Vermont Tax Study

Volume II
Case Studies

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Prepared in accordance with
Act 215, Sec. 271a
of the 2006 Legislative Session

PREPARED BY
Legislative Joint Fiscal Office

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With Cooperation and Assistance From:
The Vermont Department of Taxes

STATUTORY CHARGE

Act 215, Sec. 271a. VERMONT TAX STUDY

(a) The joint fiscal office, with assistance from the staff of the legislative council, under the direction of the joint fiscal committee, shall conduct a study of Vermont state taxes.

(b) The study shall:

(1) Analyze historical trends since 1995 in Vermont taxes as compared to other states, and compare the percentage of Vermont revenue from each state-level source to the percentage of revenue from each state-level source in other states;

(2) Analyze state tax burdens per capita, per income level, on typical Vermont families of a variety of incomes, and on typical Vermont business enterprises of a variety of sizes and types, and analyze trends in the taxpayer revenue base; and

(3) Review the simplicity, equity, stability, predictability and performance of the Vermont personal and corporate income tax, sales tax, meals and rooms tax, business franchise taxes, insurance premium taxes, and education property tax.

(c) Based upon the data resulting from the study in subsection (b) of this section, the joint fiscal office shall, as part of the study or separately, prepare a review of:

(1) alternative top personal income tax rates for Vermont, based upon possible changes to income brackets and tax rates below the marginal rate;

(2) taxes in which broadening the base would allow a reduction in rate or rates, and possible options for achieving this; and

(3) the future Vermont economic and demographic trends, and implications for Vermont's tax structure as regards revenue, equity, and competitiveness.

(d) The Vermont department of taxes shall cooperate with and provide assistance as needed to the joint fiscal office. The study, including recommendations for further research or analysis, shall be submitted to the joint fiscal committee by December 15, 2006. Funding of $30,000 is provided in Sec. 272 of this act for consultant assistance, data analysis, and other expenses related to this study.

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EXECUTIVE SUMMARY

Volume II of the Vermont Tax Study uses case studies and other analyses to compare tax liabilities for various types of taxpayers among the 12 comparison states. The case studies cover 24 individual income taxpayers representing various income levels, expenses, deductions, exemptions, ages, family sizes, home-ownership status, and marital status. For these 24 hypothetical taxpayers, this volume calculates state and federal income taxes, sales and use taxes, and other selected taxes owed in each of the 12 comparison states. Similarly, case studies representing two business taxpayers are used to calculate corporate income tax liability in each comparison state. The first represents a corporation with income derived solely from Vermont. The second represents a large, multi-state corporation filing tax returns equally in four states.

For reasons discussed elsewhere in the body of this volume, the case-study approach is not suitable for calculating property tax liability in each of the comparison states. Instead, this volume employs two analyses – used by the United States Census Bureau and the District of Columbia Office of Revenue Analysis – to compare property tax liabilities among taxpayers of various income classes. Nonetheless, it should be noted that these two approaches overstate Vermont's property tax liability among the comparison states.

Summary Findings – Individual Taxpayers

The individual taxpayer case studies suggest that among the 12 comparison states Vermont has a highly progressive overall state tax structure. This is largely the result of relatively low taxes on lower-income taxpayers and relatively higher taxes on upper-income taxpayers in Vermont. Driving this finding is the individual income tax, which comprises a majority of the overall tax liability calculated for most taxpayers. Although many of the other comparison states have progressive tax structures, Vermont's tends to be the most progressive. Washington and Florida demonstrate the most regressive traits of state tax systems among the comparison states. The trend for some states is less obvious, most likely the result of mixed tax policy goals and actions. The difficulty in drawing unambiguous conclusions when analyzing comparative state and local taxation is among the most important findings of this study and is illustrated by the fact that for each of these conclusions, outliers among the case studies contradict these assumptions. Key findings are summarized below:

- **Total Tax Liability** – For 19 of the 24 individual tax case studies, Vermont ranked ninth or lower in total tax liability among the 12 comparison states. The highest Vermont rank was sixth out of 12 for three of the cases.

- **Income Tax Liability** – Income tax levels for Vermont taxpayers ranked in the middle or lower half among the comparison states for nearly all of the case studies. Vermont ranked sixth or lower among the 12 states in income tax liability for 20 of the 24 case studies. The only cases where Vermont ranked higher than sixth are those where most of the states have tax liabilities that are nearly identical, and the rankings are not indicative of significant differences between the states compared and analyzed.

- **Sales and Use Tax Liability** – Vermont ranked ninth among the 12 comparison states in sales and use tax liability, up from 10th a decade ago. Although Vermont's tax rate fell in the middle of the 12 comparison states, its low actual liability is due in part to a relatively smaller tax base and limited use of local option sales taxes.

- **Selected Other Taxes** – These included taxes on meals in restaurants, gasoline excise taxes, and motor vehicle registration and license fees. Vermont ranked either first or second in eight of the 24 cases, and fifth, sixth, or seventh for 14 of the cases. Vermont has the highest taxes on served meals and among the highest motor vehicle license and registration fees. Vermont has the second lowest gasoline excise tax rate of the comparison states.

Summary Findings – Corporate Taxpayers

The business tax analysis examines corporate income taxes alone. Neither this study nor the version produced 10 years ago was designed to examine all taxes paid by a given business.[1] Rankings for the two corporate cases indicate that corporate income tax liabilities are less consistently determined by rates and brackets and more by other specific tax policy considerations such as apportionment of business activity between states, pass-though of federal tax benefits such as bonus depreciation, and treatment of net operating losses among many others. Key findings are summarized below:

- Vermont ranked sixth among the 12 comparison states in the level of corporate income taxes for the in-state only corporate case.

- The multi-state corporate income tax case ranked Vermont fourth among the 12 states.

Summary Findings – Property Taxpayers

By either measure employed in this volume, state and local property taxes paid in Vermont in FY 2005 were high relative to those of other states. Vermont's state and local property tax collections were $1,698 per person and 5.3% of personal income in FY 2005. This ranked Vermont third highest among the comparison states by both measures, below Connecticut and New Hampshire but higher than Massachusetts and Maine and the other states. Historically, New England states have always relied heavily on the property tax as a source of revenue.

The findings, however, significantly overstate actual per capita property taxes paid in Vermont. There are two primary reasons for this: first, Vermont's total state and local property tax revenue figure was not adjusted downward to reflect state law allowing most homeowners to pay property taxes based on their household income rather than the value of their homestead. In addition, the ranking is not adjusted for the homeowner and renter rebates that limit property taxes for low-income residents to a fixed percentage of their household income. Together, these provisions lowered property taxes by more than $92 million in FY 2005. Finally, Vermont has the second highest percentage of second homes in the country (after Maine), according to the US Census data.[2] As a result, Vermont exports a greater portion of its state and local property taxes to nonresidents than almost any other state. State and local property taxes paid by nonresidents are included in both aggregate measures of taxes paid used in this volume; but nonresident incomes are not included in the calculation. Consequently, Vermont's reported state and local property taxes as a percentage of income is overstated relative to that of other states.

[1] This is an area that may warrant further study.
[2] 14.6% of all housing units are classified as vacant for seasonal, recreational, or occasional use; second to Maine at 15.6% (http://www.census.gov/hhes/www/housing/census/historic/vacation.html)

CASE STUDY DETAILS

Individual Cases

This volume of the Vermont Tax Study examines 24 hypothetical individual taxpayers in order to estimate effective tax liabilities and evaluate tax policy in the 12 comparison states. These case studies represent an update of the taxpayer profiles from the 1996 study, adjusted for rising incomes, as well as new cases developed to respond to the increasing complexity of the individual income tax system. It should be pointed out that there are no “average” taxpayers. These case studies are intended to provide examples of common types of tax returns in the 12 comparison states. This required the preparation of 312 income tax returns (24 federal returns and 288 state returns).

Table 2 on the next page outlines the case study details. Following Table 2, Table 3 summarizes each sample taxpayer’s tax liabilities in the 12 comparison states and an overall ranking. At the top of each case in these tables is a brief summary profile that includes the adjusted gross income level (AGI), whether the case falls within the federal poverty level (FPL) guidelines, the filing status, age over or under 65, deductions (standard or itemized), whether the taxpayers are assumed to be homeowners or renters, and other details. The federal income tax liability is also shown, but not included in the calculation of total state tax liability for ranking and comparison purposes between the states.

While case studies are useful for examining the impacts of state tax policy, they do have their limitations. Case studies are only as good as the taxpayers they represent. The 24 individual taxpayers for this portion of the Vermont Tax Study were developed to reflect the types of tax returns filed in Vermont. Actual return data were used to create these cases; they range from $1,868 to $1,066,309 of adjusted gross income. Nonetheless, 24 “typical” cases cannot accurately reflect the approximately 340,000 variations of state tax returns received in 2005. Indeed, any given specific and detailed case study cannot itself represent a measure of the tax liability for all taxpayers statewide.

Corporate Case Studies

While it is difficult to draw conclusions from only two cases, it appears that corporate income tax liabilities may be less consistent within or between states because of the differences in the treatment of various deductions and credits. Corporate income tax liabilities may depend more on specific policies affecting businesses with different operating styles in any given state.

Table 1 - Brief Corporate Case Descriptions

Corporate Case Study A	**Corporate Case Study B**
Single state corporation	Multi-state corporation; 25% of business in each of 4 states
Taxable income = $22,315 8.1% marginal rate bracket in Vermont	Taxable income = $1.1 million 9.5% marginal rate bracket in Vermont
Claims federal bonus depreciation	Has a net operating loss (NOL)
	Claims a federal qualified production activities deduction (QPAI)

Table 2 - Summary of Individual Case Study Details

Case #	AGI [1]	Income [2]	Filing Status [3]	# of Exempt [4]	Age	Deduct-ions [5]	Owner/ Renter	Rent or Property Tax ($)	Mortgage Interest ($)	Charity ($)	Childcare ($)	Tuition / Student Loan ($)	Portfolio/ Savings ($)
#1	9,800	100%FPL	Single	1	<65	S	R	400	N/A	N/A	N/A	None	0
#2	24,500	250% FPL	Single	1	<65	S	R	750	N/A	N/A	N/A	None	2,550
#3	24,981	Schedule F	MFJ	4	<65	I	O	5,000	7,480	0	None	None	6,250
#4	1,868	< 5th %	Single	0	<65	S	R	400	N/A	N/A	N/A	None	0
#5	109,320	95th %	MFJ	4	<65	I	O	7,500	14,958	0	None	12,865	23,675
#6	715,868	high; CG	HOH	2	>65	I	O	15,000	18,850	50,000	None	None	4,366,800
#7	24,135	150% FPL	MFJ	3	<65	S	R	500	N/A	N/A	None	None	2,350
#8	50,372	60 - 80 %	MFJ	4	<65	S	R	750	N/A	N/A	11,585	None	0
#9	80,743	80 - 95 %	MFJ	4	<65	I	O	7,500	9,362	0	14,530	1,640	35,925
#10	63,894	Schedule E	Single	1	<65	I	O	6,000	8,431	0	None	None	0
#11	45,000	Middle	MFS	1	<65	I	O	5,500	8,358	0	None	2,319	8,000
#12	13,200	100% FPL	MFJ	2	>65	S	O	2,500	0	0	None	None	5,000
#13	13,200	100% FPL	HOH	2	<65	S	R	400	N/A	N/A	None	None	0
#14	88,011	80 - 95 %	Single	1	>65	I	O	7,500	11,117		None	None	455,275
#15	50,000	250% FPL	HOH	4	<65	I	O	5,000	9,431	0	5,670	None	102,750
#16	9,800	100% FPL	Single	1	>65	S	O	2,500	0	0	None	None	29,050
#17	19,429	200% FPL	Single	1	>65	S	O	2,500	0	0	None	None	181,675
#18	45,624	400% FPL	Single	1	>65	I	O	4,000	9,858	0	None	None	67,450
#19	13,200	100% FPL	MFJ	2	>65	S	O	2,500	0	0	None	None	73,275
#20	26,810	200% FPL; SS	MFJ	2	>65	S	O	2,500	0	0	None	None	3,150
#21	17,504	350% FPL	MFJ	2	>65	I	O	4,000	8,884	0	None	None	0
#22	357,934	Top 5%	MFJ	5	<65	I	O	12,500	15,329	32,500	None	18,560	1,250,000
#23	1,066,309	highest	MFJ	4	<65	I	O	20,000	0	105,775	None	None	3,275,100
#24	23,862	Schedule C	Single	1	<65	I	O	4,500	8,384	0	None	None	21,450

[1] Federal adjusted gross income
[2] Brief description of income sources: CG = capital gains; % = income percentile of federal poverty level (FPL); SS = Social Security
[3] Single, MFJ = married filing jointly, MFS = married filing single, HOH = head of household
[4] Number of personal exemptions claimed
[5] Deductions: S = standard deduction, I = itemized deductions

Table 3 - Case Study Summaries

Case #1	AGI = $9,800	100% FPL	Single	< 65	Renter	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	14	0	174	66	240	10
Florida	14	0	235	60	295	6
Maine	14	0	187	69	256	8
Massachusetts	14	22	123	54	199	11
Minnesota	14	51	196	66	313	5
New Hampshire	14	0	0	83	83	12
New York	14	48	254	82	384	4
North Carolina	14	260	243	66	569	1
Oregon	14	360	0	50	410	3
Vermont	**14**	**12**	**144**	**93**	**248**	**9**
Washington	14	0	458	82	540	2
Wisconsin	14	0	226	52	278	7

Case #2	AGI = $24,500	250% FPL	Single	< 65	Renter	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	2,084	334	275	344	952	10
Florida	2,084	0	387	392	779	11
Maine	2,084	833	288	361	1,483	6
Massachusetts	2,084	852	196	298	1,346	7
Minnesota	2,084	875	332	385	1,593	4
New Hampshire	2,084	0	0	328	328	12
New York	2,084	757	429	354	1,539	5
North Carolina	2,084	1,204	373	377	1,954	2
Oregon	2,084	1,673	0	332	2,005	1
Vermont	**2,084**	**589**	**227**	**368**	**1,183**	**8**
Washington	2,084	0	752	419	1,171	9
Wisconsin	2,084	918	354	415	1,686	3

Case #3	AGI = $24,981	Schedule F	MFJ	< 65	Owner	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	918	0	275	377	651	10
Florida	918	0	387	399	786	6
Maine	918	0	288	376	665	9
Massachusetts	918	781	196	322	1,299	2
Minnesota	918	0	332	401	734	8
New Hampshire	918	2,050	0	358	2,408	1
New York	918	255	429	372	1,056	4
North Carolina	918	151	373	389	913	5
Oregon	918	157	0	345	502	12
Vermont	**918**	**0**	**227**	**398**	**624**	**11**
Washington	918	0	752	434	1,186	3
Wisconsin	918	0	354	424	777	7

Case Study Summaries (page 2)

Case #4	AGI = $1,868	Lowest 5th	Single	< 65	Renter	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	0	0	209	86	296	8
Florida	0	0	282	82	364	4
Maine	0	0	216	93	309	7
Massachusetts	0	0	144	71	215	10
Minnesota	0	0	225	88	313	6
New Hampshire	0	0	0	110	110	11
New York	0	0	299	110	409	2
North Carolina	0	0	280	89	370	3
Oregon	0	4	0	67	71	12
Vermont	**0**	**0**	**166**	**124**	**290**	**9**
Washington	0	0	530	111	641	1
Wisconsin	0	0	261	71	332	5

Case #5	AGI = $109,320	95th %	MFJ	< 65	Owner	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	10,599	4,751	800	794	6,345	8
Florida	10,561	0	1,019	875	1,893	11
Maine	10,649	5,217	731	832	6,780	4
Massachusetts	10,649	5,261	570	797	6,628	6
Minnesota	10,586	4,726	911	876	6,513	7
New Hampshire	10,849	0	0	793	793	12
New York	10,649	4,712	1,124	840	6,675	5
North Carolina	10,636	5,308	981	857	7,146	3
Oregon	10,849	6,425	0	740	7,165	2
Vermont	**10,661**	**3,494**	**633**	**889**	**5,016**	**9**
Washington	10,524	0	1,889	967	2,856	10
Wisconsin	10,599	5,994	909	907	7,810	1

Case #6	AGI = $715,868	high income	HOH	> 65	Owner	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	127,549	35,023	1,375	909	37,307	8
Florida	127,520	2,058	1,574	1,013	4,645	11
Maine	127,693	52,748	1,183	986	54,917	2
Massachusetts	127,688	36,869	967	896	38,731	7
Minnesota	127,540	49,607	1,514	1,016	52,137	5
New Hampshire	128,105	8,674	0	956	9,630	10
New York	127,680	51,099	1,676	1,016	53,790	3
North Carolina	127,661	50,965	1,584	1,004	53,553	4
Oregon	128,105	56,251	0	846	57,097	1
Vermont	**127,670**	**41,441**	**1,027**	**1,076**	**43,544**	**6**
Washington	127,442	0	3,056	1,150	4,206	12
Wisconsin	127,579	27,875	1,510	1,024	30,409	9

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Case #7	AGI = $24,900	150% FPL	MFJ	< 65	Owner	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	(733)	1	275	366	641	10
Florida	(733)	0	387	397	784	6
Maine	(733)	75	288	371	735	7
Massachusetts	(733)	379	196	314	889	5
Minnesota	(733)	(193)	332	396	535	11
New Hampshire	(733)	744	0	348	1,092	4
New York	(733)	(86)	429	366	709	9
North Carolina	(733)	538	373	385	1,296	1
Oregon	(733)	945	0	341	1,286	2
Vermont	**(733)**	**(291)**	**227**	**388**	**323**	**12**
Washington	(733)	0	752	429	1,181	3
Wisconsin	(733)	(57)	354	421	717	8

Case #8	AGI = $50,372	60-80 %	MFJ	< 65	Renter	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	806	919	495	640	2,054	8
Florida	806	0	676	723	1,399	11
Maine	806	1,352	481	671	2,505	5
Massachusetts	806	1,617	352	490	2,459	6
Minnesota	806	1,543	563	729	2,836	4
New Hampshire	806	0	0	620	620	12
New York	806	989	746	663	2,399	7
North Carolina	806	1,826	640	696	3,162	2
Oregon	806	3,007	0	611	3,618	1
Vermont	**806**	**848**	**403**	**700**	**1,9**51	**10**
Washington	806	0	1,221	779	2,000	9
Wisconsin	806	1,554	586	764	2,905	3

Case #9	AGI = $80,743	80-95 %	MFJ	< 65	Owner	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	2,737	2,923	664	736	4,324	7
Florida	2,722	0	868	832	1,700	11
Maine	2,767	3,004	619	780	4,403	6
Massachusetts	2,767	3,073	472	752	4,297	8
Minnesota	2,737	2,923	778	826	4,527	5
New Hampshire	2,872	0	0	726	726	12
New York	2,767	3,156	961	778	4,896	2
North Carolina	2,760	3,004	825	808	4,638	4
Oregon	2,872	4,503	0	702	5,205	1
Vermont	**2,775**	**1,406**	**528**	**816**	**2,749**	**9**
Washington	2,707	0	1,605	907	2,512	10
Wisconsin	2,745	3,171	769	869	4,808	3

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Case #10	**AGI = $63,894**	**Schedule E**	**Single**	**< 65**	**Owner**	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	7,878	2,679	495	594	3,768	9
Florida	7,865	0	676	685	1,361	12
Maine	7,915	3,368	481	641	4,491	2
Massachusetts	7,903	3,106	352	467	3,925	7
Minnesota	7,878	2,923	563	625	4,111	6
New Hampshire	8,015	3,334	0	573	3,907	8
New York	7,928	2,965	746	630	4,342	4
North Carolina	7,903	3,196	640	672	4,508	1
Oregon	8,015	3,706	0	580	4,286	5
Vermont	**7,915**	**2,232**	**403**	**631**	**3,266**	**10**
Washington	7,840	0	1,221	744	1,965	11
Wisconsin	7,878	3,072	586	706	4,365	3

Case #11	**AGI = $45,000**	**middle**	**MFS**	**< 65**	**Owner**	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	3,756	1,494	412	499	2,405	8
Florida	3,756	0	566	575	1,141	11
Maine	3,779	1,804	408	535	2,747	4
Massachusetts	3,771	2,090	300	479	2,869	3
Minnesota	3,756	1,723	485	533	2,742	6
New Hampshire	3,824	16	0	478	494	12
New York	3,771	1,511	640	524	2,675	7
North Carolina	3,771	1,898	533	561	2,992	2
Oregon	3,824	2,257	0	487	2,744	5
Vermont	**3,779**	**1,097**	**345**	**528**	**1,970**	**9**
Washington	3,741	0	1,023	620	1,643	10
Wisconsin	3,764	2,182	496	598	3,276	1

Case #12	**AGI = $9,800**	**100% FPL**	**MFJ**	**> 65**	**Owner**	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	0	0	174	77	251	8
Florida	0	0	235	63	298	4
Maine	0	0	187	78	265	7
Massachusetts	0	0	123	62	185	10
Minnesota	0	0	196	71	267	6
New Hampshire	0	0	0	93	93	11
New York	0	0	254	88	342	2
North Carolina	0	0	243	70	313	3
Oregon	0	0	0	54	54	12
Vermont	**0**	**0**	**144**	**103**	**246**	**9**
Washington	0	0	458	87	545	1
Wisconsin	0	0	226	55	281	5

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Case #13	AGI = $13,200	100% FPL	HOH	< 65	Renter	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	(2,992)	0	201	75	276	5
Florida	(2,992)	0	279	70	349	3
Maine	(2,992)	0	218	80	298	4
Massachusetts	(2,992)	(399)	141	62	(196)	9
Minnesota	(2,992)	(666)	238	76	(352)	11
New Hampshire	(2,992)	0	0	96	96	8
New York	(2,992)	(730)	301	95	(334)	10
North Carolina	(2,992)	130	282	77	489	2
Oregon	(2,992)	178	0	58	236	6
Vermont	**(2,992)**	**(852)**	**165**	**107**	**(580)**	**12**
Washington	(2,992)	0	559	95	655	1
Wisconsin	(2,992)	(106)	266	61	220	7

Case #14	AGI = $89,481	80-95%	Single	> 65	Owner	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	10,692	3,661	664	690	5,016	8
Florida	10,692	103	868	795	1,766	11
Maine	10,742	4,345	619	752	5,716	2
Massachusetts	10,742	3,996	472	729	5,197	6
Minnesota	10,692	4,332	778	722	5,832	1
New Hampshire	10,867	731	0	678	1,409	12
New York	10,712	3,746	961	745	5,453	4
North Carolina	10,730	4,004	825	784	5,614	3
Oregon	10,867	4,745	0	671	5,416	5
Vermont	**10,742**	**2,988**	**528**	**747**	**4,262**	**9**
Washington	10,667	0	1,605	872	2,477	10
Wisconsin	10,705	3,453	769	811	5,032	7

Case #15	AGI = $50,000	250% FPL	HOH	< 65	Owner	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	(1,378)	1,296	495	605	2,396	5
Florida	(1,393)	0	676	688	1,364	11
Maine	(1,355)	949	481	646	2,077	7
Massachusetts	(1,355)	2,041	352	475	2,868	2
Minnesota	(1,385)	1,217	563	630	2,411	4
New Hampshire	(1,280)	206	0	583	789	12
New York	(1,363)	497	746	637	1,880	9
North Carolina	(1,370)	889	640	676	2,205	6
Oregon	(1,280)	1,872	0	584	2,456	3
Vermont	**(1,348)**	**525**	**403**	**641**	**1,569**	**10**
Washington	(1,408)	0	1,221	749	1,970	8
Wisconsin	(1,378)	2,028	586	709	3,324	1

Case Study Summaries (page 6)

Case #16	AGI=$9,800	100% FPL	Single	>65	Owner	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	18	0	174	66	240	10
Florida	18	0	235	60	295	6
Maine	18	0	187	71	258	9
Massachusetts	18	367	123	54	544	1
Minnesota	18	19	196	66	281	8
New Hampshire	18	0	0	83	83	12
New York	18	48	254	82	384	4
North Carolina	18	215	243	66	524	3
Oregon	18	277	0	50	327	5
Vermont	**18**	**0**	**144**	**93**	**236**	**11**
Washington	18	0	458	82	540	2
Wisconsin	18	7	226	52	285	7

Case #17	AGI=$19,429	250% FPL	Single	>65	Owner	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	1,552	0	240	324	564	11
Florida	1,552	0	328	370	698	10
Maine	1,552	385	253	340	978	8
Massachusetts	1,552	855	178	244	1,277	4
Minnesota	1,552	532	301	363	1,197	5
New Hampshire	1,552	0	0	302	302	12
New York	1,552	456	373	326	1,155	6
North Carolina	1,552	791	325	354	1,470	1
Oregon	1,552	1,003	0	315	1,318	3
Vermont	**1,552**	**358**	**205**	**338**	**901**	**9**
Washington	1,552	0	655	390	1,046	7
Wisconsin	1,552	666	311	396	1,372	2

Case #18	AGI=$45,624	400% FPL	Single	>65	Owner	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	4,266	1,083	412	499	1,994	6
Florida	4,266	0	566	575	1,141	11
Maine	4,288	1,081	408	537	2,026	5
Massachusetts	4,281	1,798	300	479	2,577	2
Minnesota	4,266	575	485	533	1,594	10
New Hampshire	4,341	323	0	478	801	12
New York	4,281	1,125	640	524	2,289	4
North Carolina	4,281	1,281	533	561	2,375	3
Oregon	4,341	1,357	0	487	1,844	8
Vermont	**4,288**	**999**	**345**	**528**	**1,872**	**7**
Washington	4,251	0	1,023	620	1,643	9
Wisconsin	4,266	1,551	496	598	2,645	1

Case Study Summaries (page 7)

Case #19	**AGI=$13,200**	**100% FPL**	**MFJ**	**>65**	**Owner**	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	0	0	201	86	287	8
Florida	0	0	279	72	352	4
Maine	0	0	218	89	307	7
Massachusetts	0	0	141	70	211	10
Minnesota	0	0	238	81	319	6
New Hampshire	0	0	0	106	106	11
New York	0	0	301	101	402	3
North Carolina	0	61	282	81	424	2
Oregon	0	0	0	62	62	12
Vermont	**0**	**0**	**165**	**117**	**282**	**9**
Washington	0	0	559	100	660	1
Wisconsin	0	0	266	64	329	5

Case #20	**AGI=$26,810**	**200%FPL**	**MFJ**	**>65**	**Owner**	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	1,323	0	275	383	658	12
Florida	1,323	0	387	440	827	10
Maine	1,323	234	288	406	929	8
Massachusetts	1,323	1,020	196	398	1,614	2
Minnesota	1,323	522	332	420	1,274	4
New Hampshire	1,323	333	0	358	691	11
New York	1,323	416	429	391	1,236	5
North Carolina	1,323	836	373	424	1,633	1
Oregon	1,323	1,062	0	374	1,436	3
Vermont	**1,323**	**283**	**227**	**399**	**908**	**9**
Washington	1,323	0	752	467	1,219	6
Wisconsin	1,323	142	354	466	962	7

Case #21	**AGI=$17,504**	**350% FPL**	**MFJ**	**>65**	**Owner**	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	0	0	240	324	564	10
Florida	0	0	328	370	698	5
Maine	0	0	253	340	593	9
Massachusetts	0	674	178	244	1,096	1
Minnesota	0	0	301	363	665	7
New Hampshire	0	296	0	302	598	8
New York	0	42	373	326	741	3
North Carolina	0	0	325	354	679	6
Oregon	0	0	0	315	315	12
Vermont	**0**	**0**	**205**	**338**	**543**	**11**
Washington	0	0	655	390	1,046	2
Wisconsin	0	0	311	396	706	4

Case Study Summaries (page 8)

Case #22	**AGI=$357,934**	**Top 5%**	**MFJ**	**<65**	**Owner**	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	70,765	17,497	1,375	966	19,838	9
Florida	70,765	375	1,574	1,054	3,002	12
Maine	70,765	23,417	1,183	1,017	25,617	3
Massachusetts	70,765	18,030	967	927	19,923	8
Minnesota	70,765	22,140	1,514	1,126	24,780	5
New Hampshire	70,765	2,260	0	1,013	3,273	11
New York	70,765	22,314	1,676	1,055	25,044	4
North Carolina	70,765	23,101	1,584	1,032	25,717	2
Oregon	70,765	25,810	0	881	26,691	1
Vermont	**70,765**	**20,872**	**1,027**	**1,155**	**23,054**	**6**
Washington	70,765	0	3,056	1,190	4,246	10
Wisconsin	70,765	17,700	1,510	1,085	20,295	7

Case #23	**AGI=$1,066,309**	**highest**	**MFJ**	**<65**	**Owner**	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	257,866	52,915	1,375	1,001	55,291	8
Florida	257,807	1,388	1,574	1,089	4,050	12
Maine	258,025	79,591	1,183	1,042	81,816	2
Massachusetts	258,031	56,023	967	942	57,931	7
Minnesota	257,848	74,278	1,514	1,225	77,017	5
New Hampshire	258,531	18,449	0	1,050	19,499	10
New York	258,011	78,115	1,676	1,081	80,872	3
North Carolina	257,982	77,881	1,584	1,052	80,517	4
Oregon	258,531	85,740	0	908	86,648	1
Vermont	**258,013**	**72,760**	**1,027**	**1,214**	**75,001**	**6**
Washington	257,718	0	3,056	1,220	4,276	11
Wisconsin	257,893	50,964	1,510	1,140	53,614	9

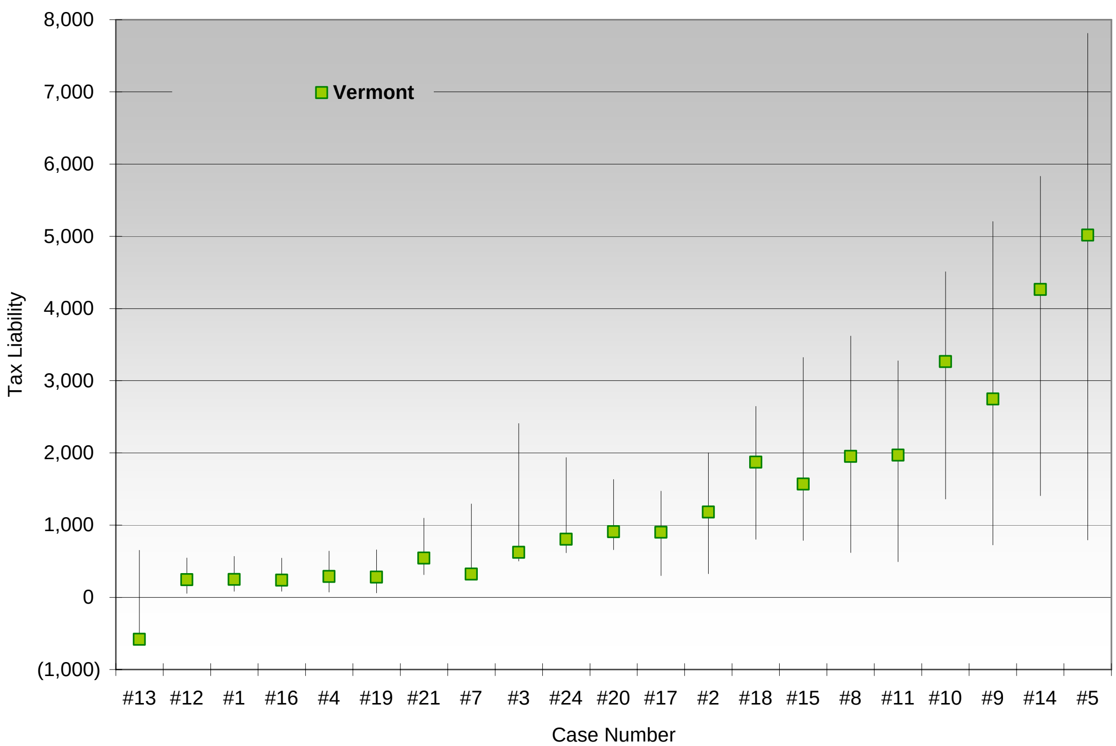
Case #24	**AGI=$23,862**	**Schedule C**	**Single**	**<65**	**Owner**	
Comparison States	**Federal Income Tax**	**State Income Tax**	**Sales & Use Tax**	**Other Taxes & Fees**	**State Tax Total**	**2005 Rank**
Connecticut	3,013	0	275	344	618	12
Florida	3,008	0	387	392	779	11
Maine	3,023	256	288	361	906	9
Massachusetts	3,018	1,204	196	298	1,698	2
Minnesota	3,013	415	332	385	1,133	6
New Hampshire	3,043	1,611	0	328	1,939	1
New York	3,018	403	429	354	1,185	4
North Carolina	3,018	509	373	377	1,259	3
Oregon	3,043	619	0	332	951	8
Vermont	**3,023**	**211**	**227**	**368**	**805**	**10**
Washington	3,003	0	752	419	1,171	5
Wisconsin	3,013	328	354	415	1,096	7

SUMMARY FINDINGS – ALL TAXES

One objective of a tax study is to compare tax liability among states. This is often reported at an aggregate level, such as per capita total tax obligation. However, this comparison fails to recognize policy made by individual states, particularly in the area of the relationship between tax liability and income level. As a result, this section of the study synthesizes the aggregate data from all the cases, across the various tax types, for the 12 comparison states. The first few charts were developed to display broad themes from the results. The subsequent pages include detailed information on the analysis for each case as well as a more thorough discussion for each tax type.

The chart below illustrates how the relationship between tax liability and income varies among states. For 21 of the case studies, the range of total tax liability in each of the 12 comparison states is depicted with a vertical line.[3] Vermont's relative ranking is illustrated with a green box. In this example, the case studies are ordered (left to right) by increasing median tax level. Median is the middle value in a range. For example, Case #5 at the far right of the chart is a four-person family, married filing jointly, with $109,320 in adjusted gross income. The total tax liability in Vermont is $5,016, which ranked ninth among the states, with the lowest taxes in New Hampshire at $793 and the highest in Wisconsin at $7,810. These cases were sorted by total tax liability, rather than income, because of the complex relationship between income, filing status, and number of exemptions. In other words, income level alone can be an insufficient means of comparing tax liability. Charts on the following pages show more detailed results further sorted by filing status and number of exemptions.

Chart 1 - Tax Liability Range and Vermont Rank for Individual Case Studies

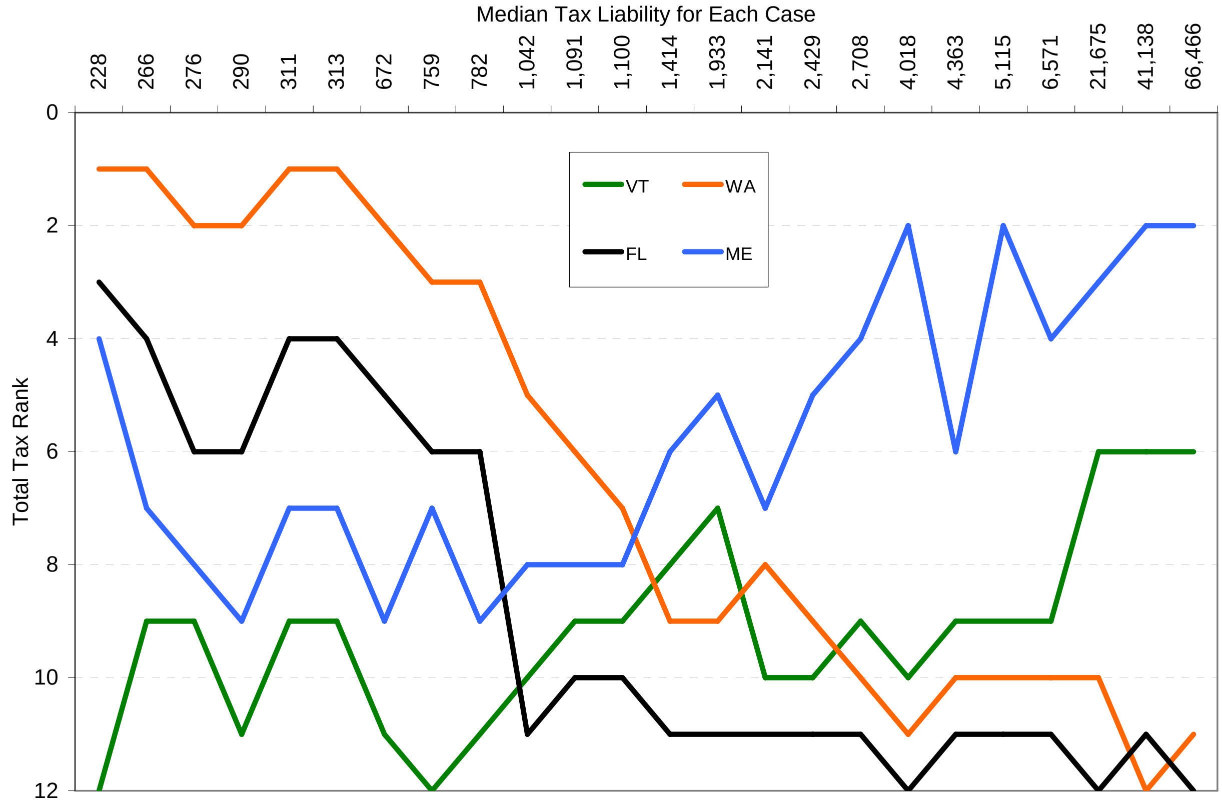


[3] The three case studies with the highest adjusted gross income (#22, #6, and #23) were excluded because they are beyond the practical scale of the chart.

Comparing relative tax obligations among states reveals some very different tax policy choices. For example, Vermont's tax liability is among the lowest of the 12 states for median tax levels less than $5,000 (roughly equivalent to adjusted gross income of less than $50,000). At higher tax (or income) levels, Vermont ranks among the higher of the 12 states. In contrast, Washington has relatively high taxes on lower-income taxpayers and the lowest tax obligation relative to the other 11 states for the three highest tax-burden cases.

To further illustrate this relationship, the ranks for four selected states are shown in the graph below. A rank of 1 is the highest tax liability while a rank of 12 is for the lowest tax liability. As discussed above, in contrast to Washington, Vermont places less of a tax obligation on lower-income taxpayers and a higher liability on upper-income taxpayers. Florida shows a similar pattern to that of Washington. But for all but the three highest-tax cases, Florida taxpayers pay less than Washington taxpayers. Maine has a similar pattern to that of Vermont, having the highest tax liability for the top seven cases, and a higher burden than Vermont in every case.

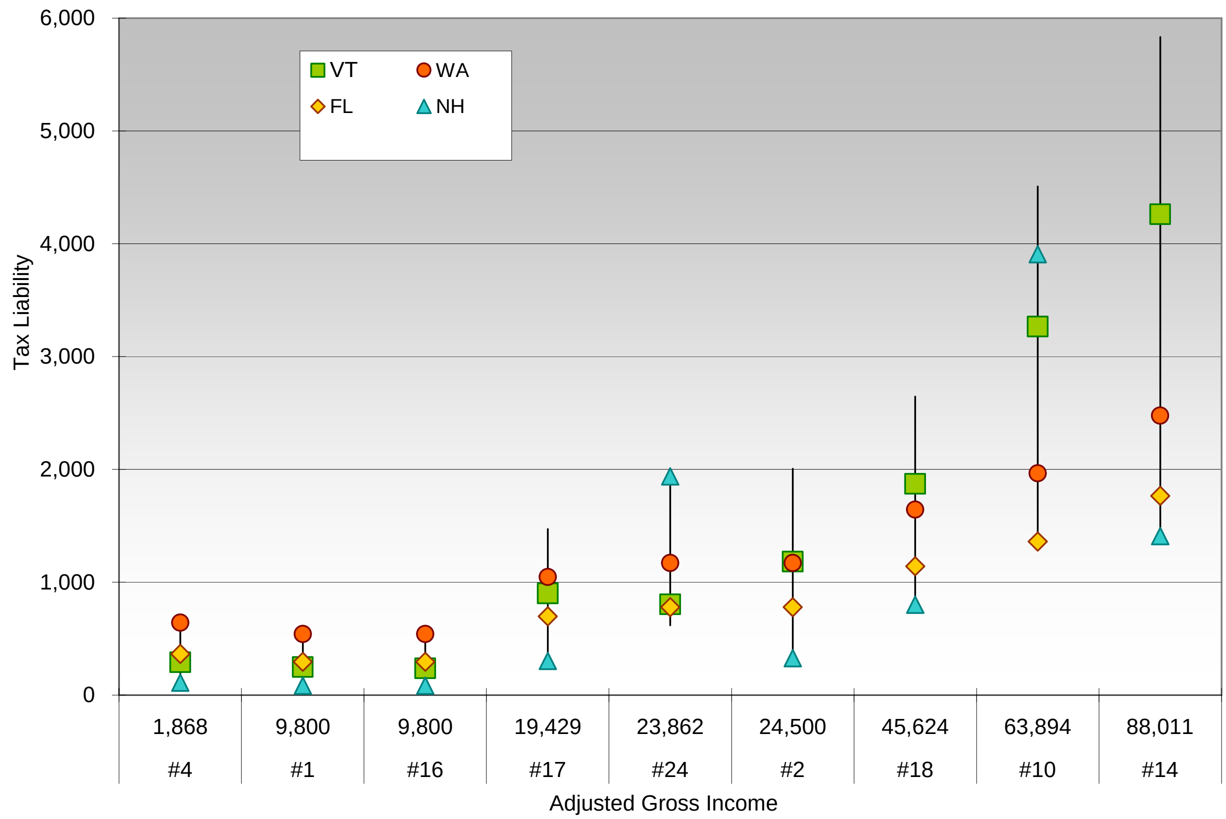
Chart 2 – Tax Liability Rank, Select Four States



The four states illustrated above, Maine, Vermont, Washington, and Florida, have some of the most distinctive overall tax policy differences of the 12 states profiled. These differences are apparent in many of the per-capita rankings, but the case study profiles highlight the approach to taxation across income levels as well.

The progressive or regressive nature of a state's tax structure is more visible by income level when the data are further sorted by filing status and number of exemptions. The results are clearer on the charts showing tax liability by adjusted gross income level separately for single taxpayers and for taxpayers whose status is married filing jointly. These charts show the range of tax liabilities among the states for taxpayers with identical tax status. The chart below shows tax liabilities for only those taxpayers filing singly ranked by adjusted gross income. Each line represents the range of tax liabilities among the states for each case, while individual liabilities called out for four of the 12 states: Vermont, Washington, Florida, and New Hampshire. In this chart, the variation is largest for Case #14 with a $4,422 difference between the highest amount due in Minnesota and the lowest tax due in New Hampshire. Case #16 had the least variation, $461, between the state where they would owe the most tax (Washington) and the state where they would owe the least (New Hampshire). As a percentage of AGI, however, this is a significant difference in tax liability.

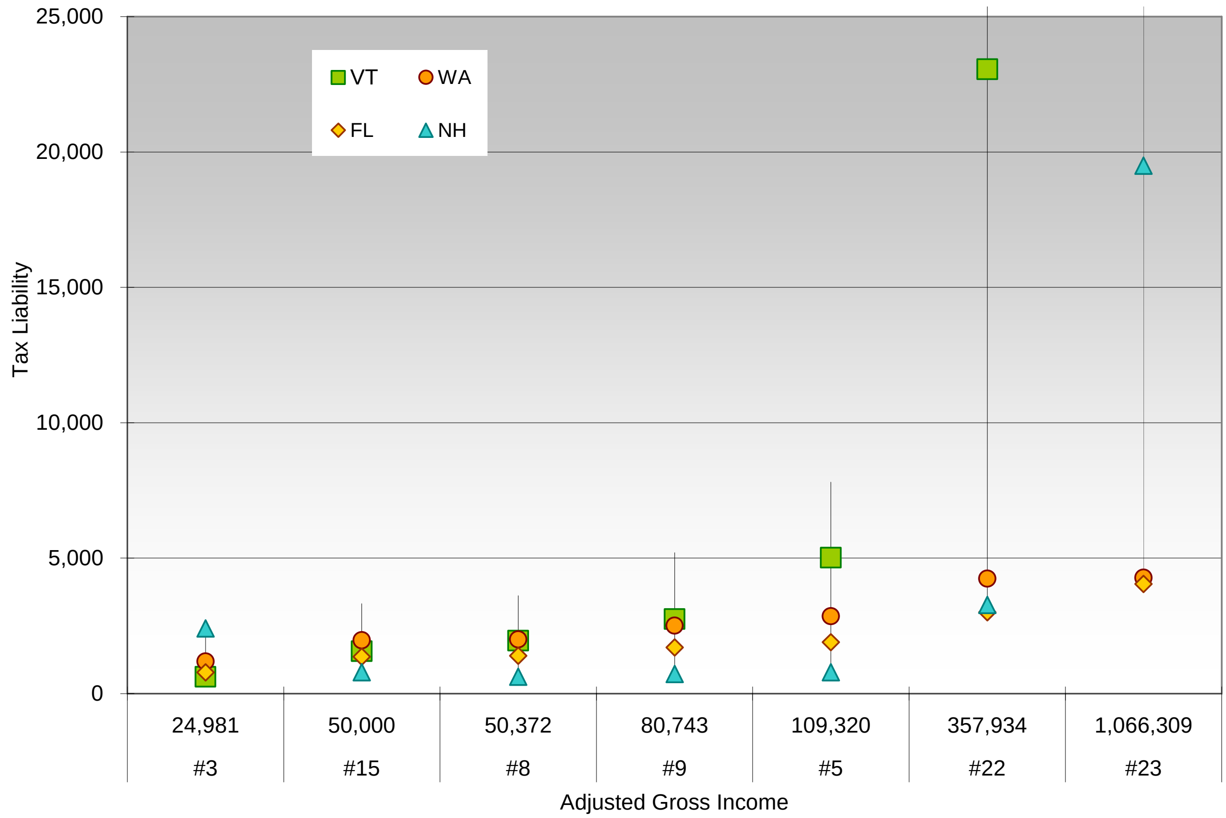
Chart 3 - Single Filing Status, Total Tax Liability Ranked by AGI



This shows quite clearly that lower- and even moderate-income taxpayers in Vermont have some of the lowest total state tax liabilities (represented by the green squares). Vermont's comparative tax liability increases – in Cases #18, #10, and #14 – as income rises, while still remaining below that of many of the other states. Washington and Florida have the highest overall tax liabilities on the lower-income cases with lower tax payments on the higher-income cases. The tax liabilities for New Hampshire taxpayers varied considerably, highest for Case #24, which had business income and fell under the state's business profits tax, and lowest for Case #14, which had the highest income of these nine single taxpayers.

The chart below shows similar data for taxpayers using the married filing jointly status with four exemptions (with the exception of Case #6, whose filing status is head of household, and Case #22, which has five exemptions). The scale does not include all of the data for the two cases with the highest adjusted gross incomes because they are substantially out of proportion with the other cases.

Chart 4 - Married Filing Jointly*, Four or More Exemptions
Total Tax Liability Ranked by AGI



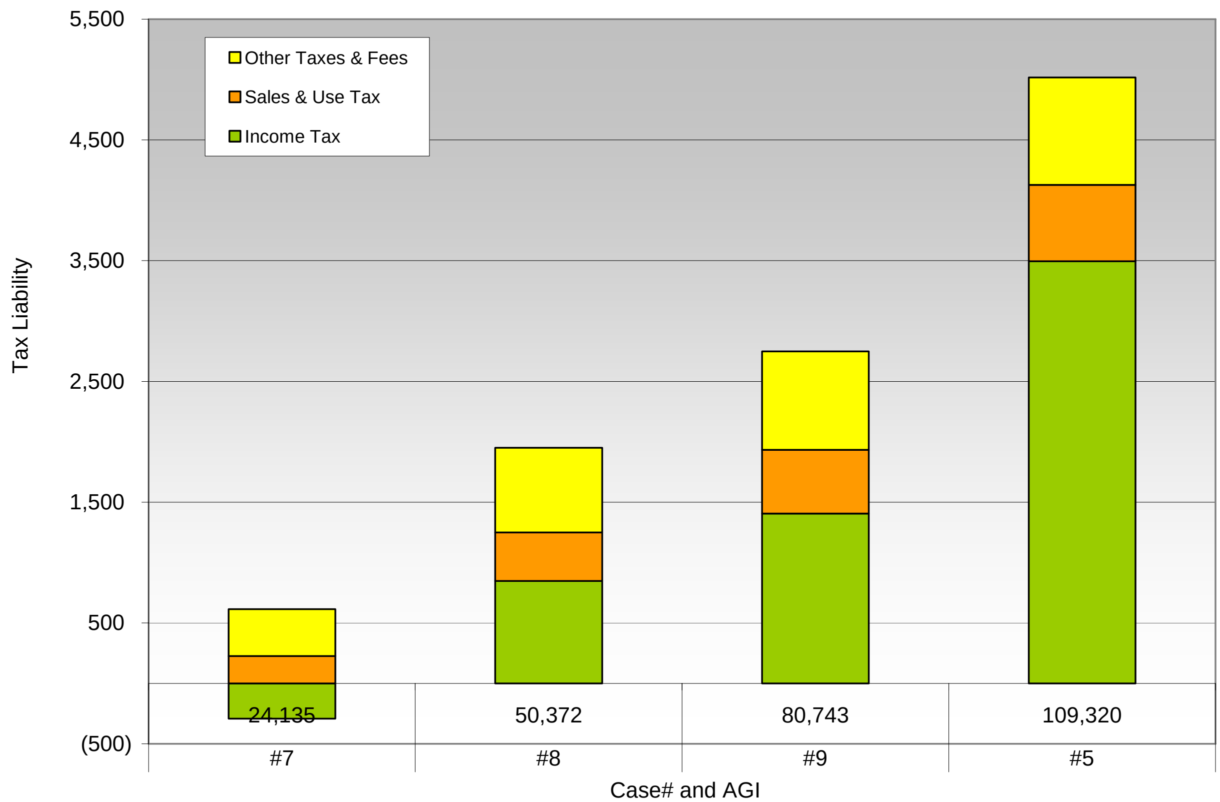
* Case #22 is a head of household

Again, the progressive nature of Vermont's state tax structure is visible in that the lower-income cases have tax liabilities that are ranked the lowest among the comparison states, while the taxes for higher-income taxpayers rise in rank and as a portion of income. (It should be noted that the overall tax liability for Case #8 is almost identical in Vermont and Washington and therefore the green square representing Vermont is just barely visible on the chart behind the orange circle for Washington.) The total taxes in Vermont for the last case (#23) are higher than the scale of the chart, or $75,001 ranked sixth among the 12 comparison states. Washington and Florida have similar tax levels for all of the tax cases. Tax obligation levels for New Hampshire are less predictable: higher for the lowest-income taxpayers in the group, the lowest for the middle-income taxpayers, and slightly more for higher-income case.

Representative Cases - Study Details

The following chart shows the portion of total tax liability attributable to each of the three tax types analyzed for this study – the individual income tax, sales taxes, and other taxes and fees – for taxpayers at four different income levels in Vermont. These four cases were chosen to illustrate this because they have similar profiles. All are taxpayers married filing jointly, with three or four exemptions, under age 65, and have approximately $25,000 between their federal adjusted gross income amounts. The Vermont tax rank for Case #7 is last, or 12th, among the comparison states; for Case #8, the Vermont rank is 10th; and for Cases #9 and #5, the Vermont rank is ninth.

Chart 5 - Total Tax Liability by Source, Vermont



The green portion of the bar represents the income tax liability for each case, the orange represents the sales tax, and the yellow represents the other taxes and fees. The table below shows the percentage of adjusted gross income from each tax source. The sales tax and other tax and fee categories are a small portion of the total, ranging from 1% to 4%, and increase gradually as income increases. The income tax, however, ranges from a refund (-1% up to 14% of the taxpayer's AGI) and is clearly the driver behind a taxpayer's total tax payments in Vermont.

Table 4 – Amount of Tax and as a Percent of Adjusted Gross Income

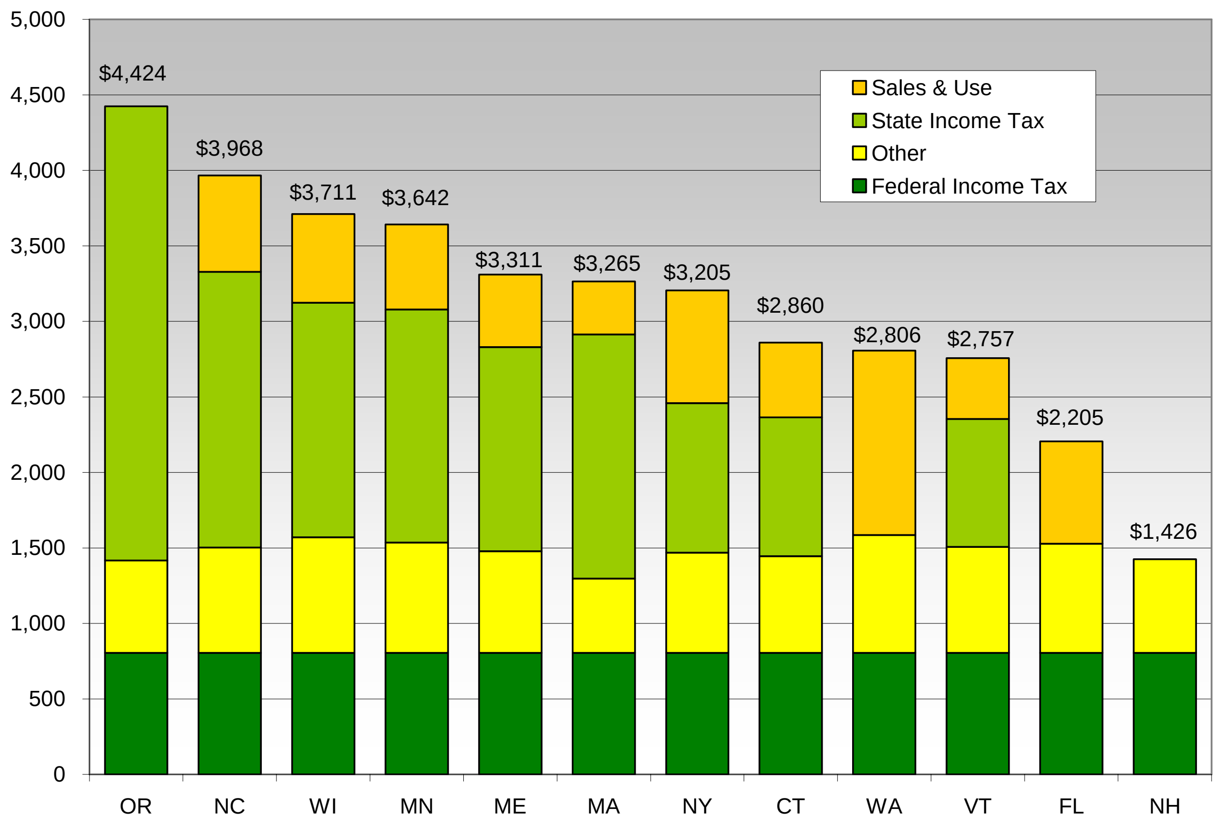
Case #	**#7**		**#8**		**#9**		**#5**	
AGI	24,135		50,372		80,743		109,320	
Income Tax	(291)	-1.2%	848	1.7%	1,406	1.7%	3,494	3.2%
Sales Tax	227	0.9%	403	0.8%	528	0.7%	633	0.6%
Other Taxes & Fees	388	1.6%	700	1.4%	816	1.0%	889	0.8%

This tax liability distribution is consistent for the states with an individual income tax. The income tax is generally a larger portion of total taxes for households with high income levels. Oregon, Florida, and New Hampshire have different patterns of overall tax composition because each of these states does not have a major tax source as part of its overall tax base. Oregon and New Hampshire do not have a sales tax. Florida and New Hampshire have only limited income taxes. New Hampshire, for example, is more highly dependent upon the property tax, which is excluded from this analysis.

Representative Case - Number 8

Additional details are shown for Case #8. While no case is "typical," Case #8 is representative of one common family type in Vermont. The median income for a family of four in Vermont was estimated by the US Census to be $62,331 in 2005[4]. The family income for all taxpayers in Vermont classified as either married filing jointly or head of household in 2005 was $52,682. Case #8 has an adjusted gross income of $50,372, a married filing jointly tax status, and four exemptions. This hypothetical taxpayer is under age 65, claimed the standard deduction, and is assumed to be a renter. The chart below shows the estimated total taxes for this taxpayer in the 12 comparison states. The estimates show that Vermont ranked 10th in the amount of taxes paid by this hypothetical taxpayer.

Chart 6 - Case #8, Estimated Total Taxes by Source for Each Comparison State (excluding property taxes)

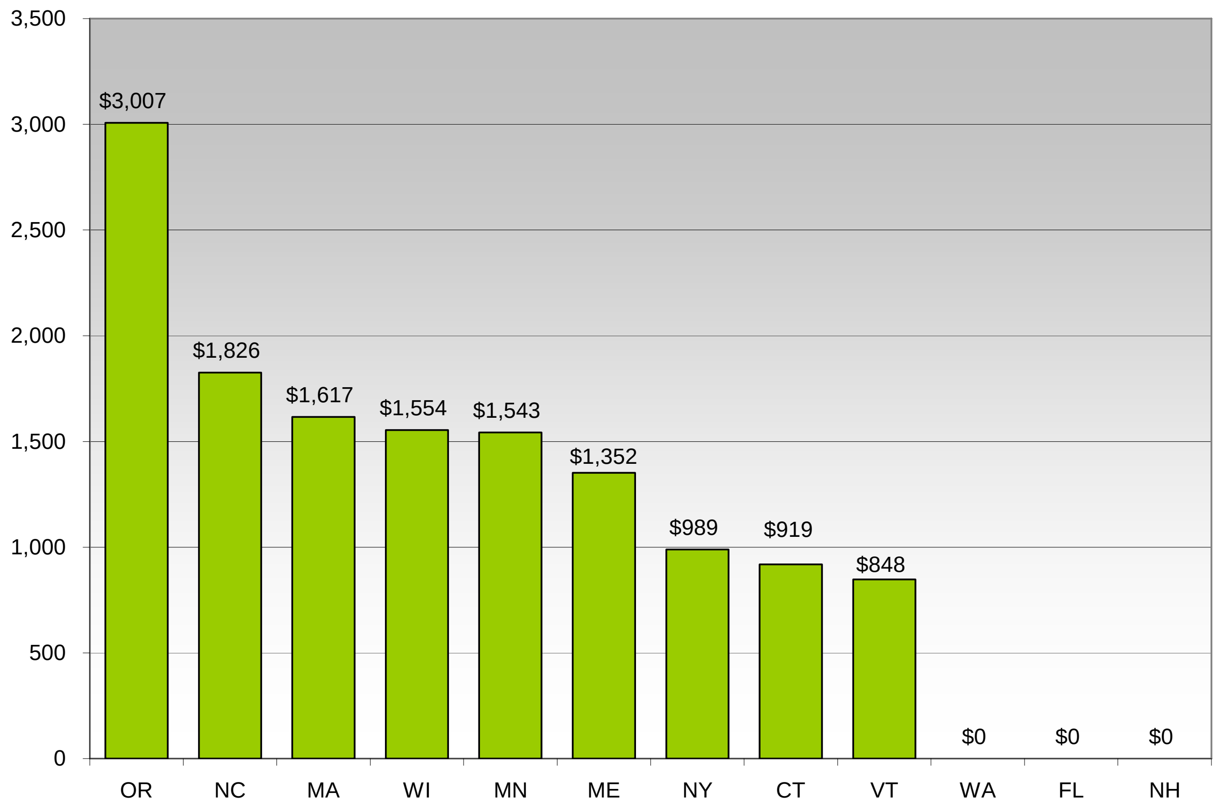


[4] http://www.census.gov/hhes/www/income/4person.html

The total tax liability for this case includes federal and state income taxes, sales and use taxes, and other taxes and fees. This calculation does not include an estimate of property taxes that would be included in rent. As in New Hampshire, Oregon has no sales and use tax. Yet this hypothetical taxpayer would pay more taxes in Oregon than in any of the 11 other states, due mostly to the individual state income tax. Washington, which has no income tax, has a similar overall tax liability to that of Connecticut and Vermont (ranked eighth, ninth, and 10th and within $100 of each), attributable largely to Washington's broad-based sales and use tax. New Hampshire, lacking either an income or sales and use tax, has the lowest tax liability for this particular taxpayer.

The next chart illustrates the individual income tax portion of estimated tax liability for Case #8. This portion is the most significant source of tax liability for the taxpayer (with the obvious exception of the three states without earned income taxes).

Chart 7 – Case #8, Estimated State Income Taxes



Of the nine states that impose a personal income tax, the level for this taxpayer is the highest in Oregon and the lowest in Vermont. The tax due in Oregon is over $1,000 more than the next highest state, North Carolina, which is followed closely by Massachusetts, Wisconsin, and Minnesota, all of which fall within $300 of one another. Additional details on the different individual income tax levels among states is in the Individual Income Tax section of this report.

INCOME TAX

The case studies analyzed below contain a sample of taxpayers: single, married filing jointly, married filing singly, and head of household. Filers over and under age 65 are represented. The number of personal exemptions claimed ranges from zero to five to account for various family sizes. Eleven of the cases use standard deductions, while the remaining 13 claim itemized deductions. In addition, 18 are assumed to be homeowners, while six are renters.

Twelve of the case studies reflect adjusted gross income (AGI) at various federal poverty levels, updated from the last study.[5] They include families of various sizes represented at 100% of the federal poverty level, 150%, 200%, 250%, 350%, and 400%. The remaining cases were chosen using an analysis of data from 2004 Vermont individual income tax returns to create "hypothetical" cases. The 2004 Vermont returns were divided into deciles, and there is at least one representative case study created for each. In addition, four higher-income taxpayers, with incomes greater than $100,000, were added to the study; some have significant capital gains. Fewer than 0.5% percent of Vermont taxpayers fall into this income level, but these cases were added to explore the comparative results for these types of highest-income taxpayers.

The taxable income for the cases comes from a variety of sources, including salaries and wages, interest and dividends, capital gains, as well as Social Security and pension income. A number of the cases included income from Schedule C, which includes profit and losses from business, Schedule E, which can be supplemental income from rental real estate, royalties, partnerships, S corporations, and trusts, and one Schedule F, which is income or losses from farming.

These cases also include a number of the most common adjustments for IRA (individual retirement accounts), Keogh, and 401K retirements savings accounts, FICA (Federal Insurance Contributions Act) and Medicare for self-employed individuals. Two new additions to this tax study are assumptions for tuition and fees adjustments as well as for child and dependent care costs. The number and variety of adjustments and credits available to taxpayers have increased substantially since the last study in 1996.

It should be noted that for cases with itemized deductions, one uniform amount was assigned for property tax and for state tax payments across all comparison states. This is to enable direct comparisons and for simplicity. In reality, even if it is assumed that for a particular case the house was the same value in each of the 12 states, property tax expense would vary in each state, as would a home of the same value in different Vermont towns. This results in too much variety, particularly among property tax liabilities, to be included under the methodologies of this report. The same is true for state tax payments because the filer would have had a different level of withholding for each state. These state-to-state variances would have required further assumptions about where, in each state, the sample filer lived. Therefore, standard assumptions were used across all states for each taxpayer.

The Vermont Tax Study 10 years ago included property tax refunds administered through the individual income tax forms in the final calculation of total income tax liability. This version does not because property tax liability is not included in the estimate of total taxes. Property tax refunds, which are discussed in detail later, often obscured the results of the individual income tax estimates because of the sizable value of the refund payments.

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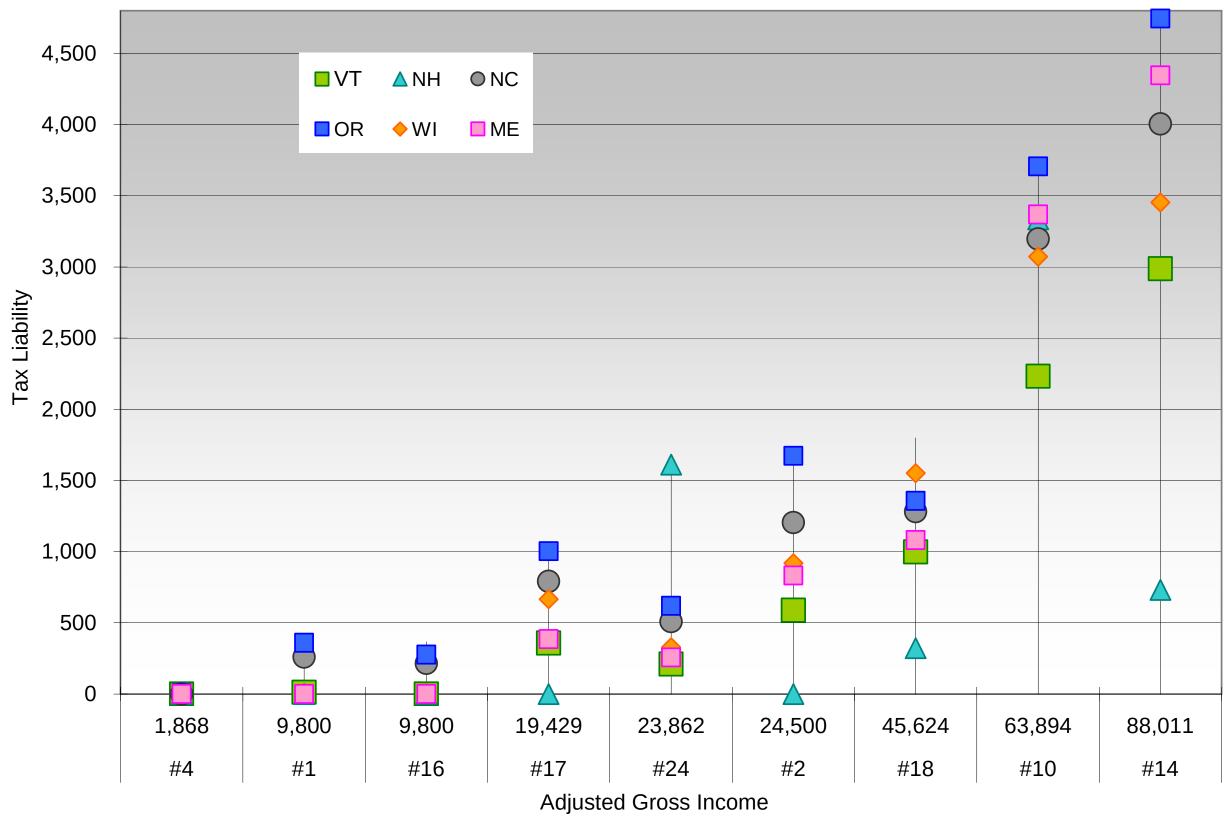
[5] The last study used 1996 Federal Poverty Levels (FPL) for tax year 1995 returns. This study follows the same methodology, using 2006 FPLs or 2005 tax returns for consistency.

Comparison of Income Tax Liabilities

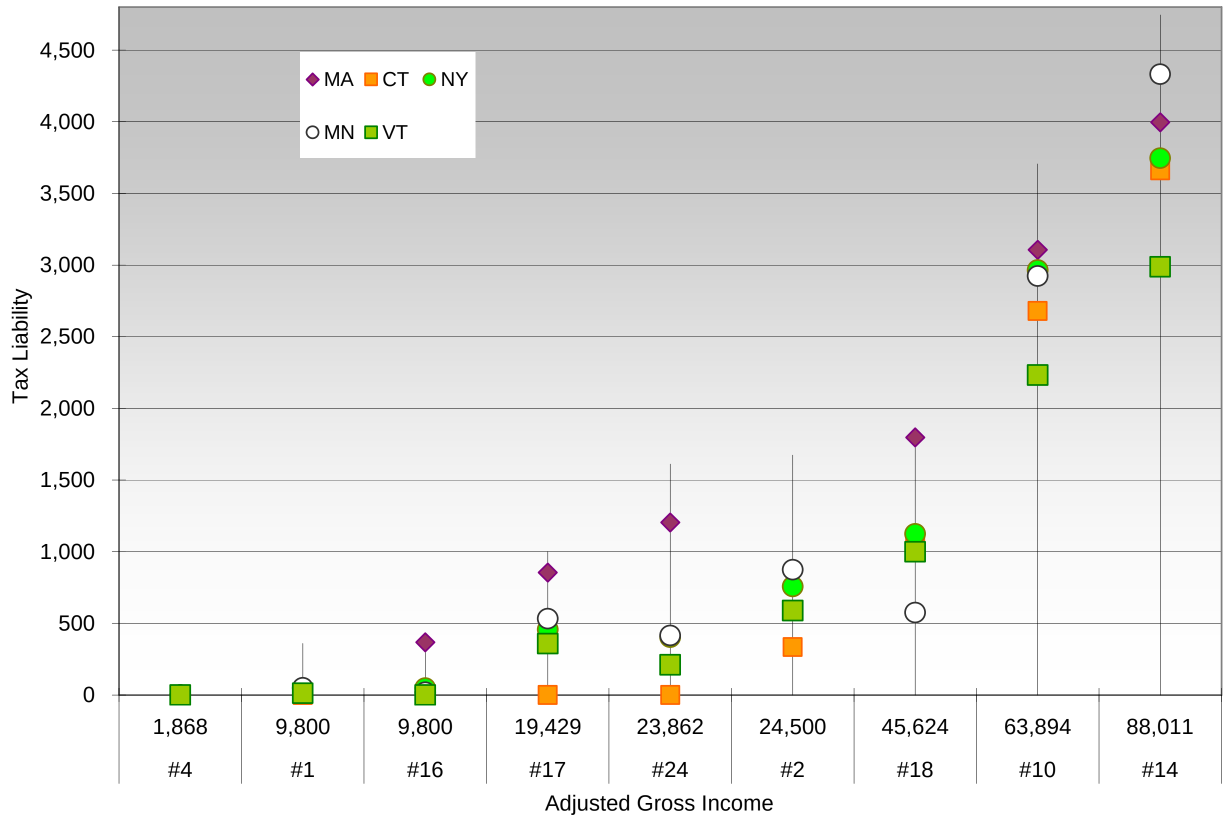
The next two charts show the state individual income tax liability for all the taxpayer case studies with a single filing status. The first chart has the results for six of the 12 states and the following chart shows the income tax liability for the remaining four. Washington and Florida were not included because the income tax liability for almost all the cases was zero.

Chart 8 – Single Filing Status, Income Tax Liability Ranked by AGI



All of the states included on this chart, with the exception of New Hampshire, have progressive income tax structures to varying degrees. Oregon (blue square) consistently has some of the highest income taxes on all of the cases, ranking first for six of the cases above and first for 17 of the 24 cases. Maine's tax structure (pink square) appears to be steeply progressive but with larger bills than Vermont for the low- and moderate-income cases. Its taxpayers ranked seventh for five of the nine single taxpayer cases. North Carolina (grey circle) ranks second, third, or fourth in tax level for all of these cases. Vermont ranked eighth or lower for six of these nine cases. The erratic nature of the tax assessments in New Hampshire (turquoise triangle) is due to the state's tax on business profits (applied to Case #18 and Case #24) and the tax on interest and dividends (applied to Case #14). Taxpayers deriving all of their income from salary and wages do not pay an income tax in New Hampshire.

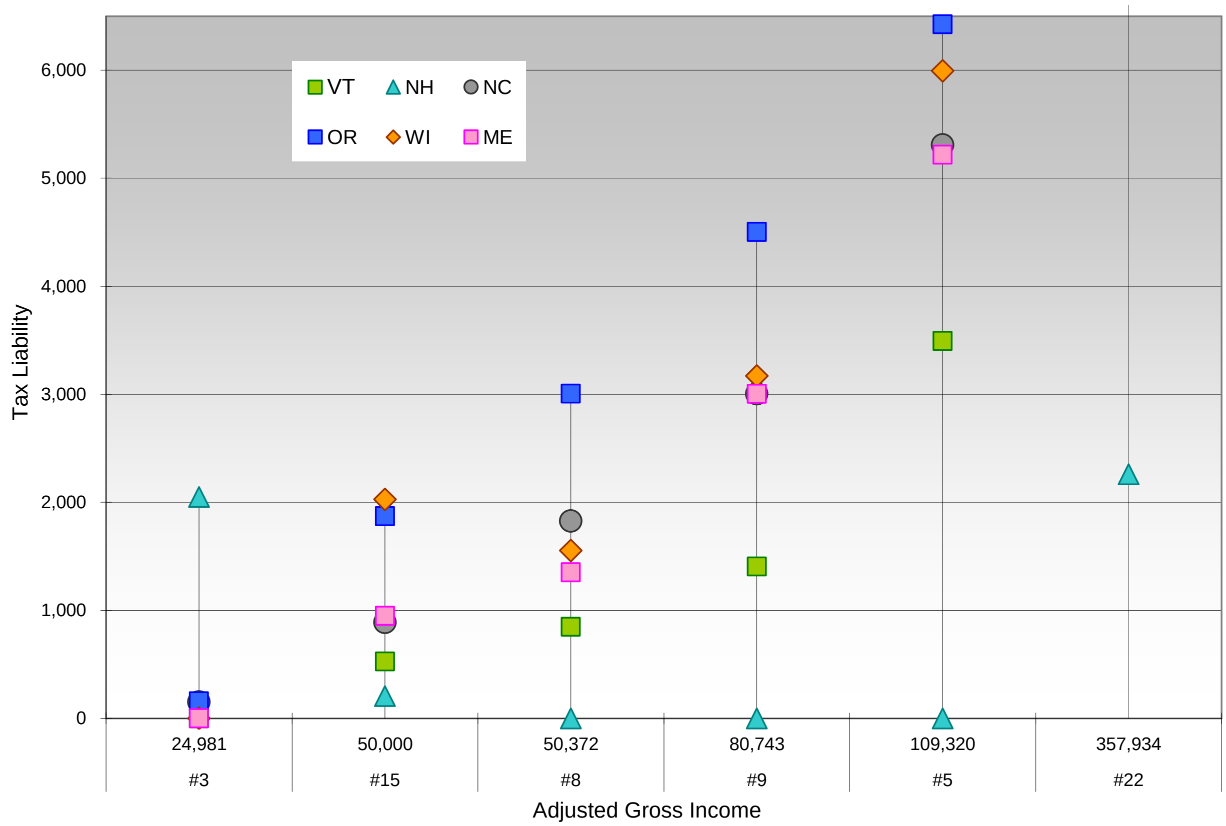
Chart 9 – Single Filing Status, Income Tax Liability Ranked by AGI



The results for the remaining four states with an income tax: Massachusetts (purple diamond), Connecticut (orange square), New York (green circle), and Minnesota (white circle) are shown on the chart above. Again, all of these states show progressive tax structures to varying degrees. Massachusetts ranked first for two of these cases and a low of fifth for four of them. The Connecticut results ranked from sixth to 10th for income tax liability, while New York ranked between fourth and seventh, and Minnesota ranged between third and ninth. Vermont is included again on this chart for comparison purposes.

The following charts include the same state income tax information by married filing jointly status with four or more exemptions. Again, there are two charts showing the individual results for the 10 states with income taxes. The tax levels and rankings are similar to those for the single taxpayers, with Oregon residents consistently having the highest level of tax following alternatively by Wisconsin, Maine, and North Carolina. Vermont ranked lower than these four states in almost all of these cases. New Hampshire had the highest rank for Case #3, the taxpayer reporting farm income on a federal Schedule F. The modest tax levels for Case #15 and Case #22 in New Hampshire are for the portion of income from interest and dividends.

Chart 10 – Married Filing Jointly*, Four or More Exemptions
Income Tax Liability Ranked by AGI



*Case #22 is a head of household.

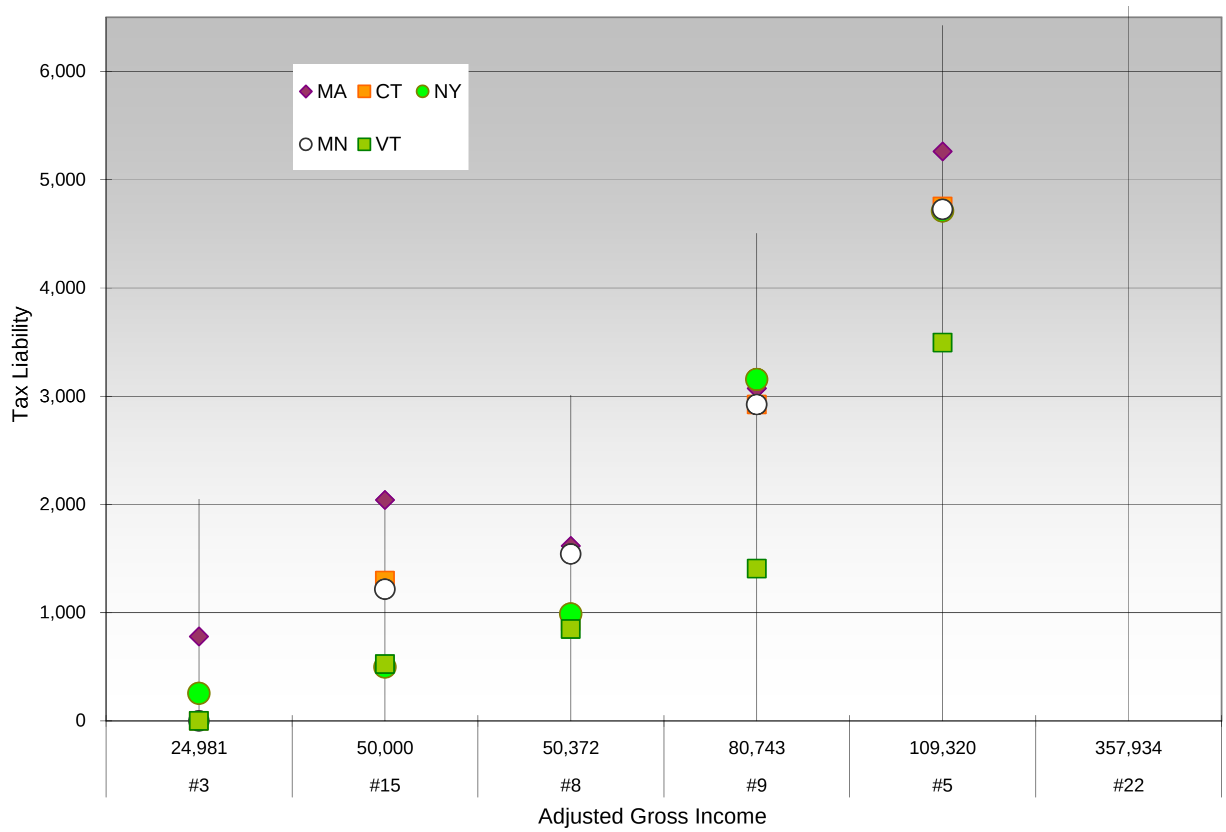
Case #22 represents a taxpayer with a high level of income, $357,934 of federal adjusted gross income from several sources, mainly from salary and wages, but also including interest and dividends as well as capital gains. The tax levels are shown in a separate chart because it does not fit into the scale of the chart above.

Table 5 – Case #22, $357,934 Adjusted Gross Income

State	Income Tax	Rank		State	Income Tax	Rank
Oregon	$25,810	1		Massachusetts	$18,030	7
Maine	$23,417	2		Wisconsin	$17,700	8
North Carolina	$23,101	3		Connecticut	$17,497	9
New York	$22,314	4		New Hampshire	$ 2,260	10
Minnesota	$22,140	5		Florida	$ 375	11
Vermont	$20,872	6		Washington	$ 0	12

The estimated tax of $375 in Florida is from the state's "Intangibles Tax" on the market value of stocks, bonds, and other intangible assets at a rate of $5 per $10,000. The first $250,000 in value is exempt from tax. Florida applied the Intangibles Tax in 2005, the tax year of this study, but the tax has since been eliminated, beginning January 1, 2007. Case #22 was estimated to have a portfolio valued at $1.25 million.

Chart 11 – Married Filing Jointly*, Four or More Exemptions
Income Tax Liability Ranked by AGI



*Case #22 is a head of household.

The remaining four states, Massachusetts, Connecticut, New York, and Minnesota, are shown on the second chart. Massachusetts ranked between first and fourth for cases #3, #15, #8, #9 and #5 with the ranking dropping to seventh for the higher income case. The Connecticut cases ranked from a high of fourth to a low of ninth. The New York cases ranked from a high of third to a low of ninth. The Minnesota cases ranked from a high of fifth to a low of seventh. Vermont is included again for comparison purposes.

The highest income case, #23 with adjusted gross income of $1,066,309, also represents a taxpayer using the married filing jointly tax status, with four exemptions. The income tax liabilities calculated for the 12 states for this particular case are in the table below because some fall beyond the scale of the charts. Again, Vermont ranked sixth of the 12 comparison states.

Table 6 – Case #23, $1,066,309 Adjusted Gross Income

State	Income Tax	Rank		State	Income Tax	Rank
Oregon	$85,740	1		Massachusetts	$56,023	7
Maine	$79,951	2		Connecticut	$52,915	8
New York	$78,115	3		Wisconsin	$50,964	9
North Carolina	$77,881	4		New Hampshire	$18,449	10
Minnesota	$74,278	5		Florida	$ 1,388	11
Vermont	$72,760	6		Washington	$ 0	12

Detailed Analysis of Income Tax Differences

Tax Brackets and Marginal Rates

As was discussed in Volume I of this study, most state individual income tax systems are a structure of brackets and marginal rates by which the tax rate rises as income rises. This is considered a progressive tax structure. Nonetheless, rates and brackets designed to implement the highest marginal rates at relatively low levels of income, of which Connecticut is an example, do not result in very progressive tax liabilities.

Table 7 – 2005 Marginal Rates and Tax Bracket Comparisons for Single Filers

State	2005 Taxable Income		Marginal Rate (%)
	Single	*Married Filing Jointly*	
Connecticut	0 - 10,000	0 - 20,000	3.00
	10,001 and over	20,001 and over	5.00
Florida	No State Income Tax		N/A
Maine	0 - 4,449	0 - 8,899	2.00
	4,450 - 8,849	8,900 - 17,699	4.50
	8,850 - 17,699	17,700 - 35,449	7.00
	17,700 and over	35,450 and over	8.50
Massachusetts	No Brackets		5.30
Minnesota	0 - 19,890	0 - 29,070	5.35
	19,891 - 65,330	29,071 - 115,510	7.05
	65,331 and over	115,511 and over	7.85
New Hampshire	Limited State Income Tax		N/A
New York	0 - 8,000	0 - 16,000	4.00
	8,001 - 11,000	16,001 - 22,000	4.50
	11,001 - 13,000	22,001 - 26,000	5.25
	13,001 -20,000	26,001 -40,000	5.90
	20,001 - 100,000	40,001 - 150,000	6.85
	100,001 - 500,000	150,001 - 500,000	7.38
	500,001 and over	500,001 and over	7.70
North Carolina	0 - 12,750	0 - 21,250	6.00
	12,751 - 60,000	21,250 - 100,000	7.00
	60,001 - 120,000	100,001 - 200,000	7.75
	120,001 and over	200,001 and over	8.25
Oregon	0 - 2,650	0 - 5,300	5.00
	2,651 - 6,650	5,301 - 13,300	7.00
	6,651 and over	13,301 and over	9.00
Vermont	0 - 29,700	0 – 49,650	3.60
	29,701 - 71,950	49,651 - 119,950	7.20
	71,951 – 150,150	119,951 – 182,800	8.50
	150,151 – 326,450	182,801 – 326,450	9.00
	326,451 and over	326,451 and over	9.50
Washington	No State Income Tax		N/A
Wisconsin	0 - 8,840	0 - 11,780	4.60
	8,841 - 17,680	11,781 - 23,570	6.15
	17,681 - 132,580	23,571 - 176,770	6.50
	132,581 and over	176,771 and over	6.75

Earned Income Tax Credit (EITC)

Three of the case study taxpayers qualified for the federal earned income tax credit (Case numbers 1, 7, and 13). Eighteen states and the District of Columbia offer a state earned income tax credit, usually as a percentage of the federal amount. The federal EITC is refundable; some state credits are refundable, others are not. A refundable credit is not limited by the amount of a taxpayer's liability, but can be issued as a payment to taxpayers with no tax obligation.

Table 8 – Comparison of States' EITC

State	% of Federal Credit	Refundable
Maine	4.92%	No
Massachusetts	15.0%	Yes
Minnesota	Average of 33% [1]	Yes
New York	30.0%	Yes
Oregon	5.0% [2]	Yes (beginning 2006)
Vermont	32.0%	Yes
Wisconsin	4.0% - one child 14.0% - two children 43% - three children	Yes
Florida, New Hampshire, and Washington do not have an income tax. Connecticut and North Carolina do not have a state EITC.		

[1] Not expressly structured as a percentage of the federal credit. For comparison purposes, the percentage is used here. The credit may range from 25% to 45% of the federal credit for families with children; 25% without children.
[2] Scheduled to increase to 6.0% in 2008.
Source: Center on Budget and Policy Priorities (http://www.cbpp.org/3-8-06sfp.pdf)

Table 9 – Case Studies – State EITC Benefit Amount

State	Case #1		Case #7		Case #13	
Federal Credit	$147		$1,423		$2,662	
State Credit	Benefit ($)	Rank	Benefit ($)	Rank	Benefit ($)	Rank
Maine	0	6	70	6	131	6
Massachusetts	22	4	213	4	399	4
Minnesota	37	3	506	1	666	3
New York	45	2	357	3	730	2
Oregon	7	5	71	5	133	5
Vermont	47	1	455	2	852	1
Wisconsin	0	6	57	7	106	7

The Vermont EITC payment was the largest for Case #1 and Case #13. The taxpayer in Case #7 received a higher benefit in Minnesota. This is because Minnesota's benefit percentage is a sliding scale based on the number of children. In these cases, Maine and Wisconsin consistently provided the lowest level of benefit while Vermont, Minnesota, and New York provided the highest state benefit levels.

Individual Business Income

Vermont, along with other states imposing an income tax, and New Hampshire have decidedly different treatment of individual income from business sources. The following chart shows these differences in the four case studies that were developed to emphasize this type of income. While the four cases do not constitute a comprehensive analysis, the results point to an income tax advantage for entrepreneurs and small business owners in Vermont. Because these types of businesses represent a large sector of the economy, this may be an important tax policy difference.

Chart 12 – Treatment of Individual Business Income in VT and NH

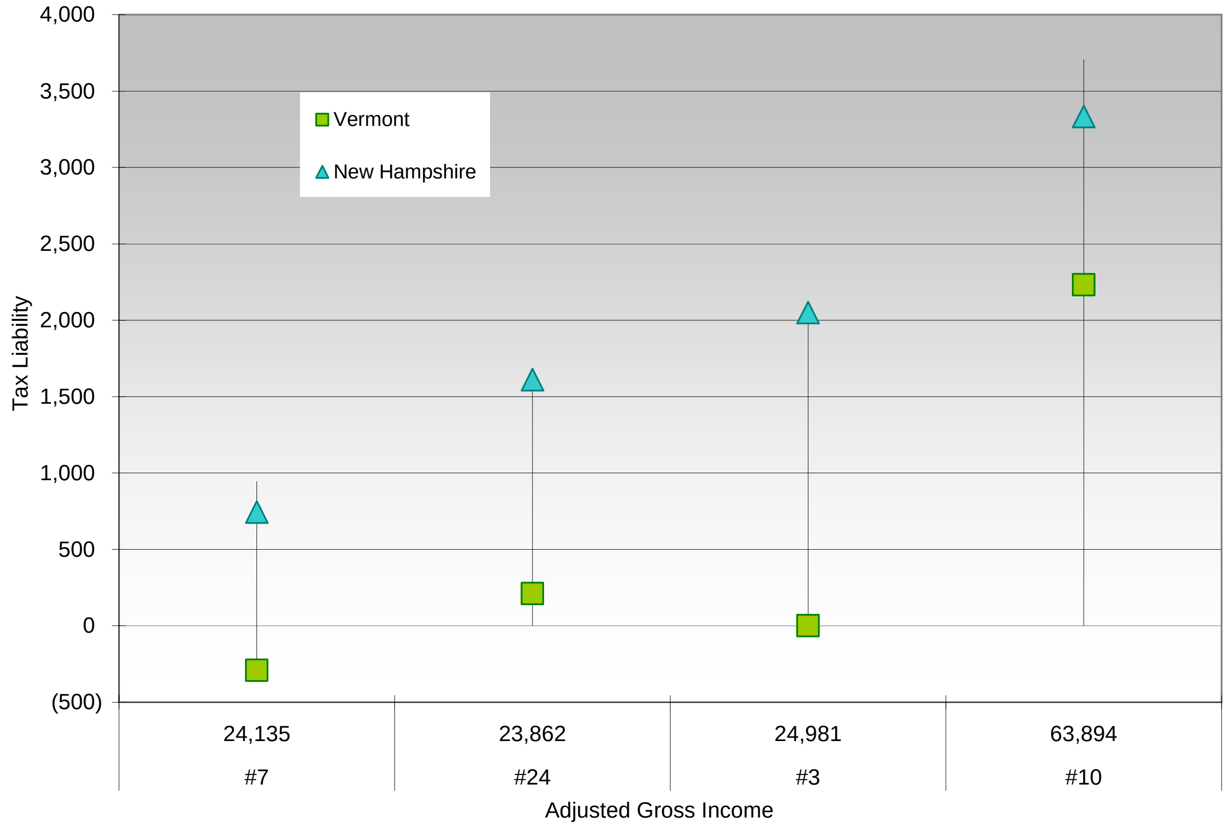


Table 10 – Tax Amounts in NH and VT by Case

Case #	#7	#24	#3	#10
AGI	24,135	23,862	24,981	63,894
NH	744	1,611	2,050	3,334
VT	(291)	211	0	2,323

Case #7 earns approximately 36% of income from business sources on a federal Schedule C form, or $8,757 of a total $24,135 AGI. This case represents a married filing jointly tax return with three exemptions. This taxpayer would owe $744 in business profits taxes in New Hampshire (ranked second), but receives a refundable earned income tax credit of $455 in Vermont and therefore an overall income tax refund of $291.

Case #24 was developed to represent a sole proprietor responsible for paying his or her own FICA, Medicaid, and Social Security taxes. This taxpayer earns a modest income, $23,862 AGI, mainly from business sources claimed on a federal Schedule C form. This taxpayer also had some income from salary and wages and capital gains. Case #24 filed singly and was under age 65. In New Hampshire, the business profits tax owed amounts to $1,611, the highest of the 12 states. The tax of $211 in Vermont ranked eighth.

Case #3 has a majority (76%) of its income from farming and files a Schedule F at the federal level. In Vermont, this case would pay no income tax; in New Hampshire, this taxpayer must pay a proprietor business profits tax of $2,050, the most tax in any of the comparison states.

Case #10, with an adjusted gross income of $63,894, claims more than 60% of income from rental sources on a federal Schedule E form. This taxpayer must pay a New Hampshire proprietorship business profits tax of $3,334, ranked third among the states, while in Vermont, the taxpayer would pay $2,232, ranked 10th.

Federal Tax Liability
In several of the individual income tax cases, the federal income tax liability is different in various states. This is a result of the general sales tax deduction taken on Schedule A. Taxpayers who file itemized tax deductions are allowed to deduct either 1) the amount of income tax paid to the state through withholding; or 2) the general sales tax amount based on adjusted gross income and the sales tax level for that state. This illustrates that taxpayers who itemize and take advantage of either the income tax withholding or sales tax options receive a benefit through a reduced federal tax amount as a result of the reduction of their taxable income amount.

Homeowner and Renter Property Tax Rebate Programs
A number of the 12 comparison states offer property tax relief programs that are administered through the individual income tax, and are usually provided as a credit against income tax liability or as a refund. An exception is Maine, which has an application included with the income tax forms, but provides a separate refund check, calculated by the state and not shown on the form. The programs vary significantly and are for homeowners, renters, or both in some states. Connecticut[6], Florida, North Carolina, Oregon, and Washington do not offer property tax relief programs. A brief description of the states with programs follows:

Table 11 – Homeowner and Renter Property Tax Relief Programs

State	Name and Brief Description of Program
ME	**Maine Property Tax and Rent Refund Program**[7] The program is for property taxes of more than 4% of household income, and rent of more than 20% of household income. The income limits are $77,000 for single individuals and $102,000 for families with spouses and dependents. Refunds are limited to $2,000. An application is filled out with the individual income tax return, but refunds are mailed separately.
MA	**The Circuit Breaker Tax Credit** The program is for taxpayers over age 65. For homeowners, the credit is for real estate tax payments greater than 10% of income or for renters who pay more than 25% of income for rent. Income limits are $45,000 for a single filer, $56,000 for a head of household, or $67,000 for joint filers in 2005. The maximum credit amount is $840.
MN	**Minnesota Property Tax Refund** [8] The renter program is for household incomes less than $47,350; the homeowner refund is for household incomes less than $87,750.

[6] Connecticut will offer up to $500 credit per return against property taxes paid on a primary residence or motor vehicle in tax years 2006 and 2007.
[7] http://www.maine.gov/revenue/forms/tnr/tnr.htm
[8] http://www.taxes.state.mn.us/taxes/prop_refund/prior_years/2005/forms.shtml

Table 11 – Continued

NC	**North Carolina Property Tax Relief for Elderly and Permanently Disabled Persons** Homeowners may receive the greater of $20,000 or a 50% reduction in the appraised value of their permanent residence if they are older than age 65 or totally and permanently disabled with an income of not more than $19,700. There is no refund or credit offered.
NY	**New York Property Tax Credit for Homeowners and Renters** The property tax credit is available for homeowners and renters with gross household income of $18,000 or less. The credit is up to $75 for taxpayers who are less than age 65, up to $375 for those over age 65.
NH	**New Hampshire Low Income Homeowner Rebate**[9] This program is for homeowners with incomes of $20,000 or less if they are single, or $40,000 or less for taxpayers who are married or head of household. The tax relief is limited to the first $100,000 of homestead value, and the rebate is a percentage of income that is adjusted.
VT	**Homeowner and Renter Property Tax Rebate Claim** Both are for households with income of $47,000 or less. The limits on total property taxes as a percentage of income is the same for both: Up to $4,999 = 3.5%; $5,000-$9,999 = 4.0%; $10,000-$24,999 = 4.5%; and $25,000-$47,000 = 5.0% The income sensitivity property tax adjustments are separate from the individual income tax.
WI	**Wisconsin Homestead Credit** The Wisconsin credit applies to both owners and renters with income less than $24,500. The income limit may be lower depending on how much was paid in property taxes or rent.

Property tax refund programs for homeowners and renters can provide a substantial refund on individual income tax returns in some states that offer such programs. Vermont's program offers some of the largest benefits, with less restrictive caps, to the most taxpayers by including both homeowners and renters and providing benefits to taxpayers at higher levels of income – up to $47,000 household income – than most states. It is important to note that the Vermont programs are for combined municipal and education property taxes after the income sensitivity adjustment for education property taxes.

For example, while Maine offers its benefits to families of up to $77,000 for single-income households and $102,000 for families, the refund amount is capped at $2,000. Massachusetts also offers its Circuit Breaker Tax Credit up to $56,000 in income for singles and $67,000 for joint filers, but caps the refund at $840 and limits it to only residents over age 65. New Hampshire offers its program to homeowners only, up to $20,000 in income for single filers and $40,000 to married filers, and caps the homestead value at $100,000. The New York program is only for those with less than $18,000 in household income and is capped at $75 for people less than age 65 and $375 for those over age 65. The chart in Appendix E shows the benefit amounts for an equal amount of property tax or rent in the comparison states with programs operated through the individual income tax.

[9] http://www.gencourt.state.nh.us/rsa/html/XV/198/198-57.htm

SALES AND USE TAX

The sales and use tax is an important revenue source in most states. However, it plays a lesser role in determining overall state tax liability for most of the individual income taxpayers in the comparison states, with the exception of Washington. In general, the sales tax represents a smaller percentage of total tax liability for individual taxpayers than other taxes evaluated. Sales and use tax rates in the comparison states ranged between 5.0% and 8.45%, including local sales taxes. More important for this sales tax analysis is the difference among states in the tax base in the items considered taxable in each state. For example, Maine imposes a state sales tax rate of 5.0% and no local sales taxes. Vermonters, on average, pay an estimated rate of 6.05% (this includes a weighted average of the 1% local option taxes in some communities). Yet despite paying a lower rate, Maine residents pay more in sales taxes because Vermont exempts more items from the sales and use tax base.

Measurement of effective resident sales tax payments are also skewed by taxable purchases by out-of-state visitors and tourists. Some states, such as Florida, Vermont, New Hampshire and Maine, have relatively large tourism visitation and expenditures, while other states in this analysis do not. States with high levels of tourism relative to their base populations and with cities near international borders will tend to overstate measures of per capita sales and use taxation.

The tax rate used for the 12 states in this analysis is a combined state and local sales tax rate. The local tax rate used is a sales-weighted local tax rate. The table below shows the state rate, local rate, and the total rate used for the estimate.

Table 12 – Sales Tax Rates

State	State Tax Rate	Local Rate[1]	Total Rate	RANK
Connecticut	6.0%	N/A	6.00%	7
Florida	6.0%	0.30%	6.30%	5
Maine	5.0%	N/A	5.00%	9
Massachusetts	5.0%	N/A	5.00%	9
Minnesota	6.5%	0.10%	6.60%	4
New Hampshire	N/A	N/A	N/A	N/A
New York	4.0%	3.71%	7.71%	2
North Carolina	4.5%	1.58%	6.08%	3
Oregon	N/A	N/A	N/A	N/A
Vermont	**6.0%**	**0.05%**	**6.05%**	6
Washington	6.5%	1.05%	7.55%	1
Wisconsin	5.0%	0.31%	5.31%	8

[1] Sales-weighted local rate; Census 2003-04 State and Local Government Finances (http://www.census.gov/govs/www/estimate.html)

The tax base used for each calculation is from the 2005 Consumer Expenditure Survey (CES) data by income class.[10] The tax base for each state by income group was estimated by including the categories of items and services from the CES that are taxed. The primary differences among states were levels of taxation on apparel, services, utilities, gasoline, and nonprescription medication. Washington has the largest tax base with few exemptions and a majority of services taxed. Florida, Maine, and Wisconsin had the next highest sales tax bases, followed by Connecticut, Minnesota, New York, and North Carolina. Massachusetts and

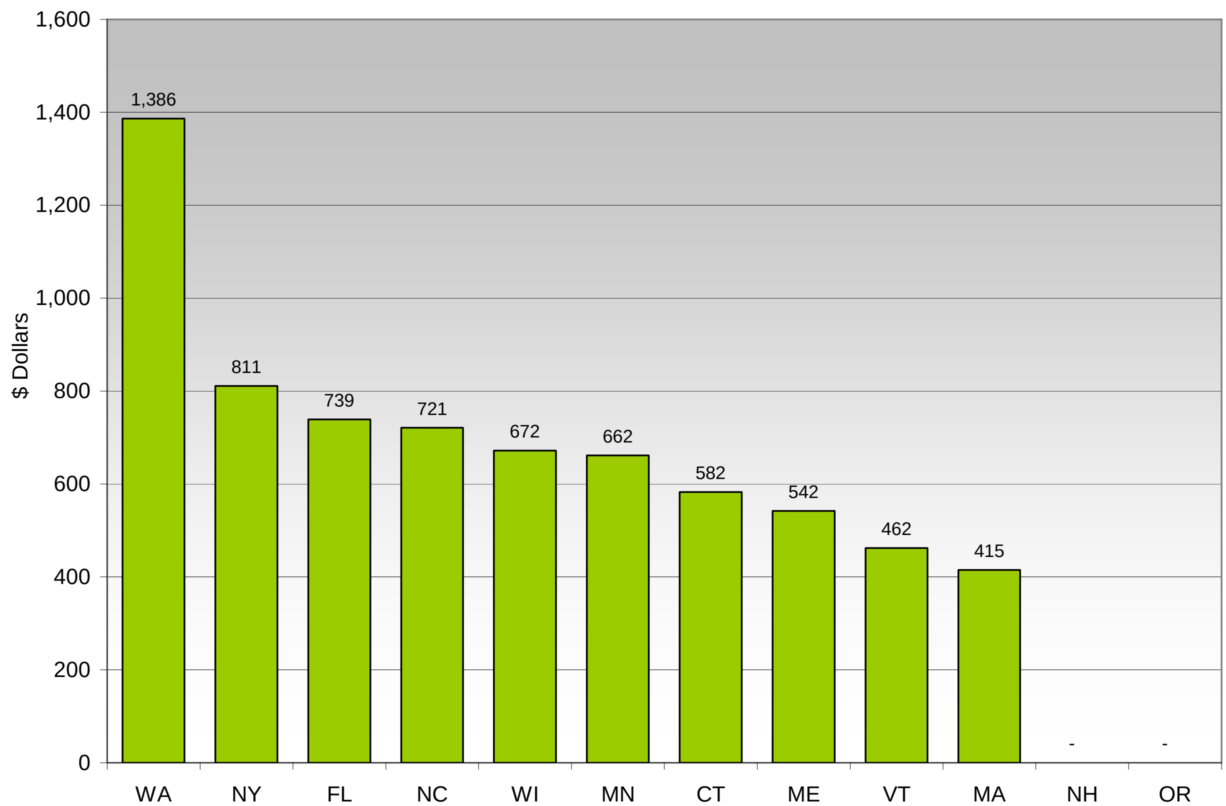
[10] 2005 Consumer Expenditure Survey Table 2 and Table 2301 (US Department of Labor, Bureau of Labor Statistics http://www.bls.gov/cex/)

Vermont had the smallest tax bases. The Federation of Tax Administrators 2004 Sales Taxation of Services Survey is the main source consulted for information on the tax base and exemptions.

List of Major Sales Tax Exemptions

- **Clothing** – CT, MA, NY, and VT all have exemptions with various thresholds for clothing. In CT, all clothing less than $50 is exempt; in NY and VT, all clothing less than $110 is exempt[11]; and clothing less than $175 is exempt in MA.
- **Services** – WA taxes most services; CT and MN tax a number of personal services.
- **Utilities** – WA taxes all residential utilities; MN taxes residential electricity, natural gas and other fuel (including heating oil); NC taxes residential electricity and fuel, including heating oil; and WI taxes residential electricity, natural gas, and fuel, including heating oil.
- **Medications** – Five of the states -- ME, MA, NC, WA, and WI -- tax over-the-counter medications.
- **Food** – All of the comparison states exempt food except North Carolina, which allows local sales taxes on food.
- **Gasoline** – Both Florida and New York have sales taxes on gasoline.

Chart 13 – Average Sales and Use Tax Payments for All Cases



[11] All clothing in Vermont is exempt as of January 1, 2007. This study compares tax year 2005 conditions.

The results of the analysis were almost the same for all income levels, which negates the need to present detailed analyses for each case study. Washington state taxpayers have the highest sales tax liability in all cases. Taxpayers in Washington pay nearly double in sales taxes what the residents of New York pay, the state with the second highest sales taxes. Residents of Massachusetts pay the lowest sales taxes in the 12 comparison states. Massachusetts has one of the narrower tax bases, and the lowest tax rate at 5.0%, with no local sales taxes. Vermont ranked second lowest in sales taxes, mainly the result of a smaller tax base and very limited use of local option sales taxes. Vermont's tax rate fell in the middle of the 12 comparison states.

SELECTED OTHER TAXES AND FEES

Other taxes and fees – which include taxes on meals in restaurants, gasoline excise taxes, and motor vehicle registration and license fees – were a minor component of total tax liability facing most hypothetical taxpayers in the case studies. The only taxpayers for which these payments were a significant expense were the lowest income groups that paid little or no federal or state income taxes and were not assumed to own vehicles. It should be noted that for these taxes, the rates were more important in determining tax rank among the states than the tax base, which had little variation among states. Vermont had the highest ranks for taxes on served meals, and ranked among the highest in motor vehicle license and registration fees. Vermont has the second lowest gasoline excise tax rate of the comparison states.

In an attempt to evaluate the other taxes and fees paid by typical taxpayers, the 2005 Consumer Expenditure Survey and 2001 National Household Transportation Survey were used to determine the purchases by each income group. This analysis does not cover every other tax and fee that a consumer may pay. But it is an attempt to include the significant and reoccurring charges that most consumers pay. For example, most residents pay meals taxes, gasoline taxes and license and registration fees. Atypical charges for non-regularly occurring events such as purchase and use tax, lodging, rental car, or property transfer taxes are not included.

Meals and Rooms Tax

For this study, only taxes from meals were included. The 2005 Consumer Expenditure Survey of "food away from home" was used for the various income levels, the average amount spent per family was $2,634 annually. The meals tax rate, which is often included in the sales tax in other states, is sales weighted to include any additional local tax rate. Vermont had the highest rate, with a 9.0% state rate and a 1.0% local option tax (9.05% weighted average). Washington State was second with a 6.5% state rate and up to 2.4% local rates (8.45% weighted average). Oregon and Massachusetts had the lowest at 5.0% state-only tax.

Gasoline Excise Taxes

Only unit-based gasoline excise taxes were used for this portion of the analysis. The states that charge sales taxes on gasoline had those charges included in the sales and use tax analysis. The rate alone determines the rank of gasoline taxes for the case studies. Among the 12 comparison states, Vermont had the second lowest gasoline excise tax at 20 cents per gallon. New Hampshire had the lowest tax at 19.625 cents per gallon. Wisconsin and Florida had the highest gasoline excise tax rates. There was a 13.3-cent-per-gallon spread between the lowest gasoline excise tax and the highest.

Motor Vehicle Registration and License Fees

Combined license and registration fees in Vermont were among the highest in the 12 comparison states. Vermont had the second highest rank among the comparison states for all 24 cases. Registration renewal fees drive Vermont's relatively higher costs. Vermont's registration renewal fee ranks second among the comparison states, and is more than $20 greater than the same fee in all but two other states. The license renewal fee in Vermont tied for second among the comparison states, but in no state does this fee exceed an annualized cost of $11 per driver, making the license renewal fee only a minor contributor to the total costs faced by car owners.

CORPORATE INCOME TAX

This study contains an analysis of two corporate income tax case studies. This is a different approach from the method employed in the previous Vermont Tax Study 10 years ago. The 1996 study reported on 10 cases representing various industrial sectors, including agriculture, construction, manufacturing, transportation, wholesale, retail, and services. Although many questions about tax policy pertain to impacts on various sectors of the economy, the differences often depend less on the type of business than how the business itself is structured. The "operating style" of a C-corporation, whether it is a stand-alone company, a member of a group of affiliates, or a multi-state or multi-national business, is very important. For example, a multi-state corporation's tax liability is dependent on whether the state requires unitary combined reporting[12], and then the apportionment formula used to measure the amount of business activity within the taxing jurisdiction. Other businesses may benefit more from the treatment of net operating losses or depreciation schedules. Therefore, two cases were developed to highlight some of the tax policy decisions determined by the states and show the resulting tax liability differences in comparison to the 11 other states used in this study.

Any conclusions drawn from these cases should be tempered by noting that the Vermont corporate income tax was significantly restructured beginning in tax year 2006. These case studies were completed using the 2005 corporate income tax return, providing a 10-year update of the 1995 study. Beginning in 2006, the Vermont corporate income tax rates were lowered in two phases: unitary combined reporting is required; the apportionment formula was changed; there are new net operating loss rules; and while the federal bonus depreciation was blocked, the federal qualified production activities income deduction was allowed to pass through. All of these changes are discussed in detail in Volume I of this study.

The rankings among the states for both cases had some unpredictable results. The rankings for Florida and Oregon were low in both cases, and the results for Massachusetts, Minnesota, and New Hampshire were high for both cases. Washington had the highest ranking tax liability for Case Study A and 10th for Case Study B. Connecticut ranked last for Case Study A and seventh for Case Study B. New York, Vermont, Wisconsin, North Carolina, and Maine generally ranked in the middle, between fourth and ninth. It appears, but is not necessarily conclusive, from these results that corporate income tax liability is less consistent between businesses within a state, and may be more dependent on specific tax policies that affect individual businesses, such as those for bonus depreciation, the qualified production activities deduction, net operating losses, and apportionment formulas that affect different types of businesses in a particular way.

The two Case Studies developed focus specifically on the treatment of three federal tax deductions in particular:; bonus depreciation, the qualified production activities deduction, and treatment of net operating losses. Table 11 summarizes the differences among the comparison states in these three areas. In addition, three states, Maine, New Hampshire, and Oregon, use a unitary combined reporting system for corporate income taxes. Also shown in Table 11 are the different apportionment formulas used for multi-state businesses. Neither of these cases is structured to analyze the tax impact of unitary reporting or apportionment formula differences, although they can have significant impacts on the amount of tax liability.

[12] Unitary combined reporting apportions the taxable income of an entire multi-state group of affiliated corporations engaged in a unitary business. Prior to 2006, Vermont used a separate accounting income system of only the corporations doing business in Vermont. Unitary taxation was an attempt to address state corporate tax revenue loss due to income sheltering and tax avoidance by some of the larger and more complex multi-state taxpayers.

Table 13 – 2005 Treatment of Selected Corporate Income Tax Benefits[13]

State	Bonus Depreciation	Qualified Production Activities Deduction (QPAD)	Net Operating Loss (NOL)	Apportionment Formula
Connecticut	Not allowed	Allowed	Portion attributable to CT allowed	3 Factor - double-weighted sales and single-weighted sales
Florida	Allowed	Allowed	Not allowed	3 Factor - double-weighted sales
Maine	Not allowed	Not allowed	Allowed	3 Factor - double-weighted sales
Massachusetts	Not allowed	Not allowed	Portion attributable to MA allowed	3 Factor - double-weighted sales
Minnesota	20% allowed	Not allowed	Portion attributable to MN allowed	75% sales, 12.5% property and payroll
New Hampshire	Not allowed	Not allowed	Allowed	3 Factor - double-weighted sales
New York	Not allowed	Allowed	Allowed	3 Factor - double-weighted receipts
North Carolina	Partial allowance	Not allowed	Portion attributable to NC allowed	3 Factor - double-weighted sales
Oregon	Allowed	Not allowed	Not allowed	80% sales, 10% property and payroll
Vermont	Not allowed	Allowed	Allowed	3 Factor - double-weighted sales
Washington	N/A	N/A	N/A	N/A
Wisconsin	Not allowed	Allowed	Portion attributable to WI allowed	3 Factor - double-weighted sales

The choices of federal pass-throughs listed above and state tax brackets and rate structures are important contributors in the tax outcome. Some uncommon tax benefits, such as Oregon's "State Surplus Refund Credit", Connecticut's tax credit for investment in new equipment, and Florida's $5,000 exemption, play a large role in these states' low tax rankings. Special tax credits, awarded by states to individual business entities, are not included as part of this study. Inclusion of such credits and subsidies would increase tax variability between businesses and states and further complicate comparative analyses. The credits listed above are not individual company awards or credits and are granted automatically on the tax return if a corporation meets the qualifying criteria.

Most states apply a corporate income tax on C-corporations and use federal corporation taxable income as the starting point for their state tax structure. The exceptions in these comparison states is Washington, which has a separate Business and Occupation Tax on gross receipts with rates that vary by industry; Massachusetts, which has a tax on business property and income; and North Carolina, which has a franchise tax on tangible property and income. This is an analysis of the corporate income tax or its comparative equivalent only, and does not include

[13] Source: 2005 U.S. Master Multistate Corporate Tax Guide, CCH.

any other taxes (such as sales or property taxes) paid by corporations during the normal course of business activities.

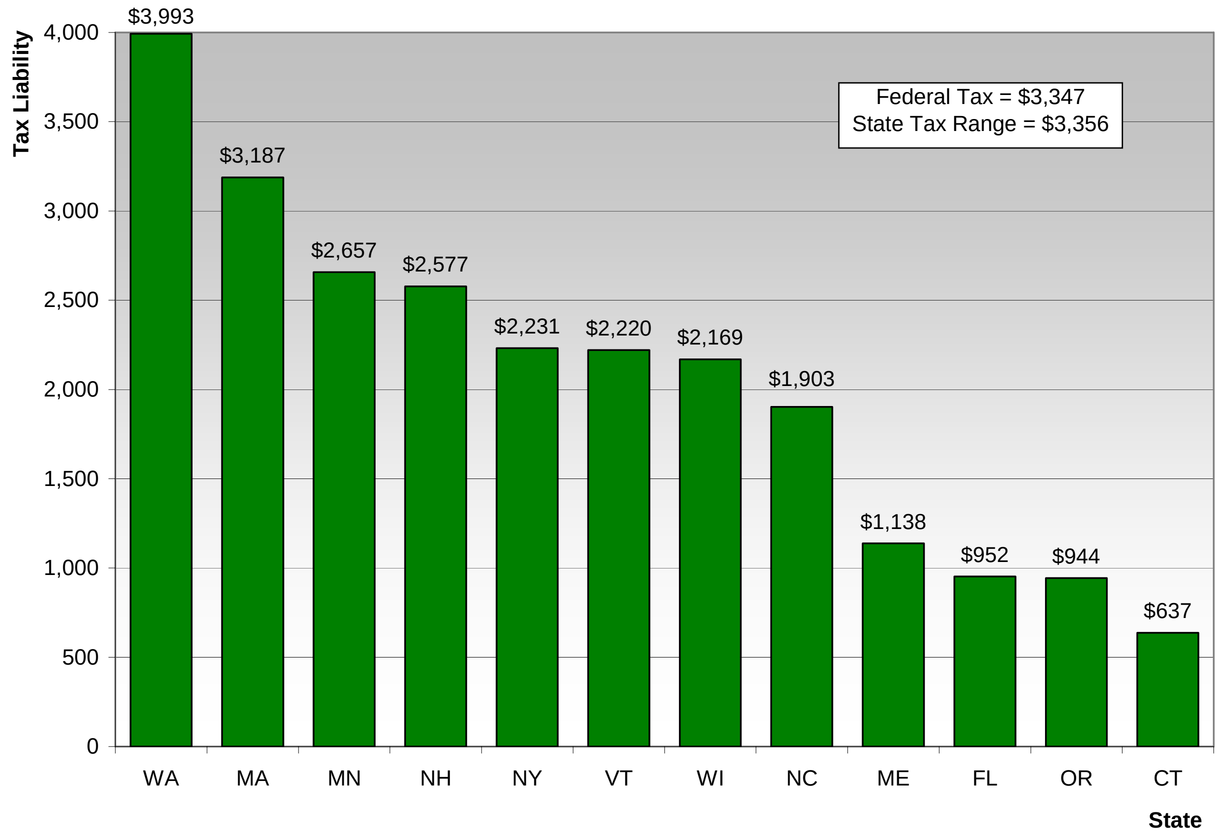
The chart below is a summary of tax year 2003 corporate income tax returns. While there were more than 9,800 returns filed, only 2,371, or 24.2%, paid taxes based on the rate and bracket structure, while the remainder – more than 75% of all Vermont corporations – filed the minimum amount of $250. Therefore, the two following case studies represent a minority of Vermont corporate income, much less business, taxpayers.

Table 14 – Vermont Corporate Income Tax Returns, Tax Year 2003
In-State and Multi-State Returns Combined

Taxable Income Group	Marginal Rates	Total Number of Tax Returns	# of Minimum Tax Returns	# Paying Based on Rates	% Paying Based on Rates
Negative	N/A	4,184	4,168	16	N/A
No Income	N/A	1,471	1,443	28	N/A
Positive Up To 10,000	7.00%	834	542	292	12.3%
10,000 - 25,000	8.10%	435	104	331	14.0%
25,000 - 250,000	9.20%	1,067	373	694	29.3%
250,000 +	9.75%	1,822	812	1,010	42.6%
TOTALS		**9,813**	**7,442**	**2,371**	

Case Study A
The first case represents a single state corporation, or an in-state-only company. This company is relatively small with $825,000 in sales, and after expenses has taxable income of $22,315. Total assets are valued at $805,000. This business also claims a $6,000 bonus depreciation deduction at the federal level. Vermont ranked sixth out of the 12 states in tax liability for this case study.

Chart 14 – Case Study A
12-State Corporate Income Tax Liability Comparison



The federal tax for this company is $3,347. The state taxes range from a high in Washington of $3,993 to a low in Connecticut of $637, a range of $3,356, which is a significant percentage of the overall tax liability for this corporation and almost equal to the federal tax amount. This corporation would pay 46% less total (federal and state) income tax in Connecticut than in Washington.

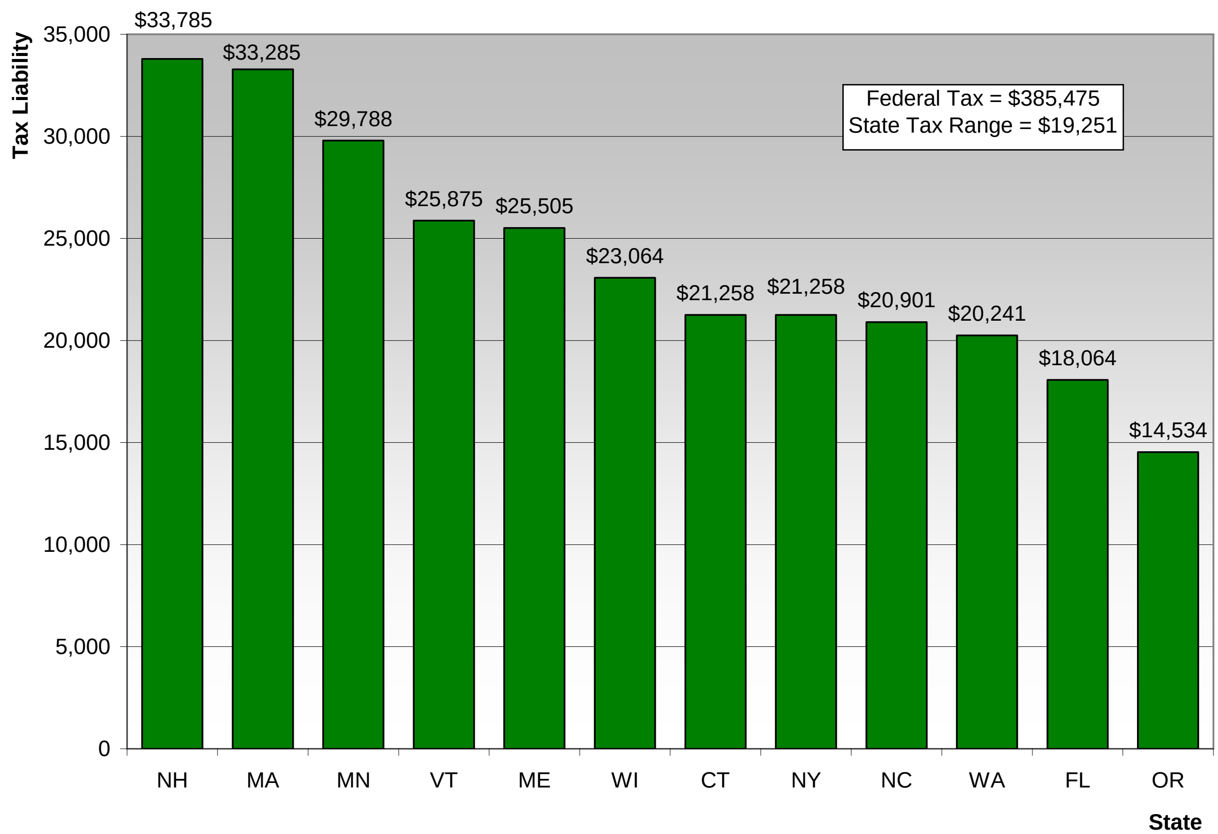
Most states begin the computation of their corporate income tax with federal taxable income, and then apply state tax adjustments. Of the 11 states with income-based taxes, eight require the corporation to add back all or a portion of the federal bonus depreciation. Only Florida and Oregon allowed the total amount of federal bonus depreciation to pass through to the state tax return. Connecticut prevented the federal bonus depreciation, but provided a credit for investment in new equipment. If Vermont had allowed the bonus depreciation for this case, the tax would have been reduced by $523, and Vermont's tax rank would have dropped to eighth.

The two lowest tax states, Oregon and Connecticut, had special credits which significantly reduced this corporation's tax liability. Oregon's tax based on income was $1,473 until the State Surplus Refund Credit of 35.91% was applied, reducing the tax to $944, the second lowest of the group. The Connecticut tax based as a percentage of income and capital was $2,124 until the state tax credit for investment in new equipment was applied, reducing the tax to $637, the lowest of the 12 states.

Case Study B

The second corporate case study represents a large multi-state corporation filing tax returns equally in four states. This company has more than $16.7 million in sales and $4.5 million in assets. This business has substantial property and payroll factors in the "home" state and has taxable income exceeding $1.1 million after expenses and deductions, representing a large business commitment. This company also shows a $200,000 net operating loss carried forward from the previous year and has a $41,250 federal qualified production activities income deduction. More details of the corporate income tax return specifics are included in Appendix D. The tax liability for Case Study B ranked Vermont fourth highest of the 12 comparison states.

Chart 15 – Case Study B
12-State Corporate Income Tax Liability Comparison



Note: NY also requires a 25% deposit of the 2005 tax liability for 2006 taxes.

The federal tax for this company is $385,475. State taxes range from a high in New Hampshire of $33,785 to a low in Oregon of $14,534, a range of $19,251, which represents only 5% of what this business would pay in federal tax.

This corporation has the highest tax liability in New Hampshire. Calculation of the Business Profits Tax (BPT) in New Hampshire begins with federal taxable income, which included deductions for both the company's net operating loss and qualified production activities deduction. After 25% is apportioned to NH, a tax rate of 8.5% is applied (BPT = $24,101). An additional Business Enterprise Tax (BET) based on wages paid in-state at the rate of 0.75% allows for the qualified production activities deduction (BET = $9,684). This results in a combined tax of $33,785.

Massachusetts' tax is a combination also of a tangible property tax of 0.26%, or $1,816 for this corporation. The income is taxed at 9.5% or $31,469. The income begins with federal taxable income and adds back both the company's net operating loss (NOL) and qualified production activities deduction. After the income is apportioned, Massachusetts allows the Massachusetts portion of the NOL to be deducted.

Minnesota applies its 9.8% flat rate to federal taxable income with both the company's net operating loss (NOL) and qualified production activities deduction added back. After apportionment, the NOL attributable to MN is allowed. There is also a $1,000 minimum fee.

Vermont's tax was calculated on federal taxable income, which included the Qualified Production Activities Deduction (QPAD) and the NOL. The graduated tax rate in Vermont amounts to 9.05% on the first $250,000 of taxable income and 9.75% on the balance. Therefore, despite allowing both the federal QPAD and NOL in the taxable income base, this taxpayer paid some taxes at the highest marginal rate in Vermont.

Maine's tax was within $370 of Vermont's. Maine applied a rate of 8.6826% to federal taxable income, including the NOL, but with the QPAD added back. The tax is apportioned afterward.

Wisconsin applied a 7.9% rate to the federal taxable income, including the QPAD, with the NOL added back. After apportionment, the NOL attributable to Wisconsin is allowed.

Connecticut allows the QPAD in federal taxable income, but adds back the NOL after apportionment when the portion attributable to the state is then deducted. The tax rate is a flat 7.5%.

New York's tax is the larger of the Entire Net Income Tax (ENI), which is 7.5% on federal taxable income, including the QPAD and NOL, the Capital Base Tax (CBT) of 0.1781% on the average value of assets in state, or the Minimum Taxable Income Tax (MTI) of 2.5% on federal taxable income excluding the NOL apportioned to the NOL. In this case, the ENI was the largest of the three. In addition, 25% of this year's tax liability is required as a deposit toward next year's taxes.

North Carolina's effective tax rate of 6.8999% was applied to federal taxable income with both the QPAD and NOL added back. The NOL attributable to North Carolina is deducted after apportionment for a tax of $20,277. An additional franchise tax based on capital stock and retention earnings of $624 was added to the total.

Florida begins with federal taxable income and allows the QPAD, but disallows the NOL. After apportionment, a $5,000 "Florida Exemption" is applied. The tax rate is 5.5% on the remainder.

Lastly, Oregon's tax was computed based on federal taxable income that adds back both the federal QPAD and NOL. After the 6.6% tax rate is applied, the tax equaled $22,688, but a State Surplus Refund Credit of 35.94% reduced the tax by $8,154.

PROPERTY TAX

The individual Case Studies do not include estimates for property tax liability in each of the comparison states. Property tax liability, unlike individual income tax liability in most states, depends not only upon the state, but also upon the particular local jurisdiction in which the taxpayer resides. Most states do not have statewide property tax collection systems and therefore assessments, tax rates, and data are neither comparable nor available across municipal boundaries. This data obstacle was a criticism of the Vermont Tax Study 10 years ago that cannot be resolved in this version.

This volume does, however, contain information about property tax liability for residents of the 12 comparison states and discusses two approaches – by the United States Census Bureau and the District of Columbia Office of Revenue Analysis – to examine property tax liabilities among taxpayers of various income classes. The US Census Bureau provides estimates of the average property tax liability in relation to personal income and population by state. The District of Columbia Office of Revenue Analysis provides estimates of property tax liability for hypothetical households in the largest city of each state.

Although the two methodologies produce estimates that could be useful for comparing Vermont's state and local property taxes to those of other states, for reasons discussed briefly below, neither methodology can be easily adapted to the case study approach used in this report. The Census Bureau data cannot be used because it includes property taxes paid by businesses and nonresidents as well as residents of the state. Since the DC study compares property tax liabilities in the largest city in each state, it is of limited use for a small, largely rural state such as Vermont.

US Census Bureau Data

The US Census Bureau publishes annual data on total state and local property taxes collected (business and residential, resident and non-resident owned, personal and real property) in relation to population and personal income. State and local property taxes, as reported by the US Census Bureau, are defined as all taxes imposed on ownership of property and measured by its value. They include taxes on both real and personal property. Personal property is defined to include both tangible and intangible property. More information on this data can be found at http://www.census.gov/govs/www/estimate05.html.

Table 15 – Census Bureau Property Tax Information

Comparison States	State & Local Property Tax Revenue (millions)	Population (millions)	Personal Income (millions)	Property Tax Revenue Per Capita	Property Tax Revenue as a % of Personal Income
Connecticut	$7,155.6	3.501	$162,596	$2,044	4.4%
Florida	$20,389.1	17.768	$584,217	$1,148	3.5%
Maine	$2,152.0	1.318	$40,022	$1,633	5.4%
Massachusetts	$10,341.1	6.433	$273,644	$1,608	3.8%
Minnesota	$5,250.9	5.127	$188,232	$1,024	2.8%
New Hampshire	$2,650.3	1.307	$48,426	$2,028	5.5%
North Carolina	$6,449.6	8.672	$261,528	$744	2.5%
Oregon	$3,563.0	3.639	$114,263	$978	3.1%
Vermont	**$1,056.4**	**0.622**	**$19,978**	**$1,698**	**5.3%**
Washington	$6,637.3	6.292	$222,437	$1,055	3.0%
Wisconsin	$7,796.0	5.528	$180,706	$1,410	4.3%

By either measure, the state and local property tax liabilities in Vermont in FY 2005 were high relative to other states. Vermont's state and local property tax collections were $1,698 per person and 5.3% as a percentage of personal income in FY 2005. This ranked Vermont third highest among the comparison states by both measures, below Connecticut and New Hampshire but higher than Massachusetts and Maine and the other states. Historically, New England states have always relied heavily on the property tax as a source of revenue.

However, as mentioned previously in this study, the Census Bureau data significantly overstate the property tax liability in Vermont for two reasons. First, Vermont's state and local property tax revenue is not adjusted for the property tax adjustment that allows most homeowners to pay property taxes based on their household income rather than the value of their homestead. In addition, it is not adjusted for the homeowner and renter rebates that limit property taxes for low-income residents to a fixed percentage of their household income. Together, these provisions would have reduced total property taxes by more than $92 million in FY 2005, lowering per capita property tax revenue from $1,698 to $1,549 and property tax revenues as a percent of personal income from 5.3% to 4.8%.

Second, Vermont has the second highest percentage of second homes in the country (after Maine) according to the US Census data.[14] As a result, Vermont exports a greater portion of its state and local property taxes to nonresidents than almost any other state. State and local property taxes paid by nonresidents are included in both measures of property tax liability used here; but nonresident incomes are not included in the calculation. The inclusion of property taxes paid by nonresidents is also included in the calculation of "revenue per capita" wich divides total revenue by the resident population. Consequently, Vermont's state and local property tax liability as a percentage of income and on a per capita basis are both overstated relative to those in other states.

District of Columbia Methodology

The District of Columbia Office of Revenue Analysis annually publishes a study of tax rates and tax obligations in the largest city of each state.[15] The study compares tax liabilities for hypothetical families of three, consisting of two wage-earning spouses and one school-age child. The gross family income levels used in the study are $25,000, $50,000, $75,000, $100,000, and $150,000. The methodology used in the report includes assumptions about residential property tax rates, housing value assumptions, and property tax exemptions by city. Results for each income level are presented in the following tables. Tax liability is reported as a percentage of gross income.

Although the DC study is potentially useful for comparing property tax obligations in the largest jurisdiction in each state, the results are not reproduced here because it appears that the combined municipal and school property tax rate used for Burlington, $2.72 per $100 of fair market value in FY 2005, was much higher than Burlington's actual combined property tax rate. As a result, property tax burden at all income levels is significantly overstated for Burlington. Such errors highlight the difficulty of performing analyses such as these, which require an intimate knowledge of complex state and local taxation policies and procedures.

Even if the assumptions used for Vermont were correct, (and assuming all other jurisdictions were equally error free) there are methodological problems with the study. First, the property tax

[14] 14.6% of all housing units are classified as vacant for seasonal, recreational, or occasional use; second to Maine at 15.6% (http://www.census.gov/hhes/www/housing/census/historic/vacation.html)
[15] http://cfo.dc.gov/cfo/lib/cfo/services/studies/Tax_Burden_05NATION.pdf

liability for the hypothetical Burlington families with gross income at $25,000, $50,000, and $75,000 is overestimated because the DC study, (and the Census Bureau), does not account for the Vermont property tax adjustment or the renter rebate program. Burlington homeowners with household income under $75,000 would have been eligible to pay education property taxes on the basis of household income rather than the value of their residence. Renters with household income under $47,000 would have had their combined municipal and education property taxes limited to 5 percent of their household income.

In addition, comparing Burlington's property tax liabilities to those of cities in other states can be misleading because of differences between the jurisdictions. For example, Burlington, metropolitan area with a population of 206,007 (in 2006), is compared directly to Boston, a metropolitan area of 4,455,217 (in 2006). Also, Burlington is not representative of the remainder of Vermont. But selecting more comparable jurisdictions is difficult because property tax rates and housing values vary so much between jurisdictions in the same state. The results would vary considerably simply because of the jurisdictions chosen for comparison in each state.

Appendix A

Representative Individual Taxpayers
Vermont Income Tax Return Details

By Case Number and Filing Status

Case Studies – Vermont Return Details

Individual Income Tax	Case #1	Case #2	Case #3	Case #4	Case #5	Case #6
	Single <65	Single <65	MFJ <65	Single <65	MFJ <65	HOH >65
Return Details	100% FPL	250% FPL	Schedule F			Capital Gains
Income						
Salary and Wages	9,800	24,398	5,122	1,868	125,581	86,620
Interest & Dividends	0	102	250	0	947	174,672
Capital Gains	0	0	5,050	0	(2,397)	386,569
Schedule C - Business	0	0	0	0	(2,910)	0
Schedule E - Rentals	0	0	0	0	(4,650)	0
Schedule F - Farm			19,068		0	
Total Social Security	0	0	0	0	0	12,000
Taxable Social Security	0	0	0	0	0	10,200
Total Pensions	0	0	0	0	0	56,007
Taxable Pensions	0	0	0	0	0	56,007
Total Income	9,800	24,500	29,490	1,868	116,571	714,068
Adjustments						
50% FICA & Medicaid			(1,347)		0	
IRA Deposits			(3,162)		(3,251)	
College Loan Interest			0		0	
Tuition Credit			0		(4,000)	
Federal AGI	***9,800***	***24,500***	***24,981***	***1,868***	***109,320***	***715,868***
Deductions						
Exemptions	1	1	4	0	4	2
Standard Deduction	5,000	5,000		5,000		
Itemized Deductions			12,753		23,200	68,124
Federal Tax	161	2,084	0	0	11,661	127,670
Social Security Tax	0	0	2,694	0	0	0
EITC	147	0	0	0	0	0
Retirement Savings Credit	0	0	0	0	0	0
Child Tax Credit	0	0	0	0	1,000	0
Add'l Child Tax Credit	0	0	1,776	0	0	0
Net Federal Tax	**14**	**2,084**	**918**	**0**	**10,661**	**127,670**
Vermont Tax	59	589	0	0	3,494	41,441
EITC	(47)	0	0	0	0	0
Child Care Credit	0	0	0	0	0	0
Net Vermont Tax	**12**	**589**	**0**	**0**	**3,494**	**41,441**
Rent &/or Tax Rebate	646	872	3,954	948	0	0
Rent &/or R.E. Tax Paid	4,800	9,000	5,000	4,800	7,500	15,000

Case Studies – Vermont Return Details

Individual Income Tax	Case #7	Case #8	Case #9	Case #10	Case #11	Case #12
	MFJ <65	MFJ <65	MFJ <65	Single <65	MFS <65	MFJ >65
Return Details	150% FPL			Schedule E		100% FPL
Income						
Salary and Wages	15,903	53,762	72,318	22,426	44,680	0
Interest & Dividends	94	0	1,437	0	320	0
Capital Gains	0	0	8,628	2,126	0	0
Schedule C - Business	8,757	(2,384)	0	(578)	0	0
Schedule E - Rentals	0	0	0	39,920	0	0
Schedule F - Farm	0	0	0			
Total Social Security	0	0	0	0	0	0
Taxable Social Security	0	0	0	0	0	0
Total Pensions	0	0	0	0	0	13,200
Taxable Pensions	0	0	0	0	0	13,200
Total Income	24,754	51,378	82,383	63,894	45,000	13,200
Adjustments						
50% FICA & Medicaid	(619)	0	0			
IRA Deposits	0	1,006	0			
College Loan Interest	0	0	1,640			
Tuition Credit	0	0	0			
Federal AGI	***24,135***	***50,372***	***80,743***	***63,894***	***45,000***	***13,200***
Deductions						
Exemptions	3	4	4	1	1	2
Standard Deduction	10,000	10,000				12,000
Itemized Deductions			17,489	14,845	14,181	
Federal Tax	453	3,406	5,975	7,915	3,779	0
Social Security Tax	1,237	0	0	0	0	0
EITC	1,423	0	0	0	0	0
Retirement Savings Credit	453	600	1,200	0	0	0
Child Tax Credit	0	2,000	2,000	0	0	0
Add'l Child Tax Credit	547	0	0	0	0	0
Net Federal Tax	**(733)**	**806**	**2,775**	**7,915**	**3,779**	**0**
Vermont Tax	164	848	1,694	2,232	1,097	0
EITC	(455)	0	0	0	0	0
Child Care Credit	0	0	(288)	0	0	0
Net Vermont Tax	**(291)**	**848**	**1,406**	**2,232**	**1,097**	**0**
Rent &/or Tax Rebate	257	0	0	0	3,413	308
Rent &/or R.E. Tax Paid	6,000	9,000	7,500	6,000	5,500	2,500

Case Studies – Vermont Return Details

Individual Income Tax	Case #13	Case #14	Case #15	Case #16	Case #17	Case #18
Return Details	HOH <65 100% FPL	Single >65	HOH <65 250% FPL	Single >65 100% FPL	Single >65 250% FPL	Single >65
Income						
Salary and Wages	13,200	0	47,201	0	7,267	15,589
Interest & Dividends	0	18,211	4,110	1,162	1,539	2,698
Capital Gains	0	23,305	398	832	(2,090)	1,123
Schedule C - Business	0	0	0	0	2,978	3,796
Schedule E - Rentals	0	0	0	(1,486)	0	0
Schedule F - Farm						
Total Social Security	0	9,800	0	10,032	11,382	10,772
Taxable Social Security	0	8,330	0	0	40	9,156
Total Pensions	0	38,165	0	11,160	11,121	16,711
Taxable Pensions	0	38,165	0	9,292	9,906	13,530
Total Income	13,200	88,011	51,709	9,800	19,640	45,892
Adjustments						
50% FICA & Medicaid					211	268
IRA Deposits			1,709			
College Loan Interest						
Tuition Credit						
Federal AGI	***13,200***	***88,011***	***50,000***	***9,800***	***19,429***	***45,624***
Deductions						
Exemptions	2	1	4	1	1	1
Standard Deduction	7,300			6,250	6,250	
Itemized Deductions		19,174	14,898			14,228
Federal Tax	0	10,742	2,786	18	1,131	3,752
Social Security Tax	0	0	0	0	421	536
EITC	2,662	0	0	0	0	0
Retirement Savings Credit	0	0	1,134	0	0	0
Child Tax Credit	0	0	1,652	0	0	0
Add'l Child Tax Credit	330	0	1,348	0	0	0
Net Federal Tax	**(2,992)**	**10,742**	**(1,348)**	**18**	**1,552**	**4,288**
Vermont Tax	0	2,988	797	0	358	999
EITC	(852)	0	0	0	0	0
Child Care Credit	0	0	(272)	0	0	0
Net Vermont Tax	**(852)**	**2,988**	**525**	**0**	**358**	**999**
Rent &/or Tax Rebate	459	0	2,680	1,541	895	1,711
Rent &/or R.E. Tax Paid	4,800	7,500	5,000	2,500	2,500	4,000

Case Studies – Vermont Return Details

Individual Income Tax	Case #19	Case #20	Case #21	Case #22	Case #23	Case #24
	MFJ >65	MFJ >65	MFJ >65	MFJ <65	MFJ <65	Single <65
Return Details	100% FPL	200% FPL	350% FPL			Schedule C
Income						
Salary and Wages	2,616	2,368	19,241	250,000	259,860	4,237
Interest & Dividends	2,931	1,260	0	50,000	131,004	858
Capital Gains	382	1,415	(2,259)	57,934	346,838	4,247
Schedule C - Business	0	3,922	0	0	142,816	18,950
Schedule E - Rentals	0	0	3,488	0	0	0
Schedule F - Farm				0	0	
Total Social Security	0	14,502	6,081	0	0	0
Taxable Social Security	0	687	0	0	0	0
Total Pensions	7,271	19,573	0	0	193,284	0
Taxable Pensions	7,271	17,435	0	0	193,284	0
Total Income	13,200	27,087	20,470	357,934	1,073,802	28,292
Adjustments						
50% FICA & Medicaid		277		0	7,493	(1,339)
IRA Deposits				0	0	(3,091)
College Loan Interest				0	0	
Tuition Credit				0	0	
Federal AGI	***13,200***	***26,810***	***17,504***	***357,934***	***1,066,309***	***23,862***
Deductions						
Exemptions	2	2	2	5	4	1
Standard Deduction	12,000	12,000				
Itemized Deductions			13,127	55,508	99,664	13,100
Federal Tax	0	769	0	70,765	243,028	545
Social Security Tax	0	554	0	0	14,985	2,678
EITC	0	0	0	0	0	0
Retirement Savings Credit	0	0	0	0	0	200
Child Tax Credit	0	0	0	0	0	0
Add'l Child Tax Credit	0	0	0	0	0	0
Net Federal Tax	**0**	**1,323**	**0**	**70,765**	**258,013**	**3,023**
Vermont Tax	0	283	0	20,872	72,760	211
EITC	0	0	0	0	0	0
Child Care Credit	0	0	0	0	0	0
Net Vermont Tax	**0**	**283**	**0**	**20,872**	**72,760**	**211**
Rent &/or Tax Rebate	1,915	492	2,903	0	0	3,501
Rent &/or R.E. Tax Paid	2,500	2,500	4,000	12,500	20,000	4,500

Appendix B

2006 Health and Human Services (HHS) Federal Poverty Guidelines
(48 Contiguous States and D.C.)

Size of Family Unit	100%	150%	200%	250%	300%	350%	400%
1	9,800	14,700	19,600	24,990	29,400	34,300	39,200
2	13,200	19,800	26,400	33,660	39,600	46,200	52,800
3	16,600	24,900	33,200	42,330	49,800	58,100	66,400
4	20,000	30,000	40,000	51,000	60,000	70,000	80,000
5	23,400	35,100	46,800	59,670	70,200	81,900	93,600
6	26,800	40,200	53,600	68,340	80,400	93,800	107,200
7	30,200	45,300	60,400	77,010	90,600	105,700	120,800
8	33,600	50,400	67,200	85,680	100,800	117,600	134,400
For each additional person add:	3,400	5,100	6,800	8,670	10,200	11,900	13,600

SOURCE: *Federal Register*, Vol. 71, No. 15, January 24, 2006, pp. 3848-3849.

http://aspe.hhs.gov/poverty/06poverty.shtml

Appendix C
Detailed Data for Tax and Fee Calculations

Sales and Use Tax Data

Income Level	Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $29,999	$40,000 to $49,999	$50,000 to $69,999	$80,000 to $99,999	$100,000 to $119,999	$150,000 and more
Case #	**4**	**1, 16**	**12, 13, 19**	**17, 21**	**2, 3, 7, 20**	**11, 18**	**8, 10, 15**	**9, 14**	**5**	**6, 22, 23**
Connecticut	209	174	201	240	275	412	495	664	800	1,375
Florida	282	235	279	328	387	566	676	868	1,019	1,574
Maine	216	187	218	253	288	408	481	619	731	1,183
Massachusetts	144	123	141	178	196	300	352	472	570	967
Minnesota	225	196	238	301	332	485	563	778	911	1,514
New Hampshire	0	0	0	0	0	0	0	0	0	0
New York	299	254	301	373	429	640	746	961	1,124	1,676
North Carolina	280	243	282	325	373	533	640	825	981	1,584
Oregon	0	0	0	0	0	0	0	0	0	0
Vermont	166	144	165	205	227	345	403	528	633	1,027
Washington	530	458	559	655	752	1,023	1,221	1,605	1,889	3,056
Wisconsin	261	226	266	311	354	496	586	769	909	1,510
State					**12 State Rank**					
Connecticut	8	8	8	8	8	7	7	7	7	7
Florida	3	4	4	3	3	3	3	3	3	4
Maine	7	7	7	7	7	8	8	8	8	8
Massachusetts	10	10	10	10	10	10	10	10	10	10
Minnesota	6	6	6	6	6	6	6	5	5	5
New Hampshire	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
New York	2	2	2	2	2	2	2	2	2	2
North Carolina	4	3	3	4	4	4	4	4	4	3
Oregon	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Vermont	9	9	9	9	9	9	9	9	9	9
Washington	1	1	1	1	1	1	1	1	1	1
Wisconsin	5	5	5	5	5	5	5	6	6	6

Gasoline Excise Tax Data

National Data 2001 Household Characteristics Family Income (NHTS)	Consumption (gallons) All Vehicles	Case Number
$0 to $9,999	678	1,4,16
$10,000 to $14,999	690	12, 13,19
$15,000 to $19,999	845	17,21
$20,000 to $24,999	851	2,3,7,24
$25,000 to $34,999	1,008	20
$35,000 to $49,999	1,268	11,18
$50,000 to $74,999	1,493	8,10,15
$75,000 or more	1,661	5,6,9,14,22,23
Don't Know	1,026	

State	Gasoline Tax	Rank
Connecticut	0.250	7
Florida	0.311	2
Maine	0.273	5
Massachusetts	0.235	9
Minnesota	0.220	10
New Hampshire	0.196	12
New York	0.239	8
North Carolina	0.302	4
Oregon	0.270	6
Vermont	0.200	11
Washington	0.310	3
Wisconsin	0.329	1

National Household Transportation Survey
http://www.bts.gov/programs/national_household_travel_survey/
American Petroleum Institute http://api-ec.api.org/

Case Specific Assumptions

1 One adult, no seniors, no children, insufficient income for car ownership, one license
2 One adult, no seniors, no children, one car (MSRP $14,200), one license
3 Two adults, no seniors, two children, one car (MSRP $14,200), four licenses
4 One adult, no seniors, no children, insufficient income for car ownership, one license
5 Two adults, no seniors, two children, two cars (MSRP $28,400 each), four licenses
6 Two adults, two seniors, no children, two cars (MSRP $28,400 each), two licenses
7 Two adults, no seniors, one child, one car (MSRP $14,200), three licenses
8 Two adults, no seniors, two children, two cars, two licenses
9 Two adults, no seniors, two children, two cars (MSRP $28,400 each), two licenses
10 One adult, no seniors, no children, one car (MSRP $28,400), one license
11 One adult, no seniors, no children, one car (MSRP $28,400), one license
12 Two adults, two seniors, no children, insufficient income for car ownership, two licenses
13 One adult, no seniors, one child, insufficient income for car ownership, one license
14 One adult, one seniors, no children, one car (MSRP $28,400), one license
15 One adult, no seniors, three children, one car (MSRP $28,400), two licenses
16 One adult, one seniors, no children, insufficient income for car ownership, one license
17 One adult, one seniors, no children, one car (MSRP $14,200), one license
18 One adult, one seniors, no children, one car (MSRP $28,400), one license
19 Two adults, two seniors, no children, insufficient income for car ownership, two licenses
20 Two adults, two seniors, no children, one car (MSRP $14,200), two licenses
21 Two adults, two seniors, no children, one car (MSRP $14,200), two licenses
22 Two adults, no seniors, three children, three cars (MSRP $28,400 each), four licenses
23 Two adults, no seniors, two children, four cars (MSRP $28,400 each), four licenses
24 One adult, no seniors, no children, one car (MSRP $14,200), one license

State	Case #1	Case #2	Case #3	Case #4	Case #5	Case #6	Case #7	Case #8	Case #9	Case #10	Case #11	Case #12
						Selected Other Taxes and Fees						
Connecticut	66	344	377	86	794	909	366	640	736	594	499	77
Florida	60	392	399	82	875	1,013	397	723	832	685	575	63
Maine	69	361	376	93	832	986	371	671	780	641	535	78
Massachusetts	54	298	322	71	797	896	314	490	752	467	479	62
Minnesota	66	385	401	88	876	1,016	396	729	826	625	533	71
New Hampshire	83	328	358	110	793	956	348	620	726	573	478	93
New York	82	354	372	110	840	1,016	366	663	778	630	524	88
North Carolina	66	377	389	89	857	1,004	385	696	808	672	561	70
Oregon	50	332	345	67	740	846	341	611	702	580	487	54
Vermont	93	368	398	124	889	1,076	388	700	816	631	528	103
Washington	82	419	434	111	967	1,150	429	779	907	744	620	87
Wisconsin	52	415	424	71	907	1,024	421	764	869	706	598	55
						Rank						
Connecticut	7	9	7	8	10	10	9	9	10	9	9	6
Florida	9	3	4	9	5	6	3	4	3	3	3	9
Maine	5	7	8	5	8	8	7	7	7	5	5	5
Massachusetts	10	12	12	11	9	11	12	12	9	12	11	10
Minnesota	8	4	3	7	4	4	4	3	4	8	6	7
New Hampshire	2	11	10	3	11	9	10	10	11	11	12	2
New York	4	8	9	4	7	5	8	8	8	7	8	3
North Carolina	6	5	6	6	6	7	6	6	6	4	4	8
Oregon	12	10	11	12	12	12	11	11	12	10	10	12
Vermont	1	6	5	1	3	2	5	5	5	6	7	1
Washington	3	1	1	2	1	1	1	1	1	1	1	4
Wisconsin	11	2	2	10	2	3	2	2	2	2	2	11

State	Case #13	Case #14	Case #15	Case #16	Case #17	Case #18	Case #19	Case #20	Case #21	Case #22	Case #23	Case #24
						Selected Other Taxes and Fees						
Connecticut	75	690	605	66	324	499	86	383	324	966	1,001	344
Florida	70	795	688	60	370	575	72	440	370	1,054	1,089	392
Maine	80	752	646	71	340	537	89	406	340	1,017	1,042	361
Massachusetts	62	729	475	54	244	479	70	398	244	927	942	298
Minnesota	76	722	630	66	363	533	81	420	363	1,126	1,225	385
New Hampshire	96	678	583	83	302	478	106	358	302	1,013	1,050	328
New York	95	745	637	82	326	524	101	391	326	1,055	1,081	354
North Carolina	77	784	676	66	354	561	81	424	354	1,032	1,052	377
Oregon	58	671	584	50	315	487	62	374	315	881	908	332
Vermont	107	747	641	93	338	528	117	399	338	1,155	1,214	368
Washington	95	872	749	82	390	620	100	467	390	1,190	1,220	419
Wisconsin	61	811	709	52	396	598	64	466	396	1,085	1,140	415
						Rank						
Connecticut	8	10	9	7	9	9	6	10	9	10	10	9
Florida	9	3	3	9	3	3	9	3	3	6	5	3
Maine	5	5	5	5	6	5	5	6	6	8	9	7
Massachusetts	10	8	12	10	12	11	10	8	12	11	11	12
Minnesota	7	9	8	8	4	6	7	5	4	3	1	4
New Hampshire	2	11	11	2	11	12	2	12	11	9	8	11
New York	4	7	7	4	8	8	3	9	8	5	6	8
North Carolina	6	4	4	6	5	4	8	4	5	7	7	5
Oregon	12	12	10	12	10	10	12	11	10	12	12	10
Vermont	1	6	6	1	7	7	1	7	7	2	3	6
Washington	3	1	1	3	2	1	4	1	2	1	2	1
Wisconsin	11	2	2	11	1	2	11	2	1	4	4	2

Appendix D

Corporate Case Study Return Details
Corporate Case Study A

Description:	Single state corporation; pays taxes at the 2nd marginal rate (8.1% on taxable income greater than $10,000); and claims bonus depreciation		
Sales	**$**	**825,000**	
Cost of Goods Sold	$	175,000	Cost of Goods Sold = 21%
EXPENSES:			
Payroll			
Officers	$	75,000	One CEO @ $75,000
Wages	$	350,000	10 @ $35,000 each
Total Payroll	$	425,000	
Payroll Taxes	$	32,513	
Property Taxes	$	1,496	
Advertising	$	-	
Insurance	$	15,000	Liability, Workers' Comp.
Interest	$	37,594	Loans listed below
Bank Charges	$	-	
Delivery Expense	$	10,000	
Sales Expense	$	10,000	
Office Supplies	$	10,000	
Telephone	$	6,000	
Heat & Light	$	10,000	
Depreciation	$	70,082	
Taxable Income	**$**	**22,315**	
ASSETS:			
Factories	$	500,000	$100,000 down and $400,000 mortgage 39 years SL
Equipment	$	180,000	$40,000 down and $140,000 mortgage 7 years 200%DB
Equipment	$	20,000	$0 down and $20,000 mortgage 5 years 200% DB
Delivery Truck	$	50,000	$5,000 down and $45,000 loan 7 years 200%DB
Auto	$	30,000	$3,000 down and $27,000 loan 5 years 200% DB
Land	$	25,000	
Total	**$**	**805,000**	Purchased with $ mortgage and $ Paid in Surplus
Inventory	$	100,000	

Notes: For this case to reach the second marginal rate in Vermont, there must be a significant investment in-state. In order to include bonus deprecation and continue to have a tax liability, most of the capital investment is assumed in 2004, thereby eliminating all tax liability in that year. In 2005 (the case year), an additional $20,000 in equipment is assumed, with bonus depreciation at 30% ($6,000). There is then enough profit to continue to have enough taxable income to reach the second marginal rate.

Corporate Case Study B

Description			Multi-State Corporation; business in 4 states (25% each) with payroll and property substantial in the "home" state, pay taxes at 4th marginal rate (9.5% on taxable income over $250,000), claim and NOL, claim a QPAI deduction.
Sales	**$**	**16,728,357**	
Cost of Goods Sold	$	5,018,507	Cost of Goods Sold = 30%
Expenses:			
Payroll			
Officers	$	320,000	One CEO @ $150,000; 2 others @ $85,000 each
Salaries	$	595,000	Seven @ $85,000 each
Wages	$	650,000	Ten @ $65,000 each
Wages	$	3,600,000	80 @ $45,000 each
Total Payroll	$	5,165,000	
Payroll Taxes	$	1,087,750	
Property Taxes	$	100,000	
Advertising	$	500,000	
Insurance	$	1,500,000	Liability, Workers' Comp.
Interest	$	216,000	$3,600,00 mortgage @ 6% for 20 years
DPA deduction	$	41,250	
Bank Charges	$	5,000	
Delivery Expense	$	35,000	
Factory Expense	$	9,000	
Maintenance	$	85,000	
Office Supplies	$	30,000	
Postage	$	4,000	
Professional Fees	$	40,000	
Security	$	30,000	
Supplies	$	12,000	
Telephone	$	196,000	
Heat & Light	$	604,000	
Depreciation	$	716,100	
Tax. Inc. before NOL	**$**	**1,333,750**	
NOL from 2004	**$**	**(200,000)**	Corp started 7/1/2004 and had $200,000 NOL in the first 1/2 year
Taxable Income	**$**	**1,133,750**	
ASSETS:			
Factories	$	2,000,000	$500,000 each in 4 States = $2,000,000 39 years SL
Equipment	$	1,500,000	$375,000 each in 4 States = $1,500,000 7 years 200% DB
Computer System	$	400,000	$100,000 each in 4 States 5 years 200% DB
Furniture & Equip	$	300,000	$75,000 each in 4 States 7 years 200% DB
Vehicles	$	300,000	$75,000 each in 4 States 5 years 200% DB
Total	**$**	**4,500,000**	Purchased with $3,600,000 mortgage and $900,000 Paid in Surplus
Land	$	400,000	$100,000 each in 4 States
Inventory	$	1,500,000	$375,000 each in 4 States

Appendix E

Property Tax Refunds by State
(includes only states/programs included on the individual income tax return)

Case Number	#1	#2	#3	#4	#5	#6	#7	#8	#9	#10	#11	#12
AGI	9,800	24,500	24,981	1,868	109,320	715,868	24,135	50,372	80,743	63,894	45,000	13,200
Owner/Renter	R	R	O	R	O	O	R	R	O	O	O	O
Annual Rent or Property Tax	4,800	9,000	5,000	4,800	7,500	15,000	6,000	9,000	7,500	6,000	5,500	2,500
Rebate Amount												
Maine	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Massachusetts	0	0	0	0	0	0	0	0	0	0	0	(840)
Minnesota	(663)	(848)	(1,310)	(848)	0	0	(603)	(110)	0	0	0	(1,480)
New Hampshire	0	0	(242)	0	0	0	0	0	0	0	0	(242)
New York	(57)	0	0	0	0	0	0	0	0	0	0	0
Vermont	**(646)**	**(872)**	**(3,954)**	**(948)**	**0**	**0**	**(257)**	**0**	**0**	**0**	**(3,413)**	**(308)**
Wisconsin	(836)	0	(220)	(964)	0	0	(44)	0	0	0	0	(820)

Case Number	#13	#14	#15	#16	#17	#18	#19	#20	#21	#22	#23	#24
AGI	13,200	88,011	50,000	9,800	19,429	45,624	13,200	26,810	17,504	357,934	1,066,309	23,862
Owner/Renter	R	O	O	O	O	O	O	O	O	O	O	O
Annual Rent or Property Tax	4,800	7,500	5,000	2,500	2,500	4,000	2,500	2,500	4,000	12,500	20,000	4,500
Rebate Amount												
Maine	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Massachusetts	0	0	0	0	0	0	0	0	0	0	0	0
Minnesota	(726)	0	(1,210)	(1,370)	(1,054)	(1,100)	(1,480)	(861)	(1,260)	0	0	(1,260)
New Hampshire	0	0	0	0	0	0	0	0	0	0	0	0
New York	(49)	0	0	0	0	0	0	0	0	0	0	0
Vermont	**(459)**	**0**	**(2,680)**	**(1,541)**	**(895)**	**(1,711)**	**(1,915)**	**(492)**	**(2,903)**	**0**	**0**	**(3,501)**
Wisconsin	(612)	0	0	(364)	0	0	(812)	0	0	0	0	(228)