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**Special Session H.13**

\* \* \* Personal Income Tax Changes \* \* \*  
\* \* \* Taxable Income \* \* \*

Sec. H.1 32 V.S.A. § 5811 is amended to read:

§ 5811. DEFINITIONS

\* \* \*

(21) “Taxable income” means, in the case of an individual, federal adjusted gross income determined without regard to 26 U.S.C. § 168(k) and:

\* \* \*

(B) Decreased by the following items of income (to the extent such income is included in federal adjusted gross income):

(i) income from U.S. government obligations;

(ii) with respect to adjusted net capital gain income as defined in 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend income: either the first \$5,000.00 of such adjusted net capital gain income; or 40 percent of adjusted net capital gain income from the sale of assets held by the taxpayer for more than three years, except not adjusted net capital gain income from:

(I) the sale of any real estate or portion of real estate used by the taxpayer as a primary or nonprimary residence; or

1 (II) the sale of depreciable personal property other than farm  
2 property and standing timber; or stocks or bonds publicly traded or traded on  
3 an exchange, or any other financial instruments; regardless of whether sold by  
4 an individual or business; and provided that the total amount of decrease under  
5 this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable  
6 income; ~~and~~

7 (iii) recapture of State and local income tax deductions not taken  
8 against Vermont income tax; and

9 (iv) the portion of federally taxable benefits received under the  
10 federal Social Security Act that is required to be excluded under section 5830e  
11 of this chapter; and

12 (C) Decreased by the following exemptions and deductions:

13 (i) ~~the amount of personal exemptions taken at the federal level a~~  
14 personal exemption of \$4,150.00 per person for the taxpayer, for the spouse or  
15 the deceased spouse of the taxpayer whose filing status under section 5822 of  
16 this chapter is married filing a joint return or surviving spouse, and for each  
17 individual qualifying as a dependent of the taxpayer under 26 U.S.C. § 152,  
18 provided that no exemption may be claimed for an individual who is a  
19 dependent of another taxpayer;

1                   (ii) ~~for taxpayers who do not itemize at the federal level, the~~  
2                   ~~amount of the a~~ standard deduction taken at the federal level determined as  
3                   follows:

4                               (I) for taxpayers whose filing status under section 5822 of this  
5                   chapter is unmarried (other than surviving spouses or heads of households) or  
6                   married filing separate returns, \$6,000.00;

7                               (II) for taxpayers whose filing status under section 5822 of this  
8                   chapter is head of household, \$9,000.00;

9                               (III) for taxpayers whose filing status under section 5822 of this  
10                  chapter is married filing joint return or surviving spouse, \$12,000.00; and

11                   (iii) ~~for taxpayers who itemize at the federal level:~~

12                               ~~(I) the amount of federally itemized deductions for medical and~~  
13                   ~~dental expenses and charitable contributions;~~

14                               ~~(II) the total amount of federally itemized deductions, other~~  
15                   ~~than deductions for State and local income taxes, medical and dental expenses,~~  
16                   ~~and charitable contributions, deducted from federal adjusted gross income for~~  
17                   ~~the taxable year, but in no event shall the amount under this subdivision exceed~~  
18                   ~~two and one half times the federal standard deduction allowable to the~~  
19                   ~~taxpayer; and~~

20                               ~~(III) in no event shall the total amount of deductions allowed~~  
21                   ~~under subdivisions (I) and (II) of this subdivision (21)(C)(iii) reduce the total~~

1 ~~amount of itemized deductions below the federal standard deduction allowable~~  
2 ~~to the taxpayer~~ an additional deduction of \$1,000.00 for each federal deduction  
3 under 26 U.S.C. § 63(f) that the taxpayer qualified for and received; and

4 (iv) the dollar amounts of the personal exemption allowed under  
5 subdivision (i) of this subdivision (21)(C), the standard deduction allowed  
6 under subdivision (ii) of this subdivision (21)(C), and the additional deduction  
7 allowed under subdivision (iii) of this subdivision (21)(C) shall be adjusted  
8 annually for inflation by the Commissioner of Taxes beginning with taxable  
9 year 2018 by using the Consumer Price Index and the same methodology as  
10 used for adjustments under 26 U.S.C. § 1(f)(3); provided, however, that as  
11 used in this subdivision “consumer price index” means the last Consumer Price  
12 Index for All Urban Consumers published by the U.S. Department of Labor.

13 \* \* \*

14 \* \* \* Personal Income Tax Rates \* \* \*

15 Sec. H.2 PERSONAL INCOME TAX RATES

16 (a) 2009 Spec. Sess. Acts and Resolves No. 2, Sec. 20 is repealed.

17 (b) For taxable year 2018 and after, income tax rates under 32 V.S.A.  
18 § 5822(a)(1)-(5), after taking into consideration any inflation adjustments to  
19 taxable income as required by 32 V.S.A. § 5822(b)(2), shall be as follows:

1           (1) taxable income that without the passage of this act would have been  
2           subject to a rate of 3.55 percent shall be taxed at the rate of 3.35 percent  
3           instead;

4           (2) taxable income that without the passage of this act would have been  
5           subject to a rate of 6.80 percent shall be taxed at the rate of 6.60 percent  
6           instead;

7           (3) taxable income that without the passage of this act would have been  
8           subject to a rate of 7.80 percent shall be taxed at the rate of 7.60 percent  
9           instead;

10           (4) taxable income that without the passage of this act would have been  
11           subject to a rate of 8.80 percent or 8.95 percent shall be taxed at the rate of  
12           8.75 percent instead; the tax brackets for taxable income taxed at 8.80 percent  
13           and 8.95 percent in taxable year 2017 shall be combined to be taxed at a rate of  
14           8.75 percent for taxable year 2018 and after.

15           (c) When preparing the Vermont Statutes Annotated for publication, the  
16           Office of Legislative Council shall revise the tables in 32 V.S.A. § 5822(a)(1)-  
17           (5) to reflect the changes to the tax rates and tax brackets made in this section.

1       \* \* \* Charitable Credit; Earned Income Tax Credit; Social Security Income;  
2                                   Other Adjustments \* \* \*

3       Sec. H.3 32 V.S.A. § 5822 is amended to read:

4       § 5822. TAX ON INCOME OF INDIVIDUALS, ESTATES, AND TRUSTS

5           (a) A tax is imposed for each taxable year upon the taxable income earned  
6       or received in that year by every individual, estate, and trust, subject to income  
7       taxation under the laws of the United States, in an amount determined by the  
8       following tables, and adjusted as required under this section:

9   \* \* \*

10       (b) As used in this section:

11           (1) “Married individuals,” “surviving spouse,” “head of household,”  
12       “unmarried individual,” “estate,” and “trust” have the same meaning as under  
13       the Internal Revenue Code.

14           (2) The amounts of taxable income shown in the tables in this section  
15       shall be adjusted annually for inflation by the Commissioner of Taxes; using  
16       the Consumer Price Index adjustment percentage, in the manner prescribed for  
17       inflation adjustment of federal income tax tables for the taxable year by the  
18       Commissioner of Internal Revenue, beginning with taxable year 2003;  
19       provided, however, notwithstanding 26 U.S.C. § 1(f)(3), that as used in this  
20       subdivision, “consumer price index” means the last Consumer Price Index for  
21       All Urban Consumers published by the U.S. Department of Labor.

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\* \* \*

(d)(1) A taxpayer shall be entitled to a credit against the tax imposed under this section of 24 percent of each of the credits allowed against the taxpayer’s federal income tax for the taxable year as follows: credit for people who are elderly or permanently totally disabled, investment tax credit attributable to the Vermont-property portion of the investment, and child care and dependent care credits.

\* \* \*

(3) Individuals shall receive a nonrefundable charitable contribution credit against the tax imposed under this section for the taxable year. The credit shall be five percent of the first \$20,000.00 in charitable contributions made during the taxable year that are allowable under 26 U.S.C. § 170. This credit shall be available irrespective of a taxpayer’s election not to itemize at the federal level.

\* \* \*

Sec. H.4 32 V.S.A. § 5828b(a) is amended to read:

(a) A resident individual or part-year resident individual who is entitled to an earned income tax credit granted under the laws of the United States shall be entitled to a credit against the tax imposed for each year by section 5822 of this title. The credit shall be ~~32~~ 36 percent of the earned income tax credit granted to the individual under the laws of the United States, multiplied by the

1 percentage ~~which~~ that the individual's earned income that is earned or received  
2 during the period of the individual's residency in this State bears to the  
3 individual's total earned income.

4 Sec. H.5 32 V.S.A. § 5830e is added to read:

5 § 5830e. SOCIAL SECURITY INCOME

6 The portion of federally taxable Social Security benefits excluded from  
7 taxable income under subdivision 5811(21)(B)(iv) of this chapter shall be as  
8 follows:

9 (1) For taxpayers whose filing status is single, married filing separately,  
10 head of household, or qualifying widow or widower:

11 (A) If the federal adjusted gross income of the taxpayer is less than or  
12 equal to \$45,000.00, all federally taxable benefits received under the federal  
13 Social Security Act shall be excluded.

14 (B) If the federal adjusted gross income of the taxpayer is greater  
15 than \$45,000.00 but less than \$55,000.00, the percentage of federally taxable  
16 benefits received under the Social Security Act to be excluded shall be  
17 proportional to the amount of the taxpayer's federal adjusted gross income  
18 over \$45,000.00, determined by:

19 (i) subtracting the federal adjusted gross income of the taxpayer  
20 from \$55,000.00;



1                   (ii) dividing the value under subdivision (i) of this subdivision (B)  
2                   by \$10,000.00; and

3                   (iii) multiplying the value under subdivision (ii) of this  
4                   subdivision (B) by the federally taxable benefits received under the Social  
5                   Security Act.

6                   (C) If the federal adjusted gross income of the taxpayer is equal to or  
7                   greater than \$55,000.00, no amount of the federally taxable benefits received  
8                   under the Social Security Act shall be excluded under this section.

9                   (2) For taxpayers whose filing status is married filing jointly:

10                  (A) If the federal adjusted gross income of the taxpayer is less than or  
11                  equal to \$60,000.00, all federally taxable benefits received under the Social  
12                  Security Act shall be excluded.

13                  (B) If the federal adjusted gross income of the taxpayer is greater  
14                  than \$60,000.00 but less than \$70,000.00, the percentage of federally taxable  
15                  benefits received under the Social Security Act to be excluded shall be  
16                  proportional to the amount of the taxpayer's federal adjusted gross income  
17                  over \$60,000.00, determined by:

18                         (i) subtracting the federal adjusted gross income of the taxpayer  
19                         from \$70,000.00;

20                         (ii) dividing the value under subdivision (i) of this subdivision (B)  
21                         by \$10,000.00; and

1 (iii) multiplying the value under subdivision (ii) of this  
2 subdivision (B) by the federally taxable benefits received under the Social  
3 Security Act.

4 (C) If the federal adjusted gross income of the taxpayer is equal to or  
5 greater than \$70,000.00, no amount of the federally taxable benefits received  
6 under the Social Security Act shall be excluded under this section.

7 Sec. H.6 32 V.S.A. § 5813 is amended to read:

8 § 5813. STATUTORY PURPOSES

9 \* \* \*

10 (w) The statutory purpose of the partial exemption of federally taxable  
11 benefits under the Social Security Act in section 5830e of this title is to lessen  
12 the tax burden on Vermonters with low to moderate income who derive part of  
13 their income from Social Security benefits.

14 (x) The statutory purpose of the charitable contribution credit in  
15 subdivision 5822(d)(3) of this title is to reduce the tax liability for Vermonters  
16 who contribute to charitable causes.

17 Sec. H.7 32 V.S.A. § 5824 is amended to read:

18 § 5824. ADOPTION OF FEDERAL INCOME TAX LAWS

19 The statutes of the United States relating to the federal income tax, as in  
20 effect ~~for taxable year 2016~~ on December 31, 2017, but without regard to

1 federal income tax rates under 26 U.S.C. § 1, are hereby adopted for the  
2 purpose of computing the tax liability under this chapter.

3 \* \* \* Allocation of Education Funds \* \* \*

4 Sec. H.8 16 V.S.A. § 4025 is amended to read:

5 § 4025. EDUCATION FUND

6 (a) The Education Fund is established to comprise the following:

7 (1) ~~All~~ all revenue paid to the State from the statewide education tax on  
8 nonresidential and homestead property under 32 V.S.A. chapter 135;

9 (2) ~~For each fiscal year, the amount of the general funds appropriated~~  
10 ~~and transferred to the Education Fund shall be \$305,900,000.00, to be~~  
11 ~~increased annually beginning for fiscal year 2018 by the consensus Joint Fiscal~~  
12 ~~Office and Administration determination of the National Income and Product~~  
13 ~~Accounts (NIPA) Implicit Price Deflator for State and Local Government~~  
14 ~~Consumption Expenditures and Gross Investment as reported by the U.S.~~  
15 ~~Department of Commerce, Bureau of Economic Analysis through the fiscal~~  
16 ~~year for which the payment is being determined, plus an additional one-tenth~~  
17 ~~of one percent. [Repealed.]~~

18 (3) ~~Revenues~~ revenues from State lotteries under 31 V.S.A. chapter 14,  
19 and from any multijurisdictional lottery game authorized under that chapter;

20 (4) 25 percent of the revenues from the meals and rooms taxes imposed  
21 under 32 V.S.A. chapter 225;

1           (5) ~~One-third~~ one-third of the revenues raised from the purchase and use  
2 tax imposed by 32 V.S.A. chapter 219, notwithstanding 19 V.S.A. § 11(1);

3           (6) ~~Thirty-six percent of the~~ revenues raised from the sales and use tax  
4 imposed by 32 V.S.A. chapter 233; and

5           (7) Medicaid reimbursement funds pursuant to subsection 2959a(f) of  
6 this title.

7           (b) Monies in the Education Fund shall be used for the following:

8           (1) To make payments to school districts and supervisory unions for the  
9 support of education in accordance with the provisions of section 4028 of this  
10 title, other provisions of this chapter, ~~and~~ the provisions of 32 V.S.A.  
11 chapter 135, ~~to make payments to carry out programs of adult education in~~  
12 ~~accordance with section 945 of this title, and to provide funding for the~~  
13 ~~community high school of Vermont~~ and the Flexible Pathways Initiative  
14 established by 16 V.S.A. § 941, but excluding adult education and literacy  
15 programs under 16 V.S.A. § 945.

16   \* \* \*

17           (3) To make payments required under 32 V.S.A. § 6066(a)(1) ~~and (2)~~  
18 and only that portion attributable to education taxes, as determined by the  
19 Commissioner of Taxes, of payments required under 32 V.S.A. § 6066(a)(3)  
20 ~~and 6066(b)~~. The State Treasurer shall withdraw funds from the Education  
21 Fund upon warrants issued by the Commissioner of Finance and Management

1 based on information supplied by the Commissioner of Taxes. The  
2 Commissioner of Finance and Management may draw warrants for  
3 disbursements from the Fund in anticipation of receipts. All balances in the  
4 Fund at the end of any fiscal year shall be carried forward and remain a part of  
5 the Fund. Interest accruing from the Fund shall remain in the Fund.

6 \* \* \*

7 (c) ~~An equalization and reappraisal account is established within the~~  
8 ~~Education Fund. Monies from this account are to be used by the Division of~~  
9 ~~Property Valuation and Review to assist towns with maintenance or reappraisal~~  
10 ~~on a case-by-case basis; and for reappraisal and grand list maintenance~~  
11 ~~assistance payments pursuant to 32 V.S.A. §§ 4041a and 5405(f). [Repealed.]~~

12 \* \* \*

13 Sec. H.9 32 V.S.A. § 435(b) is amended to read:

14 (b) The General Fund shall be composed of revenues from the following  
15 sources:

16 \* \* \*

17 (7) ~~Meals~~ 75 percent of the meals and rooms taxes levied pursuant to  
18 chapter 225 of this title;

19 \* \* \*

20 (11) ~~64 percent of the revenue from sales and use taxes levied pursuant~~  
21 ~~to chapter 233 of this title; [Repealed.]~~

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Sec. H.10 REPORT

(a) On or before January 1, 2024, the Joint Fiscal Office shall report to the House Committees on Appropriations and on Ways and Means and the Senate Committees on Appropriations and on Finance on the impact of the changes in Secs. 8 and 9 of this act reallocating the revenues generated for the General Fund and Education Fund.

\* \* \* Yields \* \* \*

Sec. H.11 32 V.S.A. § 5402b(b) is amended to read:

~~(b) For each fiscal year, the General Assembly shall set a property dollar equivalent yield and an income dollar equivalent yield, consistent with the definitions in this chapter~~ the property dollar equivalent yield and the income dollar equivalent yield shall be the same as in the prior fiscal year, unless set otherwise by the General Assembly.

\* \* \* Effective Dates; Transition for Secs. H.1-H.12 \* \* \*

Sec. H.12 EFFECTIVE DATES AND TRANSITION

(a) This act shall take effect on passage, except:  
(1) Notwithstanding 1 V.S.A. § 214, Secs. H.1–H.6 (income tax changes) shall take effect retroactively on January 1, 2018 and apply to taxable year 2018 and after.

1           (2) Notwithstanding 1 V.S.A. § 214, Sec. H.7 (income tax link to the  
2           federal tax statutes) shall take effect retroactively on January 1, 2018 and apply  
3           to taxable years beginning on January 1, 2017 and after.

4           (3) Secs. H.8–H.9 (General Fund and Education Fund revenues) and  
5           H.11 (yields) shall take effect on July 1, 2018 and apply to fiscal year 2019 and  
6           after.

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