

# Bush tax cuts present budget-balancing option

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The extension of the Bush tax cuts passed recently by Congress gives Governor Shumlin and the Legislature another option for balancing the state budget in fiscal 2012 and 2013. A new analysis shows that the top 5 percent of Vermont taxpayers will save \$190 million this year and a similar amount in 2012 as a result of the federal tax cut extension. Before the governor and the Legislature further undermine critical public services, they should look to these federal tax savings as a temporary source of additional state revenue.

Vermont — along with nearly every other state — saw a sharp drop in tax revenue as a result of the recession. The decline in revenue came at the same time state government needed to step up to help Vermont families that were suffering as a result of the recession. Governor Douglas acted as though the recession was permanent and the economy was never going to recover. He argued that Vermont had to cut spending to match this new reality.

The economy is starting to recover and state revenues are beginning to grow again, but the pace of that growth will remain slow until more Vermonters go back to work. In the meantime, Vermont needs to maintain its public services so that our people and infrastructure do not fall further behind. That was what Gov. Richard Snelling and the Legislature did when they temporarily raised taxes on the wealthiest Vermonters and ran up a budget deficit to get through the recession of the early 1990s.

The Bush tax cuts were originally passed by Congress in 2001 and 2003. These bills reduced income tax rates, lowered taxes on capital gains, and cut the estate tax, among other provisions. The cuts were scheduled to expire at the end of 2010, but in a lame duck session in late December, Congress voted to extend the cuts for another two years.

The analysis of the effects of extending the Bush tax cuts was prepared for Public Assets Institute by the Institute on Taxation and Economic Policy in Washington, DC. According to the ITEP analysis, the top 1 percent of Vermont taxpayers will save a little more than \$100 million in 2011, and a similar amount in 2012, thanks to the tax-cut extension. The average personal income for taxpayers in this group is about \$940,000 a year. The savings for the next 4 percent of taxpayers will be about \$88 million.

Vermont, along with the other states, had federal stimulus funds to help maintain critical services during the first three years of this recession. Those stimulus funds run out this year, and without

additional revenue or further spending cuts, Vermont's projected budget deficit for fiscal 2012 will be about \$150 million.

What the ITEP analysis shows is that the extension of the Bush tax cuts gives Vermont additional capacity to balance the cuts already made by raising state revenue over the next two years in order to maintain critical public services for Vermonters.