

Pass Through Entity Tax / SALT Cap Workaround

Craig Bolio, Commissioner of Taxes (and big supporter of PTE tax!)

Headlines

- One of the closest things I've ever seen to a free lunch in state tax policy
- *Wayfair* of the 2020s

What Do Their Credits Look Like?

- 19 states with 100% credit : AL, AZ, CA, ID, IL, KS, KY, MD, MI, MN, NJ, NY, NC, OH, OR, RI, UT, VA, WI
- States with <100% credit:
 - CT 87.5%
 - MA 90%
 - MS 95%
 - MO 95%
- Rest of states exclude that income from personal income tax (more complicated to model and understand implications).

Questions/Comments from Committee

- Why the 7.6% PTE tax rate?
 - Matches composite rate for policy and administrative considerations
 - An increase to the PTE tax rate *increases* the federal savings, while increasing the amount of tax paid to Vermont
 - Virtually all states are at or below their highest marginal PIT rate – at some point the IRS will start asking questions

Questions/Comments from Committee

- “Somebody has to pay for this”
 - Maybe?
 - If JFO’s high estimate of \$20m comes true, that is 0.000465% of FY22 IRS collections

Questions/Comments from Committee

- But if yes somebody must pay – that somebody probably doesn't live here and we're already paying for everybody else
- California estimated savings are \$1.5 **billion**; NY's is \$750 million, Vermont pays!
- Vermonters are also paying for all the non-residents doing this in VT
- What do we say to constituents who are paying for all of the other states if we won't let Vermonters enjoy the same benefit?
- Vermont's share of IRS PIT revenues are about 0.15% of total federal PIT revenues, which translates to \$30,000 *in aggregate* that would be 'paid' by Vermonters against the \$20,000,000 of savings.

Questions/Comments from Committee

- Considerations on a progressive tax structure and PTE taxes
 - Vermont has a very progressive personal income tax structure
 - You need high income earners to live in here and pay into the very progressive tax structure so the system can stay progressive
 - Those who favor a progressive tax structure should want these taxpayers here in Vermont paying into our very progressive system and not in another state