

1 H.705

2 Introduced by Representatives Joseph of North Hero, Christie of Hartford,
3 Deen of Westminster, Hooper of Randolph, and Sullivan of
4 Dorset

5 Referred to Committee on

6 Date:

7 Subject: Taxation; income taxes; adjusted gross income

8 Statement of purpose of bill as introduced: This bill proposes to move
9 Vermont's income tax to a tax base of federally adjusted gross income, to
10 reduce the number of personal income tax brackets, and to lower personal
11 income tax rates. The resulting revenue is transferred to the Education Fund to
12 lower property tax rates.

13 An act relating to Vermont's personal income tax

14 It is hereby enacted by the General Assembly of the State of Vermont:

15 * * * Personal Income Tax * * *

16 Sec. 1. 32 V.S.A. § 5811(21) is amended to read:

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

19 (A) ~~increased~~ increased by the following items of income (to the
20 extent such income is excluded from federal adjusted gross income):

1 (i) interest income from non-Vermont state and local
2 obligations; and

3 (ii) dividends or other distributions from any fund to the extent
4 they are attributable to non-Vermont state or local obligations; and

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

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

8 (ii) with respect to adjusted net capital gain income as defined in
9 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend
10 income: either the first \$5,000.00 of such adjusted net capital gain income; or
11 40 percent of adjusted net capital gain income from the sale of assets held by
12 the taxpayer for more than three years, except not adjusted net capital gain
13 income from:

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

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

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

3 (C) ~~Decreased~~ decreased by the following exemptions and
4 deductions:

5 (i) ~~the amount of personal exemptions taken at the federal level~~

6 (ii) ~~for taxpayers who do not itemize at the federal level, the~~
7 ~~amount of the standard deduction taken at the federal level; and~~

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

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

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

17 (III) ~~in no event shall the total amount of deductions allowed~~
18 ~~under subdivisions (I) and (II) of this subdivision (21)(C)(iii) reduce the total~~
19 ~~amount of itemized deductions below the federal standard deduction allowable~~
20 ~~to the taxpayer~~ the amount of a standard deduction as calculated under section
21 5830e of this title.

1 Sec. 2. 32 V.S.A. § 5830e is added to read:

2 § 5830e. STANDARD DEDUCTION

3 The following amounts shall be deducted from the taxable income of each
4 taxpayer:

5 (1) For married individuals filing jointly and surviving spouses, the
6 amount shall be \$15,000.00, provided that for every \$5,000.00 in federal
7 adjusted gross income above \$100,000.00, the deductible amount under this
8 subsection shall be reduced by \$750.00.

9 (2) For individuals filing as the head of a household, the amount shall be
10 \$12,000.00, provided that for every \$4,000.00 in federal adjusted gross income
11 above \$80,000.00, the deductible amount under this subsection shall be
12 reduced by \$600.00.

13 (3) For single individuals and for married individuals filing separately,
14 the amount shall be \$7,500.00, provided that for every \$2,500.00 in federal
15 adjusted gross income above \$50,000.00, the deductible amount under this
16 subsection shall be reduced by \$375.00.

17 Sec. 3. 32V.S.A. § 5830f is added to read:

18 § 5830f. CREDIT IN LIEU OF PERSONAL EXEMPTION

19 There shall be allowed a refundable credit against the personal income tax
20 calculated under this chapter in the amount of \$170.00 for each taxpayer,
21 subject to the following limitations:

1 (1) For married individuals filing jointly and surviving spouses, the
2 amount of the credit shall be reduced by \$8.50 for every \$5,000.00 in federal
3 adjusted gross income above \$100,000.00;

4 (2) For individuals filing as the head of a household, the amount of the
5 credit shall be reduced by \$8.50 for every \$4,000.00 in federal adjusted gross
6 income above \$80,000.00;

7 (3) For single individuals and for married individuals filing separately,
8 the amount of the credit shall be reduced by \$8.50 for every \$2,500.00 in
9 federal adjusted gross income above \$50,000.00.

10 Sec. 4. REPEAL

11 2009 Spec. Sess. Acts and Resolves No. 2, Sec. 20 (personal income tax
12 rates) is repealed.

13 Sec. 5. INDIVIDUAL TAX RATES

14 Beginning in tax year 2018 and after, the rates assigned to the individual
15 income tax brackets under 32 V.S.A. § 5822(a), from lowest to highest, shall
16 be 3.5 percent, 5.5 percent, 7.25 percent, and 8.75 percent. The income tax
17 bracket under 32 V.S.A. § 5822(a) that was 8.95 percent for tax year 2017
18 shall be eliminated for tax year 2018 and after. In its statutory revision
19 capacity under 2 V.S.A. § 424, the Office of Legislative Council is authorized
20 to alter the statutory charts in 32 V.S.A. § 5822(a)(1)–(5) to reflect these
21 changes.

1 Sec. 6. 32 V.S.A. § 5822(a)(7) is added to read:

2 (7) If the federal adjusted gross income of a taxpayer exceeds
3 \$350,000.00, then the tax calculated under this subsection shall be the
4 taxpayer's total taxable income multiplied by his or her top marginal tax rate
5 under this subsection, without regard to any lower rate for taxable income in
6 lower tax brackets. If the federal adjusted gross income of a taxpayer exceeds
7 \$250,000.00, but is equal to or less than \$350,000.00, the benefit to the
8 taxpayer of taxing income at lower rates in lower brackets under this
9 subsection shall be reduced by one percent for each \$1,000.00 in federal
10 adjusted gross income over \$250,000.00.

11 * * * Revenue Allocation * * *

12 Sec. 7. 16 V.S.A. § 4025(a)(2) is amended to read:

13 (2) For each fiscal year, the amount of the general funds appropriated
14 and transferred to the Education Fund shall be ~~\$305,900,000.00~~
15 \$355,900,000.00, to be increased annually beginning for fiscal year 2018 by
16 the consensus Joint Fiscal Office and Administration determination of the
17 National Income and Product Accounts (NIPA) Implicit Price Deflator for
18 State and Local Government Consumption Expenditures and Gross Investment
19 as reported by the U.S. Department of Commerce, Bureau of Economic
20 Analysis through the fiscal year for which the payment is being determined,
21 plus an additional one-tenth of one percent.

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* * * Effective Dates * * *

Sec. 8. EFFECTIVE DATES

Notwithstanding 2 V.S.A. § 214, this act shall take effect on passage and apply retroactively to January 1, 2018 and apply to taxable year 2018 and after, except Sec. 7 (General Fund transfer) which shall take effect on July 1, 2018 and apply to transfers affecting fiscal year 2019 and after.