

1 **Special Session H.13**

2 **Tax Sections -- As Passed the House**

3 * * * Personal Income Tax Changes * * *

4 * * * Taxable Income * * *

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

6 § 5811. DEFINITIONS

7 * * *

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

10 * * *

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

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

14 (ii) with respect to adjusted net capital gain income as defined in
15 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend
16 income: either the first \$5,000.00 of such adjusted net capital gain income; or
17 40 percent of adjusted net capital gain income from the sale of assets held by
18 the taxpayer for more than three years, except not adjusted net capital gain
19 income from:

20 (I) the sale of any real estate or portion of real estate used by
21 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.

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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 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 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.

Sec. H.11a INTENT

(a) The General Assembly recognizes that this act does not address all Education Fund issues for fiscal year 2019 and it is the intent of the General Assembly to address these issues in a subsequent bill.

* * * 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 (1) Notwithstanding 1 V.S.A. § 214, Secs. H.1–H.6 (income tax
2 changes) shall take effect retroactively on January 1, 2018 and apply to taxable
3 year 2018 and after.

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

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

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