

H.911

An act relating to changes in Vermont's personal income tax and education financing system

The Senate proposes to the House to amend the bill by striking out all after the enacting clause and inserting in lieu thereof the following:

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

\* \* \* Taxable Income \* \* \*

Sec. 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

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

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

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

(C) Decreased by the following exemptions and deductions:

(i) ~~the amount of personal exemptions taken at the federal level a~~ personal exemption of \$4050.00 per person for the taxpayer, for the spouse or the deceased spouse of the taxpayer whose filing status under section 5822 of this chapter is married filing a joint return or surviving spouse, and for each individual qualifying as a dependent of the taxpayer under 26 U.S.C. § 152, provided that no exemption may be claimed for an individual who is a dependent of another taxpayer;

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

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

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

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

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

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

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

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

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

(iv) the dollar amounts of the personal exemption allowed under subdivision (i) of this subdivision (21)(C), the standard deduction allowed under subdivision (ii) of this subdivision (21)(C), and the additional deduction allowed under subdivision (iii) of this subdivision (21)(C) shall be adjusted annually for inflation by the Commissioner of Taxes by using the percentage increase in the Consumer Price Index beginning with taxable year 2019 and ending with the taxable year in question. As used in this subdivision, “consumer price index” means the last Consumer Price Index for All Urban Consumers published by the U.S. Department of Labor.

\* \* \*

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

## Sec. 2. PERSONAL INCOME TAX RATES

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

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

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

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

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

(4) taxable income that without the passage of this act would have been subject to a rate of 8.80 percent shall be taxed at the rate of 8.70 percent instead; and

(5) taxable income that without the passage of this act would have been subject to a rate of 8.95 percent shall be taxed at the rate of 8.85 percent instead;

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

\* \* \* Charitable Credit; Earned Income Tax Credit; Social Security Income;

Other Adjustments \* \* \*

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

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

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

\* \* \*

(b) As used in this section:

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

(2) The amounts of taxable income shown in the tables in this section shall be adjusted annually for inflation by the Commissioner of Taxes; using the ~~Consumer Price Index adjustment percentage, in the manner prescribed for inflation adjustment of federal income tax tables for the taxable year by the Commissioner of Internal Revenue, beginning with taxable year 2003~~ percentage increase in the Consumer Price Index beginning with taxable year 2019 and ending with the taxable year in question. As used in this subdivision,

“consumer price index” means the last Consumer Price Index for All Urban Consumers published by the U.S. Department of Labor.

\* \* \*

(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 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. 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~~ 35 percent of the earned income tax credit

granted to the individual under the laws of the United States, multiplied by the percentage ~~which~~ that the individual's earned income that is earned or received during the period of the individual's residency in this State bears to the individual's total earned income.

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

§ 5830e. SOCIAL SECURITY INCOME

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

§ 5813. STATUTORY PURPOSES

\* \* \*

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

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

§ 5824. ADOPTION OF FEDERAL INCOME TAX LAWS

The statutes of the United States relating to the federal income tax, as in effect ~~for taxable year 2016~~ on December 31, 2017, but without regard to federal income tax rates under 26 U.S.C. § 1, are hereby adopted for the purpose of computing the tax liability under this chapter.

Sec. 8. FEDERAL TAX REFORM

On or before November, 15, 2018, the Office of Legislative Council, with the assistance of the Joint Fiscal Office and the Department of Taxes, shall report to the Joint Fiscal Committee, the Senate Committee on Finance, and the House Committee on Ways and Means on the federal and state implementation of changes necessitated by the Tax Cut and Jobs Act and shall identify potential areas for legislative or administrative reactions.

\* \* \* Education Financing Changes \* \* \*

\* \* \* Yield, Applicable Percentage and Nonresidential Rate for

Fiscal Year 2019 \* \* \*

Sec. 9. PROPERTY DOLLAR EQUIVALENT YIELD AND INCOME

DOLLAR EQUIVALENT YIELD FOR FISCAL YEAR 2019

(a) Pursuant to 32 V.S.A. § 5402b(b), for fiscal year 2019 only, the property dollar equivalent yield shall be \$9,863.00.

(b) Pursuant to 32 V.S.A. § 5402b(b), for fiscal year 2019 only, the income dollar equivalent yield shall be \$11,920.00.

Sec. 10. NONRESIDENTIAL PROPERTY TAX RATE FOR FISCAL YEAR

2019

Notwithstanding any other provision of law, for fiscal year 2019 only, the nonresidential education property tax imposed under 32 V.S.A. § 5402(a)(2) shall be \$1.606 per \$100.00.

Sec. 11. 32 V.S.A. § 5402b(a)(4) is amended to read:

(4) the percentage change in the ~~median~~ average education tax bill applied to nonresidential property; and the percentage change in the ~~median~~ average education tax bill of homestead property, and the percentage change in the ~~median~~ average education tax bill for taxpayers who claim an adjustment under subsection 6066(a) of this title are equal.

\* \* \* Statewide education property tax bills \* \* \*

Sec. 12. 32 V.S.A. § 5402(b) is amended to read:

(b) The statewide education tax shall be calculated as follows:

\* \* \*

(2) Taxes assessed under this section shall be assessed and collected in the same manner as taxes assessed under chapter 133 of this title with no tax classification other than as homestead or nonresidential property; provided, however, that the tax levied under this chapter shall be billed to each taxpayer by the municipality in a manner that clearly indicates the tax is separate from any other tax assessed and collected under chapter 133, including an itemization of the separate taxes with an aggregated total of the taxes due.

\* \* \*

Sec. 13. 32 V.S.A. § 6066a(f) is amended to read:

(f) Property tax bills.

(1) For taxpayers and amounts stated in the notice to towns on July 1, municipalities shall create and send to taxpayers a homestead property tax bill, instead of the bill required under subdivision 5402(b)(1) of this title, providing the total amount allocated to payment of homestead education property tax liabilities and notice of the balance due. Nothing in this subdivision, however, shall be interpreted as altering the requirement under subdivision 5402(b)(1) of this title that the statewide education homestead tax be billed in a manner that is stated clearly and separately from any other tax. Municipalities shall apply the amount allocated under this chapter to current-year property taxes in equal amounts to each of the taxpayers' property tax installments that include education taxes. Notwithstanding section 4772 of this title, if a town issues a corrected bill as a result of the November 1 notice sent by the Commissioner under subsection (a) of this section, issuance of ~~such~~ the corrected new bill does not extend the time for payment of the original bill, nor relieve the taxpayer of any interest or penalties associated with the original bill. If the corrected bill is less than the original bill, and there are also no unpaid ~~current year~~ current-year taxes, interest, or penalties and no ~~past-year~~ past-year delinquent taxes or penalties and interest charges, any overpayment shall be reflected on the corrected tax bill and refunded to the taxpayer.

\* \* \*

\* \* \* Effective Dates \* \* \*

Sec. 14. EFFECTIVE DATES

(a) This section shall take effect on passage.

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

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

(d) Secs. 9-10 (yields; nonresidential rate) shall take effect on July 1, 2018 and apply to fiscal year 2019 only.

(e) Secs. 8 (federal tax reform), 11 (Commissioner's recommendation), 12-13 (tax bills) shall take effect on July 1, 2018.