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**AGI**

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

\* \* \*

(21) "Taxable income" means federal ~~taxable~~ adjusted gross income determined without regard to 26 U.S.C. § 168(k) and:

(A) Increased by the following items of income (to the extent such income is excluded from federal adjusted gross income):

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

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

~~(iii) the amount of State and local income taxes deducted from federal adjusted gross income for the taxable year, but in no case in an amount that will reduce total itemized deductions below the standard deduction allowable to the taxpayer; and~~

~~(iv) the amount of total itemized deductions, other than deductions for State and local income taxes, medical and dental expenses, or charitable contributions, deducted from federal adjusted gross income for the taxable year, that is in excess of two and one half times the standard deduction allowable to the taxpayer; and~~

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

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

2 (ii) with respect to adjusted net capital gain income as defined in

3 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend

4 income: either the first \$5,000.00 of such adjusted net capital gain income; or

5 40 percent of adjusted net capital gain income from the sale of assets held by

6 the taxpayer for more than three years, except not adjusted net capital gain

7 income from:

8 (I) the sale of any real estate or portion of real estate used by the

9 taxpayer as a primary or nonprimary residence; or

10 (II) the sale of depreciable personal property other than farm

11 property and standing timber; or stocks or bonds publicly traded or traded on

12 an exchange, or any other financial instruments; regardless of whether sold by

13 an individual or business; and provided that the total amount of decrease under

14 this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable

15 income; ~~and~~

16 (iii) recapture of State and local income tax deductions not taken

17 against Vermont income tax;

18 (iv) the amount of personal exemptions taken at the federal level

19 (v) for taxpayers who do not itemize at the federal level, the

20 amount of the standard deduction taken at the federal level;

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(vi) for taxpayers who itemize at the federal level:

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

(II) the total amount of federally itemized deductions, other than deductions for State and local income taxes, medical and dental expenses, or 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;

\* \* \*