TO THE HONORABLE SENATE:

The Committee on Finance to which was referred House Bill No. 911 entitled “An act relating to changes in Vermont’s personal income tax and education financing system” respectfully reports that it has considered the same and recommends that the Senate propose to the House that the bill be amended by striking out all after the enacting clause and inserting in lieu thereof the following:

*** Personal Income Tax Changes ***

*** Taxable Income ***

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

§ 5811. DEFINITIONS

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(21) “Taxable income” means, in the case of an individual, federal adjusted gross income determined without regard to 26 U.S.C. § 168(k) and:

***

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

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

(ii) with respect to adjusted net capital gain income as defined in 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend income: either the first $5,000.00 of such adjusted net capital gain income; or
40 percent of adjusted net capital gain income from the sale of assets held by
the taxpayer for more than three years, except not adjusted net capital gain
income from:

(I) the sale of any real estate or portion of real estate used by
the taxpayer as a primary or nonprimary residence; or

(II) the sale of depreciable personal property other than farm
property and standing timber; or stocks or bonds publicly traded or traded on
an exchange, or any other financial instruments; regardless of whether sold by
an individual or business; and provided that the total amount of decrease under
this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable
income; and

(iii) recapture of State and local income tax deductions not taken
against Vermont income tax; and

(iv) the portion of federally taxable benefits received under the
federal Social Security Act that is required to be excluded under section 5830e
of this chapter; and

(C) Decreased by the following exemptions and deductions:

(i) the amount of personal exemptions taken at the federal level a
personal exemption of $4,150.00 per person for the taxpayer, for the spouse or
the deceased spouse of the taxpayer whose filing status under section 5822 of
this chapter is married filing a joint return or surviving spouse, and for each
individual qualifying as a dependent of the taxpayer under 26 U.S.C. § 152,
provided that no exemption may be claimed for an individual who is a
dependent of another taxpayer;

(ii) for taxpayers who do not itemize at the federal level, the
amount of the a standard deduction taken at the federal level determined as
follows:

(I) for taxpayers whose filing status under section 5822 of
this chapter is unmarried (other than surviving spouses or heads of households)
or married filing separate returns, $6,000.00;

(II) for taxpayers whose filing status under section 5822 of
this chapter is head of household, $9,000.00;

(III) for taxpayers whose filing status under section 5822 of
this chapter is married filing joint return or surviving spouse, $12,000; and

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

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

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

(III) in no event shall the total amount of deductions allowed
under subdivisions (I) and (II) of this subdivision (21)(C)(iii) reduce the total
amount of itemized deductions below the federal standard deduction allowable
to the taxpayer an additional deduction of $1,000.00 for each federal deduction
for which the taxpayer qualified and received under 26 U.S.C. § 63(f); and

(iv) the dollar amounts of the personal exemption allowed under
subdivision (i) of this subdivision (21)(C), the standard deduction allowed
under subdivision (ii) of this subdivision (21)(C), and the additional deduction
allowed under subdivision (iii) of this subdivision (21)(C) shall be adjusted
annually for inflation by the Commissioner of Taxes by using the percentage
increase in the Consumer Price Index beginning with taxable year 2019 and
ending with the taxable year in question. As used in this subdivision,
“consumer price index” means the last Consumer Price Index for All Urban
Consumers published by the U.S. Department of Labor.

* * *

* * * Personal Income Tax Rates * * *

Sec. 2. PERSONAL INCOME TAX RATES

(a) 2009 Spec. Sess. Acts and Resolves No. 2, Sec. 20 is repealed.
(b) For taxable year 2018 and after, income tax rates under 32 V.S.A. § 5822(a)(1)-(5), after taking into consideration any inflation adjustments to taxable income as required by 32 V.S.A. § 5822(b)(2), shall be as follows:

(1) taxable income that without the passage of this act would have been subject to a rate of 3.55 percent shall be taxed at the rate of 3.35 percent instead;

(2) taxable income that without the passage of this act would have been subject to a rate of 6.80 percent shall be taxed at the rate of 6.60 percent instead;

(3) taxable income that without the passage of this act would have been subject to a rate of 7.80 percent shall be taxed at the rate of 7.60 percent instead;

(4) taxable income that without the passage of this act would have been subject to a rate of 8.80 percent or 8.95 percent shall be taxed at the rate of 8.60 percent instead; the tax brackets for taxable income taxed at 8.80 percent and 8.95 percent in taxable year 2017 shall be combined to be taxed at a rate of 8.60 for taxable year 2018 and after.

(c) When preparing the Vermont Statutes Annotated for publication, the Office of Legislative Council shall revise the tables in 32 V.S.A. § 5822(a)(1)-(5) to reflect the changes to the tax rates and tax brackets made in this section.
Sec. 3. 32 V.S.A. § 5822 is amended to read:

§ 5822. TAX ON INCOME OF INDIVIDUALS, ESTATES, AND TRUSTS

(a) A tax is imposed for each taxable year upon the taxable income earned or received in that year by every individual, estate, and trust, subject to income taxation under the laws of the United States, in an amount determined by the following tables, and adjusted as required under this section:

(b) As used in this section:

(1) “Married individuals,” “surviving spouse,” “head of household,” “unmarried individual,” “estate,” and “trust” have the same meaning as under the Internal Revenue Code.

(2) The amounts of taxable income shown in the tables in this section shall be adjusted annually for inflation by the Commissioner of Taxes; using the Consumer Price Index adjustment percentage, in the manner prescribed for inflation adjustment of federal income tax tables for the taxable year by the Commissioner of Internal Revenue, beginning with taxable year 2003 percentage increase in the Consumer Price Index beginning with taxable year 2019 and ending with the taxable year in question. As used in this subdivision,
“consumer price index” means the last Consumer Price Index for All Urban
Consumers published by the U.S. Department of Labor.

* * *

(d)(1) A taxpayer shall be entitled to a credit against the tax imposed under
this section of 24 percent of each of the credits allowed against the taxpayer’s
federal income tax for the taxable year as follows: credit for people who are
elderly or permanently totally disabled, investment tax credit attributable to the
Vermont-property portion of the investment, and child care and dependent care
credits.

* * *

(3) Individuals shall receive a nonrefundable charitable contribution
credit against the tax imposed under this section for the taxable year. The
credit shall be five percent of the first $10,000.00 in charitable contributions
made during the taxable year that are allowable under 26 U.S.C. § 170. This
credit shall be available irrespective of a taxpayer’s election not to itemize at
the federal level.

* * *

Sec. 4. 32 V.S.A. § 5828b(a) is amended to read:

(a) A resident individual or part-year resident individual who is entitled to
an earned income tax credit granted under the laws of the United States shall
be entitled to a credit against the tax imposed for each year by section 5822 of
this title. The credit shall be \( \frac{32}{35} \) percent of the earned income tax credit granted to the individual under the laws of the United States, multiplied by the percentage which the individual’s earned income that is earned or received during the period of the individual’s residency in this State bears to the individual’s total earned income.

Sec. 5. 32 V.S.A. § 5830e is added to read:

§ 5830e. SOCIAL SECURITY INCOME

The portion of federally taxable Social Security benefits excluded from taxable income under subdivision 5811(21)(B)(iv) of this chapter shall be as follows:

(1) For taxpayers whose filing status is single, married filing separately, head of household, or qualifying widow or widower:

(A) If the federal adjusted gross income of the taxpayer is less than or equal to $45,000.00, all federally taxable benefits received under the federal Social Security Act shall be excluded.

(B) If the federal adjusted gross income of the taxpayer is greater than $45,000.00 but less than $55,000.00, the percentage of federally taxable benefits received under the Social Security Act to be excluded shall be proportional to the amount of the taxpayer’s federal adjusted gross income over $45,000.00, determined by:
(i) subtracting the federal adjusted gross income of the taxpayer from $55,000.00;
(ii) dividing the value under subdivision (i) of this subdivision (B) by $10,000.00; and
(iii) multiplying the value under subdivision (ii) of this subdivision (B) by the federally taxable benefits received under the Social Security Act.

(C) If the federal adjusted gross income of the taxpayer is equal to or greater than $55,000.00, no amount of the federally taxable benefits received under the Social Security Act shall be excluded under this section.

(2) For taxpayers whose filing status is married filing jointly:

(A) If the federal adjusted gross income of the taxpayer is less than or equal to $60,000.00, all federally taxable benefits received under the Social Security Act shall be excluded.

(B) If the federal adjusted gross income of the taxpayer is greater than $60,000.00 but less than $70,000.00, the percentage of federally taxable benefits received under the Social Security Act to be excluded shall be proportional to the amount of the taxpayer’s federal adjusted gross income over $60,000.00, determined by:

(i) subtracting the federal adjusted gross income of the taxpayer from $70,000.00:
(ii) dividing the value under subdivision (i) of this subdivision (B) by $10,000.00; and

(iii) multiplying the value under subdivision (ii) of this subdivision (B) by the federally taxable benefits received under the Social Security Act.

(C) If the federal adjusted gross income of the taxpayer is equal to or greater than $70,000.00, no amount of the federally taxable benefits received under the Social Security Act shall be excluded under this section.

Sec. 6. 32 V.S.A. § 5813 is amended to read:

§ 5813. STATUTORY PURPOSES

* * *

(w) The statutory purpose of the partial exemption of federally taxable benefits under the Social Security Act in section 5830e of this title is to lessen the tax burden on Vermonters with low to moderate income who derive part of their income from Social Security payments.

Sec. 7. 32 V.S.A. § 5824 is amended to read:

§ 5824. ADOPTION OF FEDERAL INCOME TAX LAWS

The statutes of the United States relating to the federal income tax, as in effect for taxable year 2016, but without regard to federal income tax rates under 26 U.S.C. § 1, are hereby adopted for the purpose of computing the tax liability under this chapter.
* * * Education Financing Changes * * *

* * * Yield, Applicable Percentage and Nonresidential Rate for Fiscal Year 2019 * * *

Sec. 8. PROPERTY DOLLAR EQUIVALENT YIELD AND INCOME DOLLAR EQUIVALENT YIELD FOR FISCAL YEAR 2019

(a) Pursuant to 32 V.S.A. § 5402b(b), for fiscal year 2019 only, the property dollar equivalent yield shall be $XXX.

(b) Pursuant to 32 V.S.A. § 5402b(b), for fiscal year 2019 only, the income dollar equivalent yield shall be $XXX.

Sec. 9. NONRESIDENTIAL PROPERTY TAX RATE FOR FISCAL YEAR 2019

Notwithstanding any other provision of law, for fiscal year 2019 only, the nonresidential education property tax imposed under 32 V.S.A. § 5402(a)(2) shall be $XXX per $100.00.

Sec. 10. 32 V.S.A. § 5402b(a)(4) is amended to read:

(4) the percentage change in the median average education tax bill applied to nonresidential property, and the percentage change in the median average education tax bill of homestead property, and the percentage change in the median average education tax bill for taxpayers who claim an adjustment under subsection 6066(a) of this title are equal.
Sec. 11. EFFECTIVE DATES AND TRANSITION

(a) This section shall take effect on passage.

(b) Notwithstanding 1 V.S.A. § 214, Secs. 1-6 (income tax changes) shall take effect retroactively on January 1, 2018 and apply to taxable year 2018 and after.

(c) Notwithstanding 1 V.S.A. § 214, Sec. 7 (income tax link to the IRC) shall take effect retroactively on January 1, 2017 and apply to taxable years beginning on January 1, 2017 and after.

(d) Secs. 8-9 (yields; nonresidential rate) shall take effect on July 1, 2018 and apply to fiscal year 2019 only.

(e) Sec. 10 (Commissioner’s recommendation) shall take effect on July 1, 2018.

17 (Committee vote: ____________)

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Senator _________________

FOR THE COMMITTEE