



State of Vermont
Department of Taxes
133 State Street
Montpelier, VT 05633-1401

Agency of Administration

February 12, 2018

Dear Representative Ancel and Senator Cummings,

Thank you for your time over the past week on the Administration's proposal that allows Vermonters to take full advantage of the federal Tax Cuts and Jobs Act (TCJA) by preventing a \$30M tax increase on Vermont families. The State must rapidly respond to these comprehensive federal changes to hold Vermonters harmless. The Administration's proposal is revenue neutral, and most Vermonters will see little difference in what they pay in Vermont taxes for tax year 2018 if enacted.

Attached please find draft language that accompanies the tax code changes outlined on February 2nd from the Department of Taxes, meant to simplify Vermont's tax calculation, lower rates, better incentivize charitable giving, and increase stability and resiliency of our State revenues and our tax system. This relies upon a baseline revenue model which was developed in consensus with the Joint Fiscal Office (JFO) to evaluate the impacts of federal tax reform in fiscal year 2019.

JFO is conducting an independent review of the modeling performed at the Tax Department and the Department will continue to work with JFO towards achieving a consensus opinion on the financial impacts of this reform package. The comparative modeling software used to develop these rates is the same software that was used to estimate the financial impact of changes made to allowable deductions during the 2015 legislative session, which proved to be highly accurate after comparison with actuals received.

The revenue impacts of two of the Governor's priorities for this legislative session of exempting military retirement pay and increasing the exemption for social security benefits are not funded through this reform proposal, which prevents the full \$30M tax increase from materializing. Instead, these impacts are accounted for in the proposed Fiscal Year 2019 budget. Together with the changes in our tax reform plan, which reduces the tax rate in all brackets by 0.2% and boosts the Vermont Earned Income Credit to 35% of the federal credit, Vermont can improve the competitiveness of our tax environment and facilitate economic growth. This will leave Vermont in a better position to recruit and retain a talented workforce and reverse the concerning demographic trend we are facing.





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Governor Scott's budget did not rely on this new revenue and he intends to prevent this inadvertent tax increase on Vermonters. This draft language is being released as quickly as possible, so that the Administration and Legislature can continue to work together to move it forward expeditiously. It is expected that further discussion may result in refinements and adjustments. Together we can protect Vermont families from the unintended consequences of federal tax reform. The Department of Taxes looks forward to answering any questions that you have and discussing this language with you and your Committees.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kaj Samsom", with a long horizontal flourish extending to the right.

Kaj Samsom
Commissioner

