Memorandum

TO: Senate Economic Development, Housing and General Affairs Committee

FROM: Julie Lowell; Public Assets Institute

RE: March 26th, 2025 Testimony follow up

DATE: May 13th, 2025

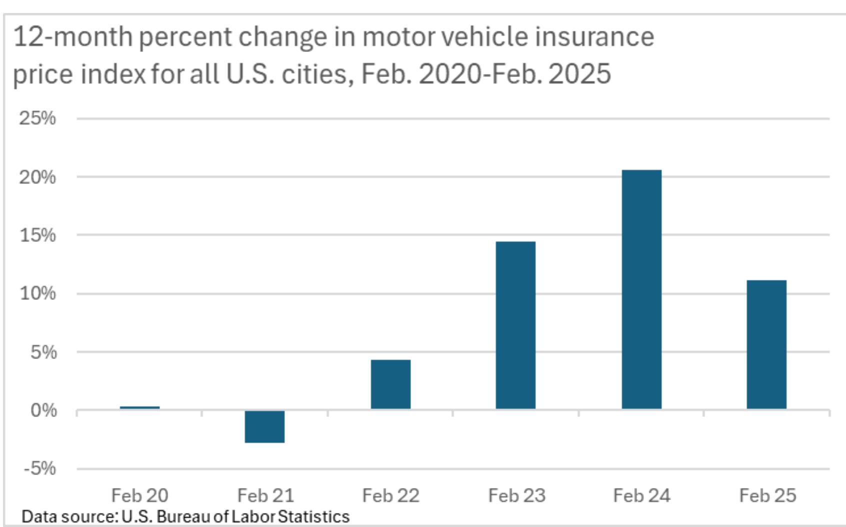
On March 26th, 2025, I joined your committee to discuss Public Assets Institutes' annual State of Working Vermont report, affordability in Vermont, and the negative impacts of possible federal funding changes on Vermonters and how the state can address them. You asked some questions that required additional research. Please see below for responses.

Changing cost of flood and car insurance

Vermont Public has a helpful, interactive chart, showing the cost of flood insurance more than doubled over the last 15 years. Based on data from the National Flood Insurance program, policies in 2024 cost an average of $2,092 annually compared to $966 in 2009.

Notably, flood insurance policies have come down considerably since 2021 for Vermont non-residential buildings, while increasing for residential properties. (In October 2024, 515 non-residential buildings carried national flood insurance and 1,912 residential buildings).

New England motor vehicle insurance price indexes are not available post 2021. But national price indexes show double-digit annual growth rates in the cost of car insurance in 2023, 2024, and 2025. According to bankrate.com, Vermont's rates in 2024 were some of the lowest in the country, when median income was factored in.



Possible federal impacts to the Universal School Meal Program

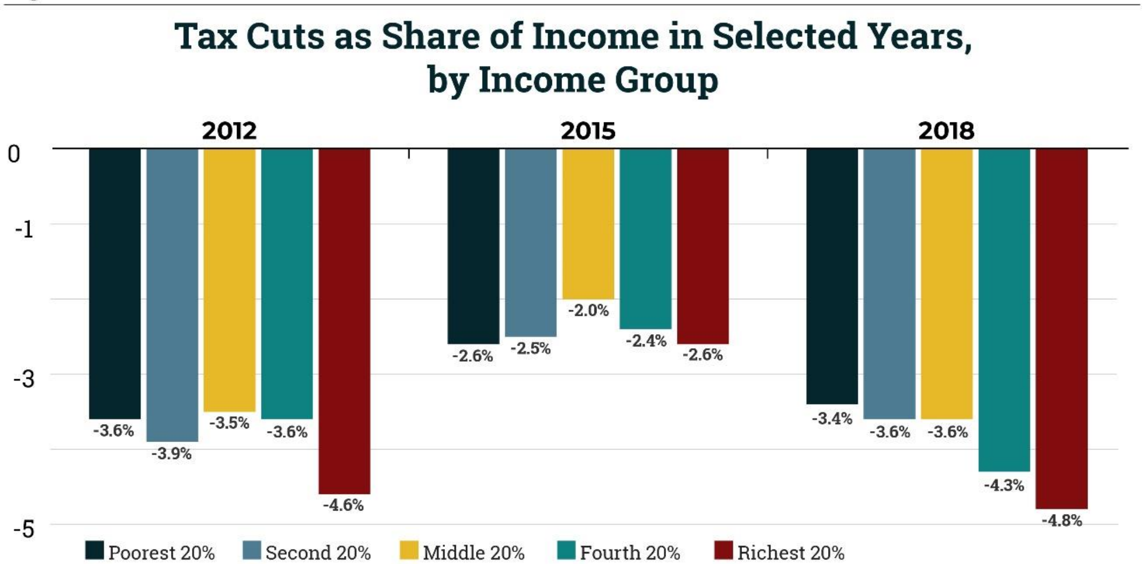
Budget reconciliation proposals early in the year would mean 188 schools in Vermont would no longer qualify for free school meals under the Community Eligibility Provision (CEP), the current funding mechanism for 215 Vermont schools. This would impact over 47,000 Vermont school children. As the federal reconciliation process continues, check here for updates on the process and impacts on Vermonters.

Previous federal tax changes

Since 2000, federal tax cuts were implemented during the Bush, Obama, and first Trump presidencies, reducing federal revenues by $5.1 trillion from 2001 to 2018, based on analysis by the Institute on Taxation and Economic Policy. The richest 20 percent of households accrued 65 percent of the cuts during this time.

However, the impact on income groups varied based on the tax policies of the different administrations. The Bush tax cuts were more advantageous to higher-income households than lower-income households but were tempered in 2012 by Obama-era provisions. These included expansion of the Earned Income Tax Credit and Child Tax Credit, and a payroll tax holiday. By 2015, some of the Bush-era cuts expired, as had the payroll tax holiday, while new Affordable Care Act taxes increased taxes on high-income households. This minimized tax cuts for all groups and evened out the distribution of cuts amongst income groups. The Trump tax cuts, enacted with the Tax Cuts and Jobs Act, went into effect in 2018 to expire in December 2025, disproportionately benefiting households with the highest incomes.

Figure 2



Excludes tax break "extenders" for businesses like bonus depreciation
Source: ITEP Analysis

The impact of Massachusetts' surtax on incomes over a million dollars

Massachusetts' surtax on filers with incomes over a million dollars was implemented in tax year 2023 and annually thereafter. In the first year, Massachusetts took in surtax revenue of roughly $2 billion, exceeding expectations and increasing investments in education and transportation.

Research shows no evidence of significant out-migration due to tax changes. While there may be anecdotes about people leaving the state because of tax changes, there has never been a measurable loss of revenue due to tax flight. The most recent migration data show a similar share of people leaving Massachusetts as New Hampshire, which does not have an income tax. That suggests other causal factors for migration

High income as a one-time event

Vermont taxable income includes the gains from the sale of a capital asset. However, Vermont's capital gains law provides preferential treatment for income from sales of long-term assets.* For net capital gains of $875,000 and below, a filer can exclude up to 40 percent of the gain from taxes up to a max of $350,000. For smaller gains, the exclusion would be 40 percent or a flat amount of $5,000, whichever is larger. Any exclusion cannot exceed 40 percent of federal taxable income. Gains above $875,000 are taxed at normal income rates.

The Vermont Joint Fiscal Office reported that in 2016 less than 1 percent of taxpayers—2,231 filers—took the 40 percent exclusion. Half of those filers claimed the exclusion one or more times in the previous four years, 470 claimed it three times or more, and fewer than 200 reported any farm income.

Gains from the sale of a primary residence, a property used as a main home for at least two of the five years prior to the date of sale, also receive preferential treatment in Vermont. A seller is allowed to exempt $250,000 in gains from their income, or up to $500,000 for couples filing jointly.

*Long-term assets include stocks and bonds not publicly traded, business or real estate, and art or collectibles held for more than three years. Primary residences are excluded.