

# Who really needs the help?

*Brattleboro Reformer*

Editorial

Tuesday, February 19

In politics, it's always interesting to watch how an idea evolves and who takes credit or blame for its evolution.

Gov. James Douglas proposed eliminating a partial tax exemption for capital gains and using the estimated \$21 million it would generate toward income tax relief.

Then, House Speaker Gaye Symington proposed splitting the \$21 million for property tax relief, town road and bridge work and school construction projects.

Douglas promptly denounced Symington's plan as a tax increase.

Undaunted, the Senate Transportation Committee went Symington one better and suggested that all of the \$21 million should be earmarked for transportation projects.

Douglas doesn't like that idea, either. He believes that road and bridge repairs would benefit only certain parts of the state, while his plan would bring tax relief to what he calls "middle-income taxpayers."

Everyone appears to be in agreement on repealing the capital gains loophole. Douglas' proposal would maintain the 40 percent capital gains exemption for Vermonters over 65 and for the first \$2,500 of capital gains for everyone else. The principal that investment income ought to be taxed at the same rate as salary income is a sound one.

But where the Douglas plan falls apart is in what he wants to do with the money.

Vermont has the most progressive state income tax rates in the nation. Of the nearly 275,000 returns filed last year, about 189,000 were taxed at the lowest rate -- 3.6 percent -- that is applied to joint filers who earn less than \$53,150 annually. The rate jumps up to 7.2 percent for those in the \$53,150-\$128,500 tax bracket, the people Douglas refers to as "middle-income." The rate is 8.5 percent for those earning between \$128,500 and \$195,850 and 9.5 percent for those earning more than \$195,850.

Douglas wants to use the capital gains money to lower the rates in the top three brackets. The second bracket would drop from 7.2 percent to 6.5 percent. The third bracket would drop from 8.5 percent to 7.75 percent. The top bracket would drop from 9.5 percent to 9 percent.

Tax Commissioner Tom Pelham told the *Reformer* last week that under the Douglas proposal, the top bracket would pay a bit more but the middle two brackets would see a tax decrease. Pelham believes the plan is a fair one that delivers tax relief to middle-income taxpayers.

Except that the bulk of Vermonters aren't making more than \$50,000 a year. More than 70 percent of Vermont tax filers fall into the bottom tax bracket and receive nothing from the Douglas plan.

As for the people at the top, consider this tidbit from progressive economic policy analyst Doug Hoffer. From 2005 to 2006, the percentage of in-state tax filers who earned more than \$1 million grew by 23 percent, from 401 to 491. The total income for this group, the top 0.2 percent of all Vermonters, increased by \$338 million during this timeframe. The average income of the top 0.2 percent grew by \$200,000 -- from \$2.6 million to \$2.8 million. In other words, the amount of this group's annual increase in wealth alone was more than what the other 97 percent of Vermonters earned put together.

And this is the group that needs tax relief? We think not.

As for the theory that Vermont's high tax rates scare away wealthy people from settling here, a December report by the Public Assets Institute in Montpelier found that in 2005, the average per-capita income of people moving into Vermont was about 20 percent higher than those moving out. Despite a net loss of 358 people in 2005, Vermont added \$60 million in personal income.

And why do wealthy people come to Vermont? Might it have something to do with safe and close-knit communities, good schools, decent roads and a vibrant cultural and recreational scene? The types of things that are, in part, paid for through taxes?

That is perhaps the best argument for using the money from closing the capital gains loophole for investments in the state's infrastructure, rather than lowering taxes for the wealthy.