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Technical Report

THE FISCAL IMPACT ON THE STATE *of* VERMONT *of* ALLOWING SAME-SEX COUPLES TO MARRY

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In the 1990's, the issue of whether states should allow same-sex couples to marry has occupied increasing attention in the United States. State courts in Hawaii, Alaska, and Vermont are considering lawsuits by same-sex couples who are seeking the right to marry. Aside from the legal issues, important policy questions have been raised related to the marriage issue. One issue that has received virtually no substantive analysis concerns the fiscal impact of expanding the right to marry.

The overall fiscal impact on the State of Vermont of allowing same-sex couples to marry would depend on several factors:

- The number of marriages of same-sex couples who reside in Vermont: These marriages will result in both benefits and costs to the State of Vermont.
- The number of marriages of same-sex couples who are not Vermont residents but travel to Vermont in order to marry: These marriages should not result in costs to the state, since the couples would return to their home states, but are likely to result in the usual benefits associated with increased tourism.
- The financial benefits to the State from allowing either resident or nonresident same-sex couples to marry.
- The financial costs to the State from allowing in-state couples to marry.

While in some cases the likely cost or benefit of an additional marriage can be calculated, totals of benefits and costs will be difficult to calculate since we do not know how likely it is that same-sex married couples will actually be in a situation to trigger these benefits and costs.

After calculating the financial costs and benefits to the State of Vermont, this report conclude that allowing same-sex couples to marry would be economicall beneficial to the state and citizens of Vermont.

The approach of this report is (1) to propose a range of estimates of the number of marriages by same-sex couples, (2) to identify potential costs and benefits per marriage, and (3) given the range of numbers of marriages, to see how the costs and/or benefits would compare given the worst possible scenarios for the state budget. Since the main concern of this report is whether allowing same-sex couples to marry would be detrimental to Vermont's fiscal situation, when assumptions are necessary in the analysis, the strategy followed is to overestimate potential costs and to underestimate potential fiscal benefits. This procedure reduces the likelihood that uncertainty in measurement will cause the report to overlook possible net costs to the state.

The time-frame used in this report is the impact over the first five years of allowing same-sex couples to marry. Because of "pent-up demand" to marry from committed same-sex couples, it is expected that the first few years following expansion of the right to marry will see the greatest number of marriages. Following that initial flurry, the number of additional marriages per year should fall dramatically. This report assumes that all pent-up demand from currently committed same-sex couples will result in marriages over a five year period and that the number of new couples will be small in comparison.

How Many Same-Sex Couples Will Marry?

Precisely estimating the number of same-sex couples who will marry is impossible, but some rough approximations are possible.

Little agreement among academics exists even with regard to the proportion of the U.S. population who could be defined as gay, lesbian, or bisexual (the most likely candidates for a same-sex marriage). Estimates range from 1% to 10%, with the most recent academic survey in 1992 finding that 2.8% of men and 1.4% of women identified themselves as homosexual or bisexual.[1]

The next problem is estimating how many of those individuals would legally marry someone of the same sex if allowed to do so. Those living in a committed domestic relationship with another person are the most likely candidates for marriage. (It is unlikely that all such couples would choose to marry, but this analysis assumes that they will decide to marry.) A quarter of the gay or bisexual individuals in the 1992 study were cohabiting with a same-sex partner (0.72% of men and 0.39% of women).[2] Applying the 1992 study numbers to the population of Vermont (441,740 people over 15 in 1990) suggests that 1536 men are in same-sex couples (for 768 couples) and 890 women are in same-sex couples (for 445 couples), for a total of 1,213 couples.

The 1990 U.S. Census of Population provides another perspective. The 1990 Census allowed individuals to report that they were the "unmarried partner" of the householder, and households with same-sex unmarried partners can be identified. Out of the 210,622 households in Vermont in 1990, only 370 (0.18%) reported having two same-sex unmarried partners.[3]

These two data sources give us a range of estimates from 370 to 1213 new marriages, assuming that all such couples choose to marry. If the true proportion of gay and lesbian people in the population is 10% and individuals were not disclosing their sexual orientation to surveyors, then both sets of estimates are too low. Multiplying the 1992 estimates by 5 gives us roughly a 10% figure, and five times the 1213 same-sex couple estimate for Vermont would be 6065 new marriages. Thus estimates derived here range from 370 to 6065 same-sex couples living in Vermont who would be likely to marry in the first five years following legalization of same-sex marriages. While this is necessarily imprecise, the estimates offer at least an order of magnitude for evaluating the fiscal impact of allowing those couples to marry.

Possible Financial Benefits from Allowing More Marriages

The State of Vermont could derive financial benefits from allowing same-sex couples to marry. Some of those potential benefits involve increases in tax revenues and others involve decreases in state expenditures for means-tested antipoverty programs.

1. INCREASE IN INCOME TAX REVENUES:[4]

Vermont's personal income taxes are "piggybacked" on the federal tax; that is, Vermonters basically pay 25% of their federal taxes as state income taxes. Anything that makes federal taxes go up or down also makes Vermont taxes go up or down. Since the federal income tax system contains the well-known "marriage penalty" for two earner married couples,i.e. higher tax payments than the total tax that would be paid if the two individuals were unmarried, the Vermont state income tax also contains a marriage penalty. The magnitude of that penalty is evident from looking at several different family scenarios involving same-sex couples.

The scenarios presented in Table 1 were derived using data from the 1990 U.S. Census of Population on incomes of people living in Vermont. From the pool of Vermont residents, the income distribution was calculated for the noninstitutional civilian population between 22 and 59 years old who were neither self-employed nor unpaid workers in family enterprises. Their incomes were adjusted for inflation (up to 1996 dollars) using the Consumer Price Index. The median earnings (the midpoint of the distribution so that half earned more and half less than that earnings level), the value at the 75th percentile, and the value at the 25th percentile were derived from the income distribution.

The tax calculations assumed that the family or individual had no income other than wage and salary income and that they took the standard deduction. For the married couples, the taxes were calculated both as if they filed a joint return and as if they filed separately, and the one with the lower tax bill was chosen.

The potential marriage penalty in the tax system is clear in these scenarios, occurring in three out of five situations. The size of the marriage penalty varies,even among middle-income people, from an extra $48 going to the state to $170 more to the state simply as a result of marriage. The advantage for the fifth family is a $343 loss of tax revenues for the state.

The family situations of same-sex couples are likely to be similar to some of the tax scenarios, although obviously there will be some variation. Same-sex couples are more likely to be two-earner couples in the situation that causes the marriage penalty than are opposite-sex couples, as a study of the 1990 Census data on unmarried partners across the United States makes clear: in 71% of male same-sex couples,59% of female same-sex couples, but only 41% of married couples did *both* partners work more than 30 hours per week.[5]

Therefore, overall, we expect many newly married same-sex couples will be paying higher taxes than before their marriage. The total increase in tax revenues to the State of Vermont (and the federal government) will depend on the number and income configurations of such couples marrying. The middle values seem most plausible as an average impact. Using the couples earning median incomes for their sex, the $48 marriage penalty (for women) and the $170 penalty (for men) provide reasonable values. The range of increased tax revenues will be from $17,760 (where 17,760 = 48*370) to $1,031,050 (where 1,031,050 = 170*6065).[6] It is also important to note that this extra revenue will be annual, not a one-time extra payment to the state, for as long as the marriage penalty exists in the federal and state tax system.

Table 1: Tax Scenarios for Same-sex Couples

	Federal Taxes	Vermont Taxes
1. Two men, median male income, no kids		
Total tax, separate and unmarried	6382	1596
Total tax, married	7066	1766
Difference because of marriage	684	170
2. Two men, one at 75th income percentile, one at 25th percentile, no kids		
Total tax, separate and unmarried	7543	1886
Total tax, married	7422	1856
Difference because of marriage	-121	-30
3. Two women, median female income, no kids		
Total tax, separate and unmarried	3008	752
Total tax, married	3202	800
Difference because of marriage	194	48
4. Two women, one at 75th percentile, one at 25th percentile, no kids		
Total tax, separate and unmarried	3115	779
Total tax, married	3356	839
Difference because of marriage	241	60
5. Two women, one at 75th percentile, one stays home with her two children		
Total tax, separate and unmarried	2816	704
Total tax, married	1444	361
Difference because of marriage	-1372	-343

However, the 1996 federal Defense of Marriage Act (known as "DOMA")could preempt the state's ability to impose the same tax rules on same-sex married couples and opposite-sex married couples. While the tax code generally defers to state definitions of "spouse," DOMA specifies that the words "marriage" and "spouse" in federal law refer only to opposite-sex marriages and spouses.[7] Should a state allow same-sex couples to marry, a constitutional challenge to DOMA is likely. If DOMA is upheld, then the federal government would not benefit from same-sex couples paying the marriage penalty, and the State of Vermont would not automatically enjoy that benefit unless the legislature affirmatively acted to modify Vermont's tax laws.

2. DECREASE IN STATE-PROVIDED FAMILY SUPPORT: The state's anti-poverty programs are designed to protect individuals when their families cannot provide adequate resources. Eligibility is means-tested and the rules assume that an employed or financially able spouse will contribute to the family's economic well-being. But in a family where a committed adult couple is not allowed to marry, no spousal support can be required, increasing the state's potential responsibility. Allowing those couples to marry will reduce state expenditures on means-tested programs. While no data is collected on the sexual orientation of welfare recipients, the fact that many lesbians have children suggests that at least some would be eligible for and would need access to these safety net programs.[8] Gay men who are single fathers might also be enrolled in these programs, but probably to a lesser extent.

Vermont's program Aid to Needy Families with Children (ANFC) (Vermont's name for Aid to Families with Dependent Children) is operating under a waiver from federal rules. There are three experimental groups:a group which is required to do workfare, plus gets a variety of "positive" work incentives (more expenses, a benefit reduction rate of 75% rather than 100% when parents work for wages, etc.);a group which gets welfare with the "positive" work incentives but is not required to do workfare; and a control group which gets traditional welfare. Anyone enrolling after July 1,1997, is assigned to the first group (workfare plus incentives).[9] For the two nontraditional groups, costs to the state are higher than those discussed in the next paragraph once individuals start receiving the incentives, thus the estimate here will be an underestimate of the welfare savings to the state when a same-sex marriage results in a family leaving the welfare system.

Assuming a family with one indigent,unmarried parent and two children, the maximum ANFC monthly benefit in 1996 was $656 in Vermont (Table 8.13 of Green Book).[10] The State of Vermont pays 38.95% of that cost, and the federal government pays the rest (Table 8.18),so the total payment by Vermont for one year would be $3066. Families receiving ANFC are also eligible for Medicaid, which adds $1292, the Vermont share of the total $3037 that covers two children and one adult (Table 16-23,1996 Green Book data for 1994), adjusted for inflation with the CPI for medical care from 1994 to 1996 dollars.[11] The total cost of one family to the state, then, would be $6103, and that would be the level of savings to the state if a marriage to someone of the same-sex led to that family's leaving the welfare rolls.

Because no data exists on the number of people on ANFC who would marry a same-sex partner, this analysis assumes that 1% of same-sex marriages – or from 4 to 61 people – would involve someone currently receiving ANFC who would no longer be eligible after marriage. Thus the total decrease in state expenditures would be $112,906 to $1,850,735 over a five year period.

3. INCREASE IN ROOMS AND MEALS TAX REVENUES: If Vermont allows same-sex couples to marry, same-sex couples from other states are likely to travel to Vermont to marry. This could lead to a dramatic increase in tourism with resulting direct increases in tax revenues from the Rooms and Meals tax and in personal and business income tax revenues. Currently, the state imposes a 9% tax on rooms and prepared meals, and a 10% tax on alcoholic beverages.

Two studies have estimated the economic impact of the additional tourism that would be generated by same-sex couples traveling to marry in the state of Hawaii. Both studies derived conservative estimates of the number of same-sex couples in the United States and the number likely to want to marry if allowed to do so, using a proportion far lower than the marriage rate of heterosexual people. Jennifer Brown's study estimated that roughly 573,750 additional marriages would occur if Hawaii were to allow same-sex couples to marry, generating an average of $6000 per wedding and boosting Hawaii's tourist revenue by $4.3 billion over a twenty year period.[12] The additional spending would translate, she argued, into 19,000 short term and 3,500 long terms jobs, as well as $440 million dollars in additional tax revenues over a twenty year period.[13]

A second study by Sumner LaCroix and James Mak,two economists at the University of Hawaii, derived smaller estimates using different assumptions about the number of same-sex couples who want to marry and about the level of tourist spending.[14] Assuming (1) that no other states allow marriages of same-sex couples,(2) that the backlog of desired marriages takes place over five years,(3) that couples travel alone, and (4) other tourists are not "crowded out" at the peak tourist season, the economists estimated that an additional 172,500 visitors per year will travel to Hawaii to marry, generating $211 million per year in additional tourist expenditures at the average stay and spending rates in Hawaii. That added tourist spending would translate into $127 million additional income per year for five years for Hawaii's households.

Vermont could also be the recipient of this increased tourism, with much coming in the first few years after legalizing same-sex marriages as backlogged demand among same-sex couples clears, and followed by annual increases unless other states start competing for those tourist dollars by legalizing marriages of same-sex couples. Unfortunately, the same tourism figures used in the Hawaii studies are not available for Vermont, but some reasonable assumptions allow estimates to be derived.

Using the LaCroix and Mak visitor estimates,which are lower than Brown's, the estimated number of additional visitors would be 172,500 per year, or 86,250 couples and marriages. According to state data, the average length of stay for winter visitors was 3.76 nights in the 1995-96 season, and 4.5 nights in the summer months of 1995.[15] The average room rate in Vermont in 1996 was $73.54.[16] Using the lower number of 3.76 nights at $73.54 per night plus a conservative assumption of at least $25 per day in spending on food and beverages per person results in an estimate of $40,064,022 in additional tourism expenditures per year.[17] This assumes that the couple spends no money on the wedding or on any other goods or services during their stay and that they are not accompanied by friends and family members (a deliberately conservative, if unreasonable, assumption for this analysis).

The $40 million estimate is conservative by construction to ensure that this analysis does not inadvertently overestimate tourism's positive impact on the state. Furthermore, the estimate does not account for the "multiplier" impact of this spending: The business operators who directly receive these visitors' dollars then purchase goods and services from other local suppliers. The employees of the tourism-related businesses and their suppliers spend their income locally, further spreading the impact of additional tourism revenues. For instance,a recent study found that the average traveler dollar in the United States generated a total of $2.40 in local expenditures, and "every one million dollars of travel expenditures produced a total of 36.7 jobs."[18]

Applying the Rooms and Meals tax of 9% to the $40 million per year estimate results in an additional $18,028,810 in tax revenues for the five year adjustment period. The added spending in the state should both directly and indirectly (through the multiplier effect) produce additional business profit,jobs and, if the unemployment rate is low enough, increases in wages, all of which add to the state's income tax revenues, although the exact amount cannot be estimated.

Vermont might not receive as a large boost as the estimates suggest for three reasons. First, if the state has no waiting period or residency requirement, couples visiting Vermont to marry could spend their honeymoons in nearby states or might immediately return to their homes if they are from nearby states. On the other hand, Vermont's convenient east coast location might also be an attraction to couples who would not be able to afford a trip to Hawaii or some other distant state.

Second, couples might be uncertain about whether their marriages will be recognized in their home states. Since the two tourism studies were conducted, some states have enacted laws declaring that those states would not recognize same-sex marriages from another state. And Vermont's own law (15 V.S.A.section 6) invalidates Vermont marriages by nonresidents if the marriage would not be valid in the home state. The doubts raised by the anti-marriage laws and by Vermont's own statute might reduce the expected gains from tourism somewhat, but probably not by much. Many of the most populous states that are also thought to have large lesbian and gay populations, such as California and New York, have not passed such laws. Some same-sex couples might not be deterred, hoping for or expecting changes in later years through further legislative or judicial action. Further, Vermont does not question couples who are marrying about the laws of their home state. And finally, given the benefits of extra tourism, the state legislature could consider removing Vermont's own impediment to out-of-state marriages.

Third, it is possible that the visibility of marriages by same-sex couples will deter heterosexuals from visiting Vermont. Again, this scenario seems unlikely given that the number of gay and lesbian visitors will be small relative to the total number of tourists. The estimated $3.6 million annual increase in tax revenues is only 5.8% of 1996 fiscal year Rooms and Meal tax revenues, for instance.[19]

Overall, Vermont is likely to receive significant increases in tourism revenues accruing to the state's businesses, residents, and tax coffers, with the order of magnitude in each case in the millions per year.

Possible Financial Costs from Allowing More Marriages

Estimating the costs of allowing same-sex couples to wed requires identifying the *additional* costs that would be imposed. These potential additional costs accrue for several reasons: some benefits involve a direct expenditure by the state, such as payments for health insurance coverage for spouses of state employees; some marital benefits involve diminished state tax revenues since married couples are exempt from paying certain taxes; and some marital benefits increase the demand for state services, such as the right to use the family court system. For all of these reasons, more marriages might mean what we will call added "costs" to the state, although any particular marriage is highly unlikely to trigger the full range of costs.

The first task is to identify the significant potential costs to the state. An analysis of Vermont statutes uncovered the following benefits associated with marriage that might impose costs on the state:

1. STATE EMPLOYEE BENEFITS:

The State of Vermont is an employer and, as such, provides certain benefits to employees as part of a compensation package: medical benefits, dental insurance, life insurance, retirement, and various leave programs. Some of those benefits cover an employee's spouse and children as well as the employee. Thus additional marriages mean additional spouses will be covered by those benefits, which could result in increased state expenditures.

However, because same-sex (and opposite-sex) domestic partners of state employees are already covered under the medical and dental benefits, the *additional* cost involved in allowing those employees to marry their domestic partners (if they so choose) should be negligible for three main reasons. First, to date, very few employees have signed up a same-sex domestic partner. According to the state's Office of Employee Benefits and Wellness, as of mid-October 1997 only 36 employees had signed up a same-sex domestic partner for medical or dental benefits. Those 36 employees represent only 0.6% of the state workforce of roughly 6100 enrolled in those plans. An additional 306 opposite-sex partners were enrolled, adding 5% to total enrollment.[20]

Second, the Director of the Employee Benefits and Wellness office said that she had noticed no unusually large expenses related to HIV that would indicate that the domestic partners have higher-than-average health care costs (a problem known as "adverse selection") that could cause rising premium costs for the state, a concern expressed by some employers considering the coverage of domestic partners. In fact, she pointed out that the state's premiums have decreased overall during the time period when domestic partners have been eligible for medical coverage.

Finally, one other more complicated scenario in which the number of spouses seeking coverage would increase is also unlikely to materialize. That scenario argues that since benefits for domestic partners are currently considered taxable income by the IRS (and indirectly by the State of Vermont), once gay or lesbian state employees are allowed to marry, more will seek health care benefits since taxes will no longer be imposed. This scenario is unlikely to materialize since the Defense of Marriage Act suggests that the federal tax code will only recognize marriages by opposite-sex couples. Furthermore, since the current added income tax burden is far less than the cost of medical and dental insurance on the open market, it is likely that the partners of gay or lesbian employees who do not seek domestic partner benefits already have some such coverage from another source. The imputed taxable income from domestic partner benefits depends on the type of plan and number of dependents covered and will vary from employee to employee. For instance, in one sample of imputed income calculations for Vermont employees with domestic partners, the imputed income ranged from $1672 (one additional dependent) to $3723 (two dependents). If those employees are the 28% tax bracket, they would pay an additional $468 to $1042 in federal income taxes, plus $117-261 in Vermont personal income tax. But on a monthly basis, the range is $49 to $54 per person, far less than any comparable individual insurance plan would cost. Thus marriage should result in little – if any – additional enrollment. And if the IRS recognized the marriages of the 36 employees who already have same-sex domestic partners receiving benefits (an unlikely occurrence given DOMA), state tax revenues would fall by less than $10,000 per year.

Domestic partners are not formally covered in any of the other state employee benefits, so additional marriages could increase the take-up of those benefits. The additional cost is likely to be negligible given the structure of those benefits, however. For instance, the Family and Parental Leave policy allows employees "reasonable time off ... in the case of serious illness of a family member of an employee's immediate family", where "immediate family" includes "any person residing with the employee."[21] In the case of retirement pensions, a source of significant state expenditure, marriage should not increase the cost to the state at all. Retiring employees may choose to receive "joint and survivor" pension benefits that involve receiving a lower payment while alive that will continue going to a spouse after the retiree's death.[22] The two possible streams of income are set to be actuarially equivalent, so that more marriages should not increase the state's pension expenditures. Same-sex spouses of state retirees would also be newly eligible for retiree medical benefits, since domestic partners are not eligible for retiree health benefits, but given the low numbers of domestic partners, it is unlikely that many retirees would be marrying same-sex partners who will want those benefits.

Overall, marriages by same-sex couples would have a negligible impact on the State as an employer.

2. ACCESS TO COURTS:

Married couples have been given statutorily authorized access to state courts for purposes of probate, enforcing the responsibilities of marriage, ending a marriage, and providing for a child. Spouses also have certain rights of action related to the actions of third parties who may have been responsible in some way for the death of a married person. If more marriages result in greater demand for access to the courts, then the state's expenditures on the judicial system could rise.

This is unlikely to happen for several reasons. First, the number of additional marriages among residents of Vermont is likely to be small, so the pool of married people seeking access to the courts is not likely to increase greatly (see section on numbers). Second, some same-sex couples might already be using the court system to seek partition of jointly held property when a relationship ends or to

make custody and support arrangements for children,so the *additional* impact of new marriages by these couples could very well be zero. Third, those filing in court must pay fees that will offset court costs.[23] For instance, the fee for filing for divorce is $125 (or $75 if the parties are presenting a stipulation to the court).

Not all of Vermont state court costs are covered by income from fees, however. The *additional* costs resulting from marriages of same-sex couples are difficult to calculate because some of the courts' costs are likely to be fixed and would not change immediately, if ever, because of a small increase in caseload. Using available budgetary and caseload figures, an average cost per case in the Vermont Family Courts can be calculated and used as an estimate for the potential increase in costs from same-sex marriages. The budget figures include fixed costs, however, so the resulting average costs will overestimate the court costs from additional marriages.

Table 2 below shows the Family Court caseload in Fiscal Year 1997.[24] Mr. Bob Greemore, the Director of Administrative Services for the Supreme Court of Vermont, estimated that $4.5 million of the Court System's $17.4 million budget is devoted to family-related cases.[25] The average cost per case of $198 is probably an overestimate, however, since contested divorce cases and juvenile-related cases require the most resources, according to Mr. Greemore. (Weighting the juvenile cases and contested divorce cases as being twice as resource-intensive as the others gives an average cost of $177 per case.)

Table 2: Calculation of Average Cost per Family Court Case

TYPE OF CASE	No. added in FY 97
Divorce	3314
Contested (est.)	300
Uncontested	2394
Dismiss (est.)	620
Post judgment	3268
Relief from abuse	4224
Child support	7464
Juveniles	2342
Other	2173
TOTAL CASES	22,785
Family court budget	$4,500,000
AVERAGE COST PER CASE	**$198**

The fees for filing cases in Family Court vary, but taking the $75 fee for the common uncontested divorce as an example means that each additional case costs the State approximately $123, on average. If every marriage taking place among Vermont same-sex couples results in one court case over the five-year period in question – an implausible outcome but surely the worst case scenario from the state's perspective – the court costs could rise by an amount between $45,510 and $745,995, using the earlier estimates for numbers of new marriages.

3. ELIGIBILITY FOR CERTAIN UNUSUAL STATE BENEFITS:

Certain state lands have been leased to private individuals, and spouses are allowed to have their names on those leases of land around Groton, Marshfield, and Ricker ponds. Extending this right to same-sex couples involves neither an increase in expenditures by the state nor a decrease in revenues, however. According to Ed Leary, Lands Administrator in the Agency of Natural Resources in the Department of Forests, Parks, and Recreation, only a few of those lots are still leased since most have been sold to the lessees.[26] The remaining leases are assets of the lessee and can be sold or willed to any other person. Thus a lessee with a same-sex partner could leave that lease to the partner even if they were not married. Allowing the lessee and a same-sex partner to marry would have no fiscal implications for the state.

4. REDUCTION OF TRANSFER TAXES:

Transfers of certain kinds of property, real estate and automobiles, are subject to taxation based on the value of the property transferred. Transfers between spouses (and certain other specified family members), however, are not taxed if no consideration is involved (32 VSA 9603). If some transfers of property occur between unmarried same-sex partners and are currently taxed, then the new marriages could result in fewer impositions of those taxes, resulting in reduced tax revenues to the state.

The potential fiscal impact of this benefit of marriage is very difficult to estimate, since the state does not tabulate data on the number of transfers that are exempt from taxation, nor is data collected on how many current transfers occur between same-sex unmarried partners. It is possible to get some sense of the magnitude of the potential revenue loss, however. Transfers between unmarried partners seem most likely to occur when one partner brings property to the relationship and wants to share ownership with the other partner. Using the median value of owner-occupied housing units in Vermont of $95,600 from the 1990 U.S. Census,[27] and assuming that this is the couple's principal residence (so the tax rate is 0.5% according to 32 VSA 9602) and that the owner partner transfers half ownership to the other partner, the transfer tax revenue to the state would be $239 (0.5% of 1/2 of 95,600). This revenue would be lost to the state if the couple were allowed to marry and to transfer property tax-free. Given the estimates of the number of couples marrying, if all of them transferred property after instead of before marriage, the loss of revenues would be $88,430 to $1.45 million as a one-time adjustment. Annual loss after the initial adjustment would be much lower.

The total cost to the state depends on the frequency of such transfers now and the type and value of property transferred. Three facts suggest that the frequency of such transfers is far lower than even the low number of additional marriages that is likely to result. First, in many same-sex couples who might marry, neither partner will own real property. According to the 1990 Census,69% of homes in Vermont were owner-occupied, but only 51% of one-person households were owner-occupied.[28] Second, at least some same-sex couples who own property purchased that property together, precluding the need to transfer ownership if they marry. Third, some couples might decide not to transfer ownership because of the tax. Only the first issue can be taken into account in the estimates. If 69% of newly married same-sex couples had at least one property owner who

transferred half ownership only after marriage, the loss to the state would be between $61,017 and $1,000,179.

The transfer of ownership of automobiles is also taxed in Vermont – the "Purchase and Use Tax" of the purchase price or value of the vehicle. However, according to the Department of Motor Vehicles, someone wishing to add a name to the title must send in the title and necessary information along with a $15 fee.[29] Given the current ease with which owners can share ownership, it is unlikely that individuals in a same-sex couple are fully transferring ownership of vehicles to their partners, the situation that would trigger the Purchase and Use Tax. Therefore, allowing more marriages should not deprive the state of Purchase and Use Tax revenues.

Comparing Costs and Benefits

Comparing the costs and benefits of allowing same-sex couples to marry requires some basic assumptions. One necessary assumption already discussed is the number of new couples who would marry, and the earlier discussion established a likely range of 370-6065 such marriages. Second, we assume that existing same-sex couples who wish to marry will do so in the first five years following legalization. Third, we assume that the flow of new couples forming and wanting to marry over the five-year period is negligible. A final basic issue concerns how to compare future costs or benefits with costs or benefits occurring right away. The normal procedure in this kind of analysis is to discount future values, since dollars in the future are considered less valuable than those today. (This results from the fact that a particular amount of money in the future could be obtained by investing a smaller amount of money today.) However, since we do not know when the costs and benefits of these marriages would occur – they might all occur in the first year or in the fifth year – it would be inadvisable to attempt discounting.[30]

The three sources of fiscal benefits to the state identified in this report are from higher income tax revenues, reduced ANFC costs, and increased Rooms & Meals tax revenues (from higher tourist expenditures). The two sources of fiscal costs identified are increased court costs and reduced real property transfer taxes. In Table 3, the values for the costs and benefits identified and presented in the text are entered. In some cases, a range of possible values was used to take into account uncertainty. Some further assumptions were necessary, and the general strategy was to make conservative assumptions, i.e. assumptions that are probably too low for the benefits and too high for the costs:

1. Income tax revenues: Assuming that the average same-sex couple is a two-earner couple, a range for the marriage penalty was derived from the state tax scenarios calculated for two male earners at the state median male income and two female earners at the median female income.
2. ANFC Costs: The calculations assume that 1% of same-sex marriages would involve someone currently receiving ANFC (i.e. between 4-61 people) and that those individuals would no longer be eligible for ANFC.
3. Court costs: The calculations assume that every marriage results in one Family Court case during the five-year period.
4. Reduced transfer taxes: The calculations assume alternately that 69% and 100% of the new marriages would result in an untaxed property transfer that would have occurred even without marriage, implying a loss in tax revenue.

The steps for calculating the totals are as follows: (1) The range of cost or benefit dollar values was multiplied by the number of couples. (2) Those values were multiplied by five where necessary (the Rooms & Meals tax, court costs, and transfer taxes were already calculated for a five year period). (3) The lowest possible value and the highest possible value of the cost or benefit are reported in the last two columns. (Details for each calculation are given in the appropriate section of this report.)

Table 3: Comparison of costs and benefits

	Est. cost or benefit per marriage		Total over 5 year period	
	Low	High	Low	High
BENEFITS				
Increased Rooms & Meals taxes			18,028,810	18,028,810
Income tax revenues	48	170	88,800	5,155,250
Reduced ANFC costs	6,103	6,103	112,906	1,850,735
TOTAL BENEFITS			**$ 18 ,230,516**	**$ 25,034,795**
COSTS				
Court costs	123	123	45,510	745,995
Reduced transfer taxes	239	239	61,017	1,449,535
TOTAL COSTS			**$ 106,527**	**$ 2,195,530**
NET BENEFIT			**$ 18,123,989**	**$ 22,839,265**

Conclusion

As is clear, in either the low end or the high end, the net fiscal benefits to the state are considerable, totaling from $18.1 million, using the low estimates of costs and benefits and the number of marriages, to $22.8 million using the high estimates of all relevant variables. Even if total benefits are low and total costs are high the state's budget gains over $16 million. Even if DOMA eliminates the extra personal income tax revenue, the net effect for the state is positive. And it is crucial to remember that all of these net benefit estimates are derived from assumptions that minimize the benefits (especially with regard to the tax impact of enhanced tourist expenditures) and maximize the costs. Thus a fair margin of error exists to reassure the state that its fiscal position would not be harmed if same-sex couples were allowed to marry. To the contrary, this analysis suggests that the state would actually realize a net benefit. And these final calculations do not include the larger economic benefits of the millions of dollars accruing to Vermont's businesses through increased tourist spending.

While this exercise is necessarily imprecise, it does provide some sense of the order of magnitude that is likely for the costs and benefits and provides strong evidence that, overall, the fiscal impact of allowing same-sex couples to marry in Vermont would be positive for the state and its citizens.

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Notes

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2. Marieka Klawitter and Victor Flatt, "The Effects of State and Local Antidiscrimination Policies for Sexual Orientation," Journal of Policy Analysis and Management, forthcoming, 1998.
3. U.S. Bureau of the Census, Population Division, unpublished spreadsheet from Summary Tape File 4, PB12, July 13, 1993. The very small percentage of households with same-sex unmarried partners is much lower would be suggested by other estimates of the size of the lesbian and gay population, suggesting that many same-sex couple households did not report themselves as such on the census forms.
4. The analysis of personal income taxes and welfare programs was contributed by Prof. Elaine McCrate, Department of Economics, University of Vermont.
5. Marieka Klawitter, "Did they find each other or create each other?: Labor Market Linkages between Partners in Same-Sex and Different-Sex Couples," manuscript, University of Washington, March 1995.
6. For purposes of establishing a possible range, the low end assumes all couples would be female and the high end assumes that all couples would be male.
7. P.L. 104-199, signed by President Clinton on September 21, 1996.
8. Two separate data sources – the 1993 Yankelovich Monitor and 1992 Voter News Service exit polls – suggest that lesbians are as likely as heterosexual women to be parents and to have children under 18 in their households.
9. See "Vermont's Welfare Restructuring Project," Vermont Department of Social Welfare, posted on www.dsw.state.vt.us/wrp/wrpsum19.htm, 1998.
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17. $40,064,022=86,250 * 3.76* (73.54 + (2*25)).
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19. 1996 fiscal year rooms and meals tax revenues were $61.7 million.(" Tourism Promotion," in Taking Stock: The 1996 Annual Report of the Agency of Commerce and Community Development, January 1997)
20. Source: phone conversation with Kathy Callaghan, Director of Employee Benefits and Wellness, Oct. 15, 1997.
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23. Court fees are listed at http://www.cit.state.vt.us/courts/fees.htm.
24. "Judicial Statistics", State of Vermont For the Year Ending June 30, 1997, Office of the Court Administrator, FC-Table 1.
25. Telephone conversation with Mr. Bob Greemore, Nov. 4, 1997.
26. Telephone conversation with Mr. Ed Leary, October 15, 1997.
27. 1990 US Census Data, Database C90STF3C1, http://venus.census.gov/cdrom/lookup.
28. "Ownership Rates by Household and Structure Type," U.S. Bureau of the Census, 1990 Census of Housing, 1997; http://www.census.gov/ftp/pub/hhes/housing/census/ownrate.html.
29. Information on Vermont Department of Motor Vehicles fees is found at http://www.aot.state.vt.us/dmv/dmvhp.htm.
30. Also, the short time horizon means that discounting will have relatively little effect.