

Taxes are not the biggest burden

By Paul Cillo

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Is Vermont affordable? The Public Assets Institute calculated expenses for different Vermont families to find out. The answer? For some Vermonters it is, for others it is not.

Why is the state unaffordable for some? Governor Jim Douglas says state income and school taxes are the culprits. They are not.

If living in our state is unaffordable, it's basic living expenses – necessities – that are eating up our budgets. Adding to the problem, many Vermonters can't pay their bills because they aren't earning enough. That's the affordability crisis.

If you ask the Vermont couple with one school-age child living in the median-value Vermont house if they can afford their lives, the answer is probably no. The median house value – half of homes are higher in value and half are lower – is now \$176,000. State income data show that a family living in that house earns about \$52,000.

So what is this middle-class family spending its money on? Mostly, the necessities: housing, transportation, food, and health care. These four add up to more than half their household budget.

The mortgage accounts for 14.9%. With the cost of a home increasing at double-digit rates, the portion of the budget required to pay for it also goes up. According to the Vermont Housing Finance Agency, almost three-quarters of Vermonters can't afford a median-value house.

Another big cost is a reliable car, which most Vermonters need to get to work. And cars, maintenance, and fuel don't come cheap. In fact, fuel costs are double what they were five years ago. Transportation eats up 14.6% of this household's budget.

Food takes the third-largest bite: 13.6%.

And finally -- no surprise – there's health care. It weighs in at over 10% (assuming employer assistance) and premiums continue to increase.

After all the bills are paid, this family has nothing left for savings, never mind luxuries.

So what about that supposed big budget-buster: taxes?

State income and school taxes combined amount to only 4.3% of this household's expenses: less than a third of housing, transportation, or food; less than half of healthcare costs.

If you ask another three-person family with one school-age child whether Vermont is affordable, they might say yes.

This family's income equals the average of the top 5% of Vermonters: \$357,934 a year. For them, the federal income tax is 20.7% of their budget and state income taxes 5.3%. The four essentials – half the median-income family's budget – amount to just 13.4% of this family's budget. Still, after all the bills are paid, they have about \$143,000 (40% of their income) left for discretionary uses including investments, vacations, or savings.

For this family, income taxes are by far the biggest expense: more than one-quarter. If they had complaints about their expenses, taxes would be at the top of the list. But affordability? With 40% discretionary income, Vermont appears to be providing them a good life at a great price.

Nobody likes to pay taxes. But just because taxes are an annoyance to the wealthiest, we shouldn't pretend that they're a big problem for everybody.

Nor should we be fooled that "solutions" offered by people representing the highest-income earners are good for all of us. For instance, a recent report by the conservative Tax Foundation suggests that Vermont could improve its business climate by raising income taxes on low- and middle-income Vermonters while reducing them for the state's wealthiest.

Who benefits from that policy? Certainly not the ordinary Vermont family that is already strapped.

If we want to address the crisis of affordability, we need to be honest about what average Vermonters can't afford and why.

Wages are part of the problem. Vermont has the second-lowest median hourly wage in the Northeast. Those promoting an affordability agenda talk only about what this wage can buy. They seem resigned to Vermont's low-wage status.

Maybe we should be talking about a prosperity agenda. Rather than focusing on taxes, we should work to stem the loss of good-paying jobs in Vermont and make sure all of us can afford decent housing and good health care.