2018 Vermont Income Tax Reform Plan
Vermont Department of Taxes

The Federal Tax Cuts and Jobs Act (TCJA) changed many components of the federal personal income tax structure that flow through to Vermont. The most significant of these changes are the nearly doubling of the standard deduction and the elimination of personal exemptions. Vermont allows taxpayers to subtract both the federal standard deduction and personal exemption amounts from taxable income. The exemptions are now worth zero, creating a distortion in taxpayers' Vermont taxable income, even as their earnings stay the same.

$42M in tax hikes and $12M in tax decreases

- The net impact if we do nothing to the Vermont tax calculation will be a Vermont tax increase of about $30M across the State (the net of the $42M and $12M above).
- If we do not neutralize this looming and inadvertent tax hike, we will have to increase withholdings, shrinking the paychecks of many Vermonters – primarily those with children.
- A more detailed analysis shows that while many Vermonters might pay slightly less in Vermont Tax (totaling $12M), nearly half of Vermonters would pay significantly more (totaling $42M)
- The larger your family or household size, the more your Vermont taxes will go up. The result is an unwelcome tax hike on Vermont families.
- Governor Scott's budget did not count on this new revenue, and he intends to prevent this inadvertent tax increase on Vermont families from happening.

The Plan

Unlike the above effects on Vermonters' tax liabilities caused by the TCJA, this proposal is revenue-neutral, and most Vermonters will see little change to what they pay in Vermont Taxes for tax year 2018. Here are the highlights:

- **Start with Adjusted Gross Income (AGI):** AGI was largely unimpacted by the TCJA and is less likely to be altered in future legislation. Moving to a system more closely tied to AGI, as proposed in our plan, will add resiliency and stability to the Vermont tax system.
- **Reintroduce personal exemptions at $4,000 each:** This measure will stabilize withholding amounts and total tax liabilities while recognizing the financial burden on Vermonters with dependents.
- **Create a Vermont-defined Income Deduction:** Equal to $6,000 for single filers, $12,000 for joint filers, and $9,000 for heads of households. This measure keeps the deduction at roughly the 2017 standard deduction level and stabilizes tax liabilities.
- **Lower marginal rates**: High marginal rates put Vermont at a competitive disadvantage with other states. Vermont will maintain the progressivity in our tax code by keeping tax brackets the same while lowering marginal rates by .2% to .3% for all filers.
- **Introduce a 5% tax credit for charitable contributions**: The large increase to the standard deduction and shift away from itemized deductions at the federal level might disincentive many filers from donating to charity. This measure will re-incentivize charitable giving, make the benefits of giving available to all Vermonters (regardless of income or whether they itemize their deductions at the federal level), and strengthen the connection between Vermont charitable organizations and all members of the community.

The above changes will greatly simplify Vermont's tax calculation, lower rates, better incentivize charitable giving, and increase the stability and resiliency of our state revenues and tax system.

Next Steps: The Tax Department is working with the JFO and hopes to come to consensus on the fiscal impacts of this proposal over the next week or two. Additionally, we will make ourselves available to the Legislature to further explain the impacts on Vermonters if we do nothing and to discuss the value of moving to this proposed model.

VERMONT
DEPARTMENT OF TAXES