

Governor's Recommended Budget FY24 – Revenue Provisions

Craig Bolio, Commissioner of Taxes

Governor's Recommended Budget – Tax Reduction Package

- Builds on the great work done last year in Act 138
- ~\$17 million in state tax relief
- JFO estimated \$10-\$20 million in federal tax relief

Pass-Through Entity Tax/SALT Cap Workaround

- Proposal: Implement a Pass-Through Entity (PTE) Tax/SALT Cap Workaround sanctioned by IRS Notice 2020-74
 - Creates an optional pass-through entity tax that allows PTE businesses to deduct more than the Tax Cuts and Jobs Act's limit of \$10,000 in state and local taxes.
 - If structured properly, reduces taxes for Vermonters while *gaining* state revenue
- Current Vermont law: VT currently only allows this for non-residents and composite filers, creating a disadvantage for resident PTE owners.
- Revenue Impact
 - JFO estimates this as a \$10-\$20 million federal tax cut for Vermont business owners.
 - The Governor's recommended model of this policy is estimated to generate additional state base revenue of \$500,000

Earned Income Tax Credit

- Proposal: Increase Vermont's Earned Income Tax Credit (EITC) to 45% of the federal credit.
 - EITC helps put more money in the pockets of low- and modest-income Vermonters
 - DC, Maryland, New Jersey (arguably) have a more generous EITC than Vermont

Tax Year 2022 Eligibility for Federal Earned Income Tax Credit				
Children/Dependents Claimed	Maximum AGI (single, Head of Household)	Maximum AGI (married filing jointly)	Maximum VT Credit (Current 38%)	Maximum VT Credit (45% Proposed)
Zero	\$16,480	\$22,610	\$213	\$252
One	\$43,492	\$49,622	\$1,419	\$1,680
Two	\$49,399	\$55,529	\$2,342	\$2,774
Three	\$53,057	\$59,187	\$2,635	\$3,121

- Revenue Impact
 - \$5.25M base impact in FY24

Social Security Exemption Expansion

- Proposal: Raise Vermont’s Social Security income (SSI) tax exemption threshold by \$15k
 - 39 states either fully exempt Social Security from income tax or don’t have income tax (including MA, NY, NH)
 - Last year Vermont raised the threshold by \$5,000 – but with Social Security COLA of 8.7%, more recipients will be pushed above the exemption threshold.

- Federal exemption flows through (excluded from AGI).

- For remaining taxable SSI:

	Current Law	Proposed Exemption
Fully exempt for	Single filers 0-50k Joint filers 0-65k	Single filers 0-65k Joint filers 0-80k
Partially exempt for	Single filers 50k-60k Joint filers 65k-75k	Single filers 65k-75k Joint filers 75k-85k

- Revenue Impact
 - \$8.0M base impact in FY 24

Military Pension & Survivor's Benefits Exemption

- Proposal: Exempt military retirement pay and survivor's benefits from Vermont personal income tax.
 - 38 states fully exempt military retirement pay or don't have state income tax
 - JFO issue brief notes that nationally 70% of military retirees are between ages 35 and 50.
- Current Vermont Law: Military retirees can deduct the first \$10,000 of a military pension if they meet the thresholds below AND they do not take a Social Security exemption
 - \$50k AGI single; \$65k MFJ
 - For partial: \$50-60k single; \$65-75k MFJ
- Revenue Impact
 - \$3.21 million base revenue reduction (\$2.9M military retirement pay + \$300k for survivors)

Additional Relevant Provisions

- Sports Betting (Generates \$2.6 million GF)
- Tax Computer Modernization Fund (Reduces \$2.75m GF, \$1.1m EF)
- Repeal Alternative Minimum Tax (Reduces \$0.5m GF)
- Complex Commercial Appraisal and Litigation Assistance Program (Base appropriation from LOT Special Fund \$0.8m)
- Current Use Modernization and Digitization (One time CU Special Fund Cost \$1.75m)