
## ITEP Tax Inequality Index Ranking

RANK **50**

Minnesota's state and local tax system does not worsen income inequality and ranks 50th on ITEP's Tax Inequality Index.

### State and Local Taxes as Share of Family Income

Lowest 20 percent	6.2%
Second 20 percent	8.0%
Middle 20 percent	10.0%
Fourth 20 percent	10.9%
Next 15 percent	9.9%
Next 4 percent	9.9%
Top 1 percent	10.5%



# Vermont



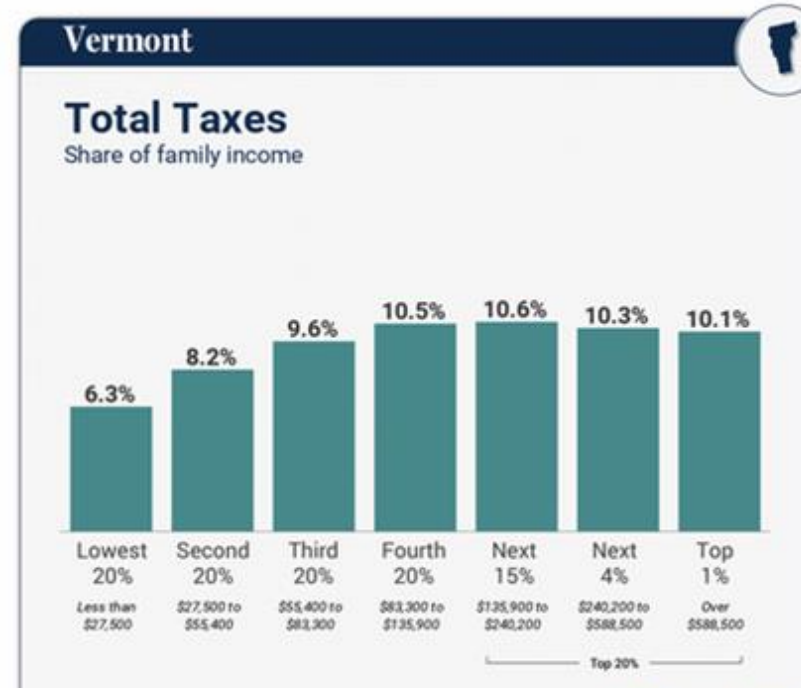
## ITEP Tax Inequality Index Ranking

RANK **49**

Vermont's state and local tax system does not worsen income inequality and ranks 49th on ITEP's Tax Inequality Index.

### State and Local Taxes as Share of Family Income

Lowest 20 percent	6.3%
Second 20 percent	8.2%
Middle 20 percent	9.6%
Fourth 20 percent	10.5%
Next 15 percent	10.6%
Next 4 percent	10.3%
Top 1 percent	10.1%



# New York



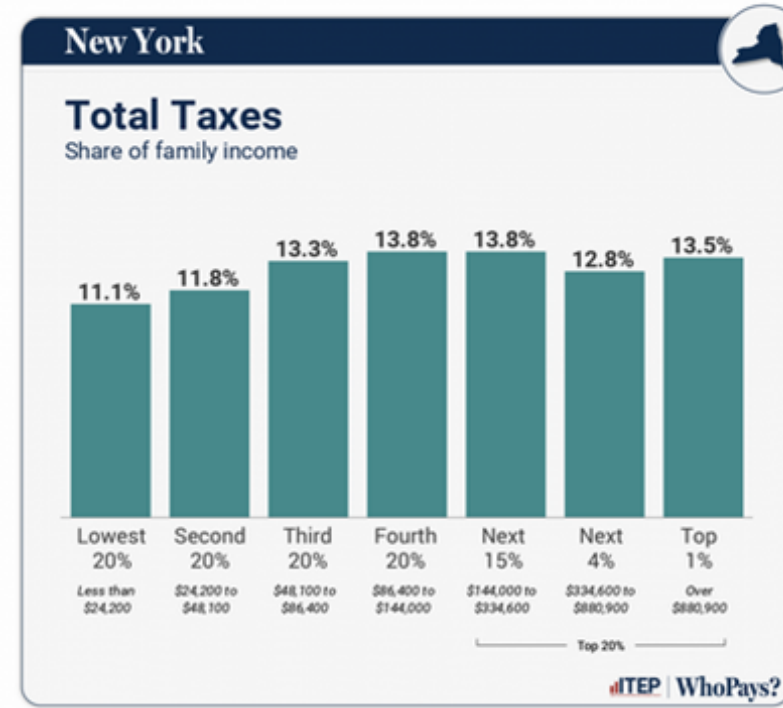
## ITEP Tax Inequality Index Ranking

RANK **48**

New York's state and local tax system does not worsen income inequality and ranks 48th on ITEP's Tax Inequality Index.

### State and Local Taxes as Share of Family Income

Lowest 20 percent	11.1%
Second 20 percent	11.8%
Middle 20 percent	13.3%
Fourth 20 percent	13.8%
Next 15 percent	13.8%
Next 4 percent	12.8%
Top 1 percent	13.5%



# California



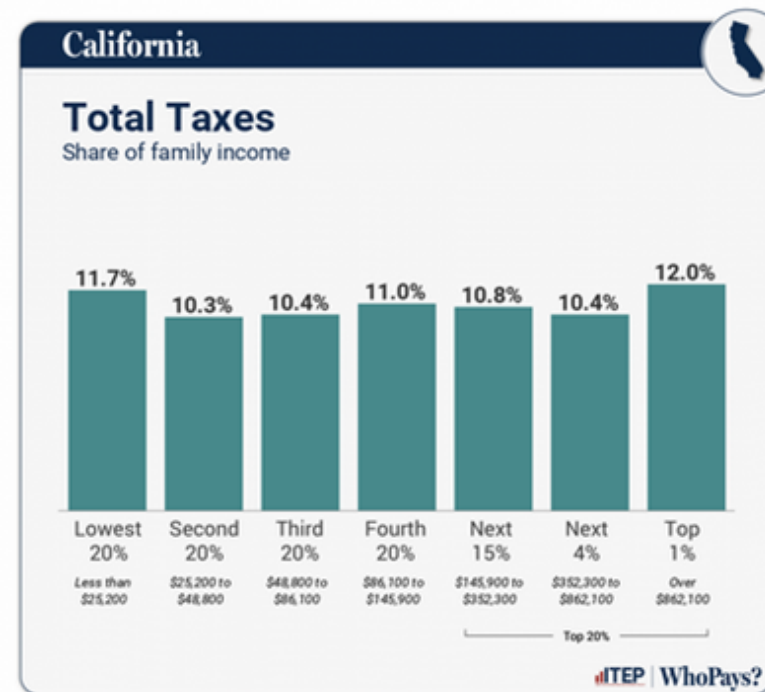
## ITEP Tax Inequality Index Ranking

RANK **47**

California's state and local tax system does not worsen income inequality and ranks 47th on ITEP's Tax Inequality Index.

### State and Local Taxes as Share of Family Income

Lowest 20 percent	11.7%
Second 20 percent	10.3%
Middle 20 percent	10.4%
Fourth 20 percent	11.0%
Next 15 percent	10.8%
Next 4 percent	10.4%
Top 1 percent	12.0%



# Caveat regarding non-tax revenues

- ITEP does not include non-tax revenues
  - Many forms of non-tax revenue are collected in a manner that is disconnected from ability to pay and may be regressive
    - For example, road tolls and public parking are based on the use of a service and are charged at the same rate regardless of one's income
    - Court fees and fines can be particularly onerous for low-income and historically marginalized communities
  - Some excluded revenues may be progressive
    - Estate and inheritance taxes, real estate transfer taxes
    - Excluded portion of corporate income taxes paid by out-of-state payers
- According to ITEP Appendix C, in fiscal year 2021, Vermont got 21.6% of its own-source revenue from non-tax revenue
  - Alaska got 62.7% from non-tax revenue (due to their severance taxes on oil extraction)
  - New Hampshire got 24.5% from non-tax revenue



# Resources

- Institute on Taxation and Economic Policy (ITEP). “Who Pays?” 7<sup>th</sup> Edition, January 2024
  - <https://itep.org/whopays-7th-edition/>
- State-by-State Data
  - <https://itep.org/whopays-map-7th-edition/>

