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Vermont Can Invest in Brighter Future With Targeted Income Tax Measure

Testimony of Wesley Tharpe, Senior Advisor for State Tax Policy, Center on Budget and Policy Priorities, Before the Vermont House Ways and Means Committee

Chair Kornheiser, distinguished members — good morning. I'm Wesley Tharpe, and I'm Senior Advisor for State Tax Policy at the Center on Budget and Policy Priorities (CBPP) in Washington, D.C. Thank you very much for the invitation to speak, and I appreciate the opportunity to share some brief perspective here today and to take any questions you may have at the end.

First, allow me a word about where I work and who I am. CBPP is an independent, nonpartisan research institute that since 1981 has worked to advance both federal and state policies aimed at building a nation where *everyone* has the resources they need to thrive. As part of that work, we collaborate closely with a set of state and local partners across the country, to help disseminate high-quality research, and to foster evidence-based state policy debates. I've been with the Center for the past five years, and in this general line of work for more than 12 years overall, focused on state fiscal and economic policy — with a particular emphasis on the critical importance of state tax systems.

With that out of the way, I will begin my remarks with the bottom line: I'm here today to voice support for House Bill 828¹ — to adopt a new tax surcharge on the state's highest incomes — because it would be a sound and effective way for Vermont to build a stronger, fairer tax system, capable of better supporting the needs of this state's people and communities — and of helping set the state's economy up for success both today and down the road.

To elaborate, I'll briefly touch on three points.

- One, the tax surcharge proposed in this bill is a well-targeted reform, which will help Vermont maintain and further strengthen its status as one of the more progressive tax codes in the country.
- Two, any potential fears of such a policy harming the state's economy, such as by making it harder to attract and retain residents and businesses, are overblown, based on available evidence.

¹ H.828, as introduced. <https://legislature.vermont.gov/bill/status/2024/H.828>.

- And three, the new revenues raised through this policy could play an essential role in not only better supporting Vermont’s current needs but also in helping unlock the state’s full potential over the years to come.

Proposal Is Well-Targeted and Would Enhance Tax Fairness

Starting with **the first**, the simple fact is that the surcharge proposed in this bill would affect the tax bills of only a narrow sliver of Vermont taxpayers, who are already doing extremely well. According to estimates from the Institute on Taxation and Economic Policy (ITEP), the proposal would fall almost exclusively on the state’s richest 1 percent of households, or those with average incomes of about \$1.8 million a year.² The remainder of the state’s residents — who to be clear, already themselves contribute significant shares of revenue through existing taxes on income, sales, and property³ — would see no change.

At a time when economic inequality has risen sharply, where household wealth remains deeply entrenched, and when many low- to middle-income people are struggling to make ends meet or get ahead — this is the right approach. By adopting it, Vermont would be following the good example of a few other forward-looking states from the past several years, and in effect would be further building on its hard-earned reputation as having one of the more progressive tax codes in the country.⁴

Fears of Harm to State’s Economy or Migration Trends Are Misplaced

Turning to my **second point**: one of the more common arguments we see come up in these sorts of state debates nationwide, is that lower state income tax rates are more conducive — or even essential — to strong, durable economic growth. And that higher tax rates, in contrast, are likely to harm state economies or to drive people and companies away from the state. But those claims are simply not grounded in the evidence.

For starters, we can look at real-world evidence from states that enacted similar measures in the recent past. Specifically, if we look at the handful of states that enacted targeted tax increases (sometimes known as millionaires’ taxes) on their highest-income taxpayers during the 2000s and 2010s, we see that those states had similar economic profiles as their neighbors over the years that followed. In eight states (including the District of Columbia) that adopted these policies over that span, seven states had per capita growth in personal incomes at least as strong as nearby states; six had private-sector economic growth that met or exceeded their neighboring states; and five added jobs at least as quickly as their neighbors.⁵

² Institute on Taxation and Economic Policy (ITEP). Microsimulation model results provided by email, January 31, 2024.

³ “Vermont: Who Pays? 7th Edition,” ITEP, January 9, 2024, <https://itep.org/vermont-who-pays-7th-edition/>.

⁴ According to ITEP’s Tax Inequality Index, which measures the overall effect of each state’s tax system on income inequality, Vermont ranks 49th: meaning only Minnesota and the District of Columbia have more progressive systems. “Who Pays? 7th Edition,” ITEP, January 9, 2024, <https://itep.org/whopays-7th-edition/>.

⁵ Wesley Tharpe, “Raising State Income Tax Rates at the Top a Sensible Way to Fund Key Investments,” CBPP, February 7, 2019, <https://www.cbpp.org/research/state-budget-and-tax/raising-state-income-tax-rates-at-the-top-a-sensible-way-to-fund-key>.

On the flip side, when we instead look at states that chose to deeply cut their income tax rates, the flimsiness of the economic argument becomes even more apparent. For example, of the five states that cut personal income taxes most deeply following the Great Recession of 2007-2009, in the years after, *all five* saw weaker overall GDP growth than the nation as a whole, while four also had slower growth in personal income and job creation.⁶ Even states that lack personal income taxes altogether do not consistently outperform: the nine states with the highest top marginal income tax rates during the 2010s saw their economies grow slightly faster, on average, than the nine states without broad-based income taxes.⁷

Now, part of the reason why lower income tax rates do not reliably lead to economic success is that another common claim about state income taxes — namely that they harm state’s ability to attract and retain residents — is also significantly overblown. While taxes do matter around the margins, available data point to non-tax factors — such as housing costs, proximity to jobs and family, and climate as more important. Indeed, when households that have moved across states are asked by the U.S. Census why they chose to do so, more than two-thirds report it was either job- or family-related.⁸

Also important: while some number of people of course choose to move out of a state in any given year, they are routinely replaced by other people choosing to move *in* — even in cases where income-tax differentials are stark. For example, in this case, tax data show that 97 percent of households that over the prior decade chose to relocate from Vermont to its relatively low-tax neighbor, New Hampshire, were replaced by households moving the opposite direction — presumably for some mix of non-tax factors, such as school quality or the state’s general quality of life.⁹ Vermont’s tax system also hasn’t prevented it from serving as an attractive home for higher-income taxpayers; over the prior decade, more households with annual incomes above \$200,000 moved *into* the state than left it.¹⁰

New Revenues Could Support Key Investments, Bolster State’s Potential

That brings me to my **third and final point**: that instead of being a risk to the state’s economic future, the revenue measure proposed in H.828 could play a key role in helping to put it on an even brighter path.

That’s because boosting tax revenue in sound, targeted ways and reinvesting the money in people and communities is among the best ways for states to unleash their full economic potential. That

⁶ CBPP, “Big Cuts in State Income Taxes Not Yielding Promised Benefits,” updated February 21, 2018, <https://www.cbpp.org/research/fact-sheet-big-cuts-in-state-income-taxes-not-yielding-promised-benefits>. Also see Michael Leachman and Michael Mazerov, “State Personal Income Tax Cuts: Still a Poor Strategy for Economic Growth,” CBPP, May 14, 2015, <https://www.cbpp.org/research/state-budget-and-tax/state-personal-income-tax-cuts-still-a-poor-strategy-for-economic>.

⁷ Carl Davis, “Another Reason to Tax the Rich? States with High Top Tax Rates Doing as Well, if Not Better, than States Without Income Taxes,” ITEP, September 23, 2020, <https://itep.org/another-reason-to-tax-the-rich-states-with-high-top-tax-rates-doing-as-well-if-not-better-than-states-without-income-taxes/>.

⁸ Michael Mazerov, “State Taxes Have a Minimal Impact on People’s Interstate Moves,” CBPP, August 9, 2023, <https://www.cbpp.org/research/state-budget-and-tax/state-taxes-have-a-minimal-impact-on-peoples-interstate-moves>.

⁹ See Mazerov, 2023, Table 3.

¹⁰ See Mazerov, 2023, Table 2.

approach enables states to do two equally important things: one, to more adequately support current services such as good schools, affordable health care, and reliable infrastructure, all of which help families and small businesses thrive; and two, to make new investments that push states forward by tackling unmet or emerging matters, such as child poverty, maternal health, climate resiliency, and housing affordability. A few quick examples from other states can help illustrate this point.

- In **Massachusetts**, the new levy on incomes above \$1 million is already allowing policymakers to do things like enhance and expand public transit service, bolster free community college programs and university scholarships, and retrofit K-12 schools to be more energy efficient and environmentally healthy.¹¹
- In **Minnesota**, a set of measures adopted in 2023 to crack down on corporate tax avoidance and collect more from people with the state's highest incomes are now funding an ambitious set of policies including universal free meals for public school students and a new paid leave program.¹²
- And in **Washington State**, a new excise tax on capital gains is already directing at least half a billion dollars in recurring revenue each year to build and repair K-12 schools and expand child care and early learning supports for children.¹³

Those three aren't alone, as a half dozen other states including Vermont have also raised new revenues recently to fund various new initiatives in workers and families.¹⁴ By reducing economic hardship, expanding opportunity, and helping to make communities more equitable and affordable, these sorts of shared public commitments, fueled by tax policies that raise sufficient revenue from those most able to pay, are both the smart and right recipe for states to unlock their true promise.

Thank you once more for the opportunity to speak and I look forward to any discussion.

¹¹ Jason Wright, "Your Fair Share Dollars at Work: Critical Investments and Hard Choices," MassBudget, August 15, 2023, <https://massbudget.org/2023/08/15/your-fair-share-dollars-at-work-critical-investments-and-hard-choices/>.

¹² Michael Leachman X thread, May 24, 2023, <https://twitter.com/leachma2/status/1661364661424386048>.

¹³ Danny Westneat, "WA's wealthiest are richer than even the tax collectors guessed," *Seattle Times*, May 27, 2023, <https://www.seattletimes.com/seattle-news/politics/was-wealthiest-are-richer-than-even-the-tax-collectors-guessed/>.

¹⁴ Wesley Tharpe, "States Should Reverse Tax-Cut Spree, Take Brighter Path in 2024," CBPP, January 24, 2024, <https://www.cbpp.org/blog/states-should-reverse-tax-cut-spree-take-brighter-path-in-2024>.