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Tax inequities

The economic recovery is not occurring as quickly as previously hoped, according to the latest economic reports, which means that when legislators convene in January, the job before them will be daunting.

Last week legislators acknowledged that state government faces an \$88 million deficit in the coming budget cycle, even without taking into account more than \$30 million needed for retirement funds for state workers and teachers and additional millions for growing caseloads caused by the recession.

Where lawmakers are going to come up with that money is anyone's guess. The Douglas administration is already facing up to these hard realities as it prepares a budget for next year. It won't be pretty.

As legislators consider their choices, they ought to keep in mind figures released last week by the Public Assets Institute, which is based in Montpelier. The institute's numbers showed that low- and middle-income taxpayers pay a higher percentage of their incomes in state and local taxes than do high-income taxpayers. This is in spite of widely accepted principles of progressive taxation, incorporated in the federal income tax code, that call upon wealthier taxpayers to pay a higher percentage of income in taxes.

Vermont is more progressive than many other states, but the numbers are a reminder that the tax system, even in a progressive state, remains tilted toward the wealthy.

In Vermont the richest 5 percent of families pay an average of 7.5 percent of their income in state and local taxes. The poorest 20 percent of Vermont families pay an average of 8.2 percent. The middle fifth of taxpayers are hit the hardest. Those earning between \$34,000 and \$54,000 pay an average of 9.4 percent in state and local taxes.

These numbers come from a report released by the Institute on Taxation and Economic Policy, which shows that, nationally, the tilt toward the wealthy is even more pronounced.

National figures show that average state and local taxes on the richest 1 percent are 6.4 percent before accounting for federal tax deductions and 5.2 percent after federal tax deductions are counted.

The national numbers show that the middle fifth of Vermont taxpayers is taxed at a level on par with the middle fifth nationally — at 9.4 percent after federal deductions are allowed.

The poorest 20 percent gets hit hard nationally — paying an average of 10.9 percent.

Why should this be? How is it that legislators across the nation have skewed the nation's tax system so that it hurts the majority of their constituents?

The likely answer is that the public generally does not pay close attention to the work of state legislatures, leaving special interests an open field to secure their own benefits. Special interests looking for special privileges are able to blackmail policymakers, as they have in Vermont, threatening to take their revenues or their businesses to other states and playing one state against another. Thus, state governments fall over one another to extend special treatment to those who need it least.

The Institute on Taxation and Economic Policy has highlighted what it calls "the Terrible Ten" states that place exceptional burdens on poor taxpayers. They are Washington, Florida, Tennessee, South Dakota, Texas, Illinois, Michigan, Pennsylvania, Nevada, and Alabama. In these states poor families pay as much as six times as much of their earnings in state and local taxes as do the wealthy.

Middle income taxpayers pay three and a half times as much of their earnings as the wealthy do.

These iniquities are achieved by relying on regressive taxes, such as the sales or property taxes, rather than on the income tax. Some of these states have no income tax at all or they levy it at a flat rate, thus leaving the burden of paying for public services to those for whom the sales tax takes a sizable chunk of their earnings.

During the recession of the early 1990s, Republican Gov. Richard Snelling understood these inequities, and he pushed through a temporary tax hike that placed a higher burden on wealthy taxpayers.

The latest numbers show they can afford it better than most.
