

H.911 Decision Points

1) Taking action to offset changes to the Federal tax changes (“giving back” the \$30 million)

- If the committee takes action (avoiding the \$30 million increase), does it take H.911’s route?
 - Decoupling from the Federal code by starting at AGI
 - Create a new Vermont standard deduction and personal exemption
 - Collapsing the top two income tax brackets and lower the rates by 0.2%
 - Expand the Earned Income Tax Credit
 - Create a charitable tax credit or some incentive for charitable giving?
 - Will the charitable credit be capped at a certain amount?
 - Social Security exemption
- If the committee decides to let the \$30 million materialize, do it want to offset the tax impact in any way?
 - Creating the Social Security exemption in H.911
 - Offsetting any of the impact on families through some means
 - Using the money to provide property tax relief

2) Education property tax relief

- Does the committee want to provide property tax relief? If yes:
 - Surcharge in H.911: Raises \$60 million, very progressive
 - Not giving back \$30 million from Federal tax reform, plus any additional money
 - Alternative sources of revenue
- Once the committee has decided how much, if any, money to raise from another source for property tax relief, how should it be allocated to taxpayers?
 - To both homestead and nonresidential taxpayers?
 - Under current law?
 - Or with a modification of the homestead tax rate calculation that increases each district’s marginal cost of increasing per-pupil spending? (cost containment provision)

3) Other education finance reform

- Does the committee want to repeal and replace the current-law GF transfer to the EF on a *revenue-neutral* basis? If yes:
 - Which existing GF revenues should be dedicated to the EF?
 - Which existing EF uses, if any, should be transferred to GF?
- Does the committee want to separate municipal finance and education finance? If yes:

Prepared by the Joint Fiscal Office
April 25, 2018

- Split the current-law circuit breaker into its municipal and education components?
- Require separate billing of the municipal property tax and the statewide education tax (and provide \$200,000 to offset cost to municipalities)?
- Does the committee want to adopt either of the following miscellaneous changes?
 - Lower the housesite value limit for income sensitivity from \$500,000 to \$400,000?
 - Add the normal cost of teachers' pensions to each district's education spending rather than socializing the cost among all districts in the EF?

Overview of Individual Provision Revenue Impacts of H.911

What is the "cost" of individual provisions of H.911? (if a provision was removed, how much revenue would be generated?)	
Provision Removed	Change in Revenues (millions)
Social Security Exemption	\$4.82
Vermont Personal Exemption	\$116.61
Vermont Standard Deduction	\$119.95
Charitable Credit	\$11.77
Expanded EITC	\$2.42
Collapsing Brackets and Lowering Rates	\$34.61
Collapsing Top Two Brackets after lowering rates	\$2.94

Who is affected by each provision?

- Social Security Exemption
 - Mostly taxpayers between \$30,000 and \$70,000 in AGI
 - Exemption is in addition to Federal Exemption for Social Security benefits. Lower income households already pay no tax on their Social Security.
- Vermont Personal Exemption
 - Taxpayers with families and dependents
 - Impacts taxpayers across the income distribution. More so at upper income groups because higher income taxpayers tend to have larger families.
 - Taxpayers below \$20,000 benefit less because they tend to be single taxpayers with no dependent children.
- Vermont Standard Deduction
 - Impacts every taxpayer because every taxpayer would receive the deduction
 - Generally, deductions are worth more, in dollar terms, to higher income taxpayers.
- Charitable Credit
 - If it were removed, it would affect all taxpayers who give to charity.
 - Higher income taxpayers tend to give more, in dollar terms, so they receive the largest dollar benefit of the charitable tax credit.
 - Capping the credit at \$10,000 of contributions largely impacts taxpayers with over \$300,000 in income, and a small number of taxpayers between \$100,000 and \$300,000 in income.
- Collapsing brackets and lowering rates
 - Collapsing the top brackets impacts high income taxpayers over \$191,650 (single) and \$233,300 (married).
 - Lower rates for all brackets benefit all taxpayers.

Detailed Tax Impacts of Each Provision in H.911

Note: All impacts are in isolation. When all provisions of H.911 are included, the overall impact will be different than summing individual provisions.

Charitable Credit

Tax Impact of Removing Charitable Credit from H.911				
AGI Group		Total Tax Impact (in millions)	Percent of Tax Impact	Change in Effective Tax Rate
\$0	\$35,000	\$0.99	8.4%	0.05%
\$35,000	\$40,000	\$0.32	2.7%	0.05%
\$40,000	\$45,000	\$0.34	2.9%	0.06%
\$45,000	\$50,000	\$0.34	2.8%	0.06%
\$50,000	\$60,000	\$0.69	5.9%	0.06%
\$60,000	\$75,000	\$1.04	8.8%	0.06%
\$75,000	\$100,000	\$1.75	14.8%	0.07%
\$100,000	\$125,000	\$1.48	12.6%	0.07%
\$125,000	\$150,000	\$1.06	9.0%	0.07%
\$150,000	\$200,000	\$1.26	10.7%	0.07%
\$200,000	\$300,000	\$1.12	9.5%	0.06%
\$300,000	\$500,000	\$0.73	6.2%	0.06%
\$500,000	\$1,000,000	\$0.41	3.5%	0.04%
\$1,000,000	Infinity	\$0.24	2.0%	0.01%
Total		\$11.77		0.05%

What is the Impact of Credit-Eligible Contributions at \$10,000?				
Federal AGI		Change in Millions	Percent of Total Impact	Percent of 2014 Taxable Returns
\$0	\$100,000	0.2	3%	81.1%
\$100,000	\$200,000	0.8	9%	14.0%
\$200,000	\$300,000	0.5	6%	2.4%
\$300,000	\$500,000	0.8	10%	1.3%
\$500,000	\$1,000,000	1.1	13%	0.7%
\$1,000,000	\$5,000,000	2.1	25%	0.4%
\$5,000,000	\$10,000,000	1.1	14%	0.1%
\$10,000,000	Infinity	1.7	21%	0.0%
Total		8.3		

Social Security Exemption

Tax Impact of Not Lowering Rates and Collapsing Brackets				
AGI Group		Total Tax Impact (in millions)	Percent of Tax Impact	Change in Effective Tax Rate
\$0	\$15,000	\$0.00	0.1%	0.00%
\$15,000	\$20,000	\$0.03	0.7%	0.01%
\$20,000	\$25,000	\$0.14	2.8%	0.03%
\$25,000	\$30,000	\$0.23	4.8%	0.04%
\$30,000	\$40,000	\$0.87	18.0%	0.06%
\$40,000	\$50,000	\$1.48	30.6%	0.11%
\$50,000	\$60,000	\$1.35	27.9%	0.10%
\$60,000	\$70,000	\$0.73	15.1%	0.06%
\$70,000	\$80,000	\$0.00	0.0%	0.00%
\$80,000	\$100,000	\$0.00	0.0%	0.00%
\$100,000	\$200,000	\$0.00	0.0%	0.00%
\$200,000	Infinity	\$0.00	0.0%	0.00%
Totals		\$4.82		0.02%

Collapsing Top Two Brackets and Lowering Rates

Tax Impact of Not Collapsing Brackets and Lowering Rates 0.2%				
AGI Group		Total Tax Impact (in millions)	Percent of Tax Impact	Change in Effective Tax Rate
\$0	\$35,000	\$1.62	4.7%	0.08%
\$35,000	\$40,000	\$0.66	1.9%	0.11%
\$40,000	\$45,000	\$0.71	2.1%	0.12%
\$45,000	\$50,000	\$0.72	2.1%	0.12%
\$50,000	\$60,000	\$1.46	4.2%	0.13%
\$60,000	\$75,000	\$2.28	6.6%	0.14%
\$75,000	\$100,000	\$3.91	11.3%	0.15%
\$100,000	\$125,000	\$3.53	10.2%	0.15%
\$125,000	\$150,000	\$2.59	7.5%	0.16%
\$150,000	\$200,000	\$3.16	9.1%	0.16%
\$200,000	\$300,000	\$3.05	8.8%	0.17%
\$300,000	\$500,000	\$2.34	6.8%	0.18%
\$500,000	\$1,000,000	\$2.34	6.8%	0.23%
\$1,000,000	Infinity	\$6.23	18.0%	0.21%
Total		\$34.61		0.16%

Collapsing Top Brackets (after lowering rates)

Tax Impact of Collapsing Brackets after Lowering Rates				
AGI Group		Total Tax Impact (in millions)	Percent of Tax Impact	Change in Effective Tax Rate
\$0	\$75,000	\$0.00	0.1%	0.00%
\$75,000	\$100,000	\$0.00	0.0%	0.00%
\$100,000	\$150,000	\$0.00	0.0%	0.00%
\$150,000	\$200,000	\$0.00	0.0%	0.00%
\$200,000	\$250,000	\$0.00	0.0%	0.00%
\$250,000	\$300,000	\$0.00	0.1%	0.00%
\$300,000	\$350,000	\$0.01	0.2%	0.00%
\$350,000	\$400,000	\$0.00	0.1%	0.00%
\$400,000	\$500,000	\$0.02	0.7%	0.00%
\$500,000	\$1,000,000	\$0.47	16.1%	0.05%
\$1,000,000 Infinity		\$2.43	82.7%	0.08%
Totals		\$2.94		0.01%

Expanding the EITC

Tax Impact of the Earned Income Tax Credit Expansion				
AGI Group		Total Tax Impact (in millions)	Percent of Tax Impact	Change in Effective Tax Rate
\$0	\$10,000	\$0.28	11.5%	-0.24%
\$10,000	\$15,000	\$0.38	15.8%	0.16%
\$15,000	\$20,000	\$0.44	18.2%	0.14%
\$20,000	\$25,000	\$0.41	16.9%	0.10%
\$25,000	\$30,000	\$0.35	14.5%	0.07%
\$30,000	\$35,000	\$0.25	10.5%	0.05%
\$35,000	\$40,000	\$0.16	6.8%	0.03%
\$40,000	\$50,000	\$0.13	5.2%	0.01%
\$50,000	\$75,000	\$0.01	0.6%	0.00%
\$75,000	\$100,000	\$0.00	0.0%	0.00%
\$100,000	\$300,000	\$0.00	0.0%	0.00%
\$300,000 Infinity		\$0.00	0.0%	0.00%
Totals		\$2.43		0.01%

Example Income Tax Changes in H.911: Income Tax Changes Only

Example 1: Single Filer, \$31,000 in income, 1 child			
	Pre-TCJA	Post-TCJA	H.911
Income	\$31,000	\$31,000	\$31,000
Standard Deduction	\$6,350	\$12,000	\$6,000
Personal Exemptions	\$8,100	\$0	\$8,300
Itemized Deductions (what carries through to VT) of which: Charitable Contributions	N/A	N/A	N/A
Taxable Income	\$16,550	\$19,000	\$16,700
Tax before Credits	\$588	\$675	\$559
EIC Federal	\$1,373	\$1,373	\$1,373
Vermont EIC	\$439	\$439	\$481
Charitable Giving Credit	\$0	\$0	\$0
Total Vermont tax liability	\$148	\$235	\$79
Effective Tax Rate	0.48%	0.76%	0.25%

Green denotes new Vermont Standard Deduction and new Vermont Personal Exemptions
 TCJA: Tax Cuts and Jobs Act. This is Federal Tax Reform changes. This occurs if Vermont does not change its tax code

Example 2: Married Filer, \$90,000, 3 children			
	Pre TCJA	Post-TCJA	H.911
Income	\$90,000	\$90,000	\$90,000
Standard Deduction	N/A	\$24,000	\$12,000
Personal Exemptions	\$20,250	N/A	\$20,750
Itemized Deductions (what carries through to VT) of which: Charitable Contributions	\$15,000	N/A	N/A
Taxable Income	\$54,750	\$66,000	\$57,250
Tax before Credits	\$1,944	\$2,431	\$1,918
EIC Federal	\$0	\$0	\$0
Vermont EIC	\$0	\$0	\$0
Charitable Giving Credit	N/A	N/A	\$10
Total Vermont tax liability	\$1,944	\$2,431	\$1,908
Effective Tax Rate	2.16%	2.70%	2.12%

Green denotes new Vermont Standard Deduction and new Vermont Personal Exemptions
 TCJA: Tax Cuts and Jobs Act. This is Federal Tax Reform changes. This occurs if Vermont does not change its tax code

Example 3: Married Filer, \$300,000, 2 children			
	Pre TCJA	Post-TCJA	H.911
Income	\$300,000	\$300,000	\$300,000
Standard Deduction	N/A	N/A	\$12,000
Personal Exemptions	\$16,200	N/A	\$16,600
Itemized Deductions (what carries through to VT) of which: Charitable Contributions	\$40,000	\$25,000	N/A
Taxable Income	\$243,800	\$275,000	\$271,400
Tax before Credits	\$15,533	\$17,962	\$17,495
EIC Federal	\$0	\$0	\$0
Vermont EIC	\$0	\$0	\$0
Charitable Giving Credit	N/A	N/A	\$250
Total Vermont tax liability	\$15,533	\$17,962	\$17,245
Effective Tax Rate	5.18%	5.99%	5.75%

Green denotes new Vermont Standard Deduction and new Vermont Personal Exemptions
 TCJA: Tax Cuts and Jobs Act. This is Federal Tax Reform changes. This occurs if Vermont does not change its tax code

Example 4: Married Filer, \$70,000, no children, retired on Social Security			
	Pre TCJA	Post-TCJA	H.911
Income	\$70,000	\$70,000	\$70,000
of which: Taxable Social Security Benefits ^a	\$11,100	\$11,100	\$11,100
Standard Deduction	\$12,700	\$24,000	\$12,000
Personal Exemptions	\$8,100	N/A	\$8,300
Itemized Deductions (what carries through to VT) of which: Charitable Contributions	N/A	N/A	N/A
Taxable Income	\$49,200	\$46,000	\$38,600
Tax before Credits	\$1,747	\$1,633	\$1,293
EIC Federal	\$0	\$0	\$0
Vermont EIC	\$0	\$0	\$0
Charitable Giving Credit	N/A	N/A	\$13
Total Vermont tax liability	\$1,747	\$1,633	\$1,281
Effective Tax Rate	2.50%	2.33%	1.83%

Green denotes new Vermont Standard Deduction and new Vermont Personal Exemptions
 TCJA: Tax Cuts and Jobs Act. This is Federal Tax Reform changes. This occurs if Vermont does not change its tax code

^a \$11,100 in taxable Social Security benefits equates to \$40,000 in total Social Security income

Estimated Impacts of H.911: Income Tax Changes Only

Summary of Income Tax Impacts: H.911 ***Relative to 2017 Vermont Tax Law*** (Note: All estimates are on a calendar year basis)					
AGI Bracket	Total Tax Change of H.911 (In Millions of Dollars)	Average Change in Taxes from H.911 From Income Tax Changes Only	Change in Effective Tax Rate from H.911		Percent of 2014 Taxable Returns
\$0 \$5,000	-\$0.05	-\$11.45	-0.10%		1.8%
\$5,000 \$10,000	-\$0.15	-\$11.58	-0.09%		2.7%
\$10,000 \$15,000	-\$0.31	-\$18.21	-0.11%		5.0%
\$15,000 \$20,000	-\$0.42	-\$24.09	-0.12%		6.9%
\$20,000 \$25,000	-\$0.54	-\$28.80	-0.12%		6.7%
\$25,000 \$30,000	-\$0.70	-\$36.67	-0.12%		6.9%
\$30,000 \$35,000	-\$0.83	-\$44.15	-0.13%		6.7%
\$35,000 \$40,000	-\$0.97	-\$52.66	-0.14%		5.9%
\$40,000 \$45,000	-\$1.05	-\$62.08	-0.15%		5.1%
\$45,000 \$50,000	-\$1.04	-\$70.42	-0.15%		4.5%
\$50,000 \$60,000	-\$1.36	-\$51.56	-0.09%		7.7%
\$60,000 \$75,000	-\$0.72	-\$22.17	-0.03%		9.2%
\$75,000 \$100,000	-\$0.18	-\$5.40	-0.01%		11.4%
\$100,000 \$125,000	\$0.96	\$42.65	0.03%		6.8%
\$125,000 \$150,000	\$1.10	\$83.08	0.06%		3.8%
\$150,000 \$200,000	\$1.58	\$124.35	0.07%		3.6%
\$200,000 \$300,000	\$2.51	\$288.80	0.10%		2.5%
\$300,000 Infinity	\$2.27	\$268.61	0.00%		2.7%
Totals	\$0.09	\$2.99	0.00%		100%

Note: Estimates are based upon 2014 tax year data