

Distribution of Current and Proposed Social Security Benefit Exemptions

The current exemption of social security benefits at the federal level reduces a taxpayer’s adjusted gross income. Since Vermont’s personal income tax form begins with adjusted gross income, this exemption flows through to Vermont’s income tax structure to reduce a taxpayer’s Vermont taxable income.

Roughly 81,000 Vermont filers (not individual social security beneficiaries) received social security benefits in 2014, and the flow-through exemption reduced Vermont tax liabilities for roughly 71,000 filers. In 2014, the federal flow-through exemption reduced tax liabilities for these Vermonters by about \$22.5M. The Governor’s proposed exemption would have decreased tax liabilities for social security beneficiaries by an additional \$5M in 2014.

This overview provides two comparative distributions: 1) The number of Vermont tax filers that experience a tax decrease due to the federal flow-through exemption and the number of filers that would receive an additional decrease from the Governor’s proposed exemption. 2) The average decrease to tax liabilities resulting from federal conformity compared to the additional estimated decrease in liabilities from the Governor’s proposed exemption. All figures are based on Tax Year 2014 data.

In addition to these figures, the Tax Department can provide information concerning taxable income, tax liabilities, effective rates, and other metrics.

Comparison of Filers with a Social Security Benefit Exemption

Graph 1 and Table 1 compare the number of filers that experience a decrease in tax liabilities from the federal flow-through exemption and would experience a tax decrease from the Governor’s proposal.

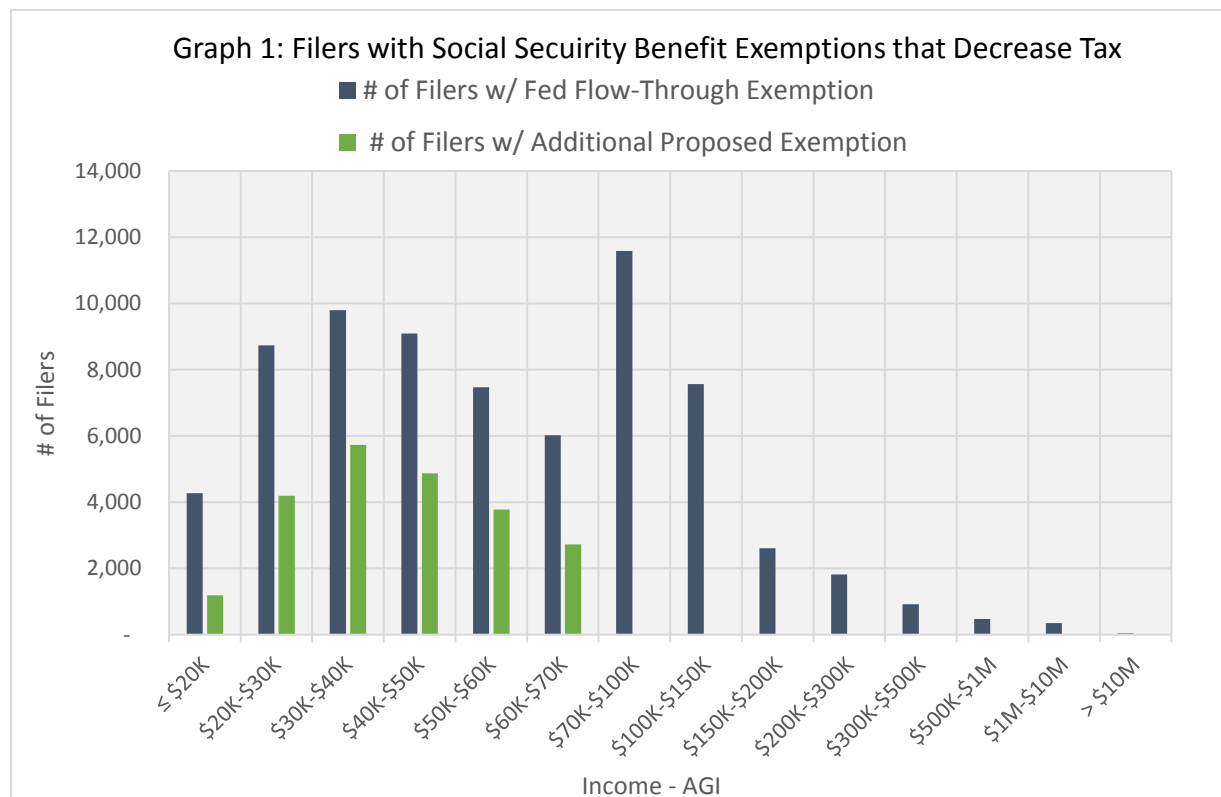


Table 1: # of Filers with Social Security Benefit Exemptions*		
Income (AGI)	# of Filers w/ Fed Flow-Through Exemption	# of Filers w/ Additional Proposed Exemption
≤ \$20K	4,273	1,191
\$20K-\$30K	8,738	4,192
\$30K-\$40K	9,802	5,731
\$40K-\$50K	9,091	4,869
\$50K-\$60K	7,475	3,784
\$60K-\$70K	6,024	2,728
\$70K-\$100K	11,585	-
\$100K-\$150K	7,564	-
\$150K-\$200K	2,613	-
\$200K-\$300K	1,822	-
\$300K-\$500K	923	-
\$500K-\$1M	478	-
\$1M-\$10M	347	-
> \$10M	42	-
Total	70,777	22,495

*Number of filers w/ an exemption that has a negative effect on their Vermont tax liability.

Comparison of Average Tax Decreases from Exemptions

Graph 2 and Table 2 compare the average tax decrease from social security benefit exemptions of federal conformity with the estimated average decrease of federal conformity plus the governor’s proposed exemption.

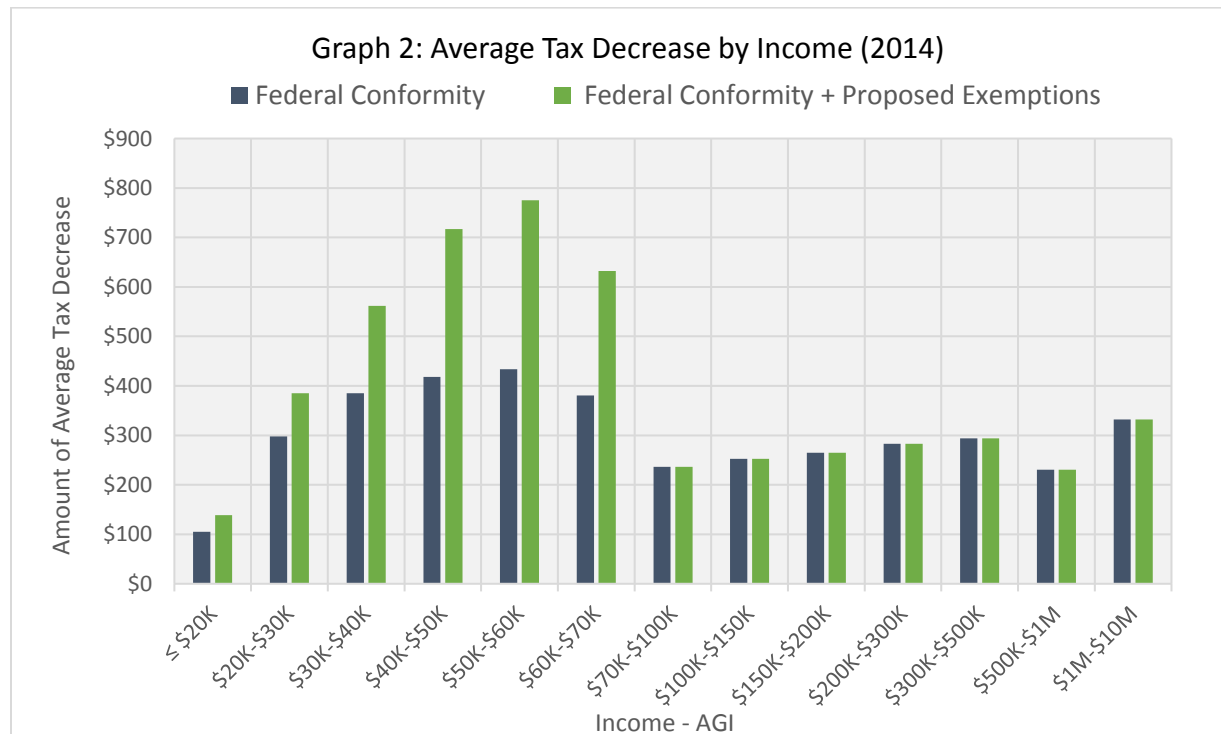


Table 2: Average Tax Decrease from Exemptions		
Income (AGI)	Federal Conformity	Federal Conformity + Proposed Exemptions
≤ \$20K	-\$105	-\$138
\$20K-\$30K	-\$298	-\$385
\$30K-\$40K	-\$385	-\$562
\$40K-\$50K	-\$418	-\$717
\$50K-\$60K	-\$434	-\$775
\$60K-\$70K	-\$380	-\$633
\$70K-\$100K	-\$236	-\$236
\$100K-\$150K	-\$253	-\$253
\$150K-\$200K	-\$265	-\$265
\$200K-\$300K	-\$283	-\$283
\$300K-\$500K	-\$294	-\$294
\$500K-\$1M	-\$231	-\$231
\$1M-\$10M	-\$332	-\$332

Minnesota's Social Security Exemption

Minnesota conforms to the US Internal Revenue Code and exempts those social security benefits that are exempt at the federal level, just as Vermont currently does. For Tax Year 2017, Minnesota's Legislature passed an additional social security exemption that subtracts a flat amount of taxable benefits. That flat amount is:

- \$4,500 for married joint filers.
- \$3,500 for single and heads of households.
- \$2,250 for married filing separate.

That amount is then phased out as follows:

- Between \$77,000-\$99,500 for married joint filers.
- Between \$60,200-\$77,700 for single and heads of households.
- Between \$38,500 and \$49,750 for married separate filers.

In Fiscal Year 2018, this additional exemption is anticipated to cost the State of Minnesota \$57 Million. This figure is roughly 18% of the value of the federal flow-through exemption in Minnesota. This compares to the Governor's proposal, which is roughly 22% of the value of the federal flow-through exemption in Vermont.

For more on Minnesota's treatment of social security benefits read here:

<http://www.house.leg.state.mn.us/hrd/issinfo/sstaxes.aspx>.