

Vermont Income Taxes: Before and After Proposed Changes

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Anatomy of a tax

$$\text{Tax Base (x) Rate} = \text{Liability (minus credits)}$$

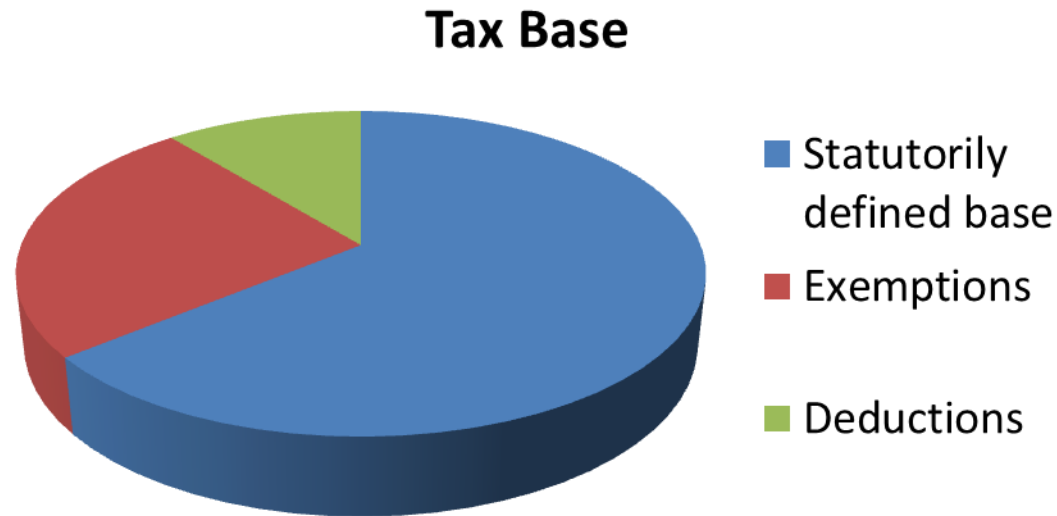
The bigger the base, the lower the rate

The higher the rate, the smaller the base

Calculating the Tax Base

Tax Base

- A **tax base** is defined by what is included by the statutory language, minus any **exemptions** and **deductions**.



Exemptions

- An **exemption** is a systemic exclusion from the tax, and is usually limited to a particular group of taxpayers. For example, Vermont has a property tax, but most libraries are statutorily exempt from the paying the tax, even if their property would otherwise be taxable.
- An exemption can be a **full exemption** or a **partial exemption**. Full exemptions obviously cost more, while partial exemptions require more compliance work by the taxpayer and the Department of Taxes.

Deductions

A *deduction* is an amount that an individual taxpayer is permitted to subtract from his or her tax base, which typically has the effect of reducing his or her liability.

BASE (x) RATE = LIABILITY

(deduction)



base

Vermont/Federal Links: Personal Income Taxes

(based on Tax Year 2017)

Federal Tax Return
(Form 1040)

Gross Income

Wages, salaries, dividends, capital gains,
IRA/Pensions, business income

minus

“Above the line” Deductions

Examples include: teacher expenses,
student loan interest, tuition and fees

equals

Adjusted Gross Income
(AGI)

Vermont/Federal Links: 2017 Tax Year

Federal Form 1040

Adjusted Gross Income

minus

Standard Deduction

\$6,350 for single filer,
\$12,700 for married filer

OR

Itemized Deductions

Examples: Medical and dental expenses, **charitable contributions**, state and local income and property taxes, home mortgage interest

minus

Personal Exemptions

\$4,050 for you, your spouse, and any dependents

equals

Federal Taxable Income (FTI)

Vermont/Federal Links: 2017 Tax Year

Federal Return

Adjusted Gross Income

minus

Standard Deduction

OR

Itemized Deductions

minus

Personal Exemptions

plus

Additions

Examples: State and local income taxes, itemized deductions above 2.5x the standard deduction, interest from non-Vermont obligations, bonus depreciation

minus

Subtractions

Examples include: Interest income from U.S. government bonds, a portion of capital gains

equals

Vermont Taxable Income (VTI)

Vermont-specific
changes

Vermont/Federal Links: If no legislation is enacted

Federal Return

Adjusted Gross Income

minus

Standard Deduction

-doubled: \$12,000 for single filers, \$24,000 for married couples

OR

Itemized Deductions

-State and Local income and property taxes capped at \$10,000
-Charitable deduction cap increased

minus

Personal Exemptions

plus

Additions

Examples: State and local income taxes, itemized deductions above 2.5x the standard deduction, interest from non-Vermont obligations, bonus depreciation

minus

Subtractions

Examples include: Interest income from U.S. government bonds, a portion of capital gains

equals

Vermont Taxable Income (VTI)

Vermont-specific changes

H.911/Administration Proposal

Federal
Return

Adjusted Gross Income

minus

VT Standard Deduction

-\$6000 (singles), \$12,000 (married)

minus

VT Personal Exemptions

-\$4000 in Admin proposal, \$4150 in H.911

plus

Additions

Examples: ~~State and local income taxes, itemized deductions above 2.5x the standard deduction,~~
interest from non-Vermont obligations, bonus depreciation (in H.911)

minus

Subtractions

Examples include: Interest income from U.S. government bonds, a portion of capital gains
~~-Social Security Exemption~~

equals

Vermont Taxable Income (VTI)

Vermont-specific
changes

Calculating Tax Liability

How to calculate tax liability

Vermont Taxable Income (VTI)

Multiplied by

Income tax rates at various brackets
of income

2017 law

Married, Joint Filers		
If VT Taxable Income is over	But Not Over	Tax Rate income in this range
0	63,300	3.55%
63,300	153,100	6.80%
153,100	233,300	7.80%
233,300	416,650	8.80%
416,650	-	8.95%

Admin. Proposal

Married, Joint Filers		
If VT Taxable Income is over	But Not Over	Tax Rate income in this range
0	63,300	3.35%
63,300	153,100	6.60%
153,100	233,300	7.60%
233,300	416,650	8.60%
416,650	-	8.75%

H.911

Married, Joint Filers		
If VT Taxable Income is over	But Not Over	Tax Rate income in this range
0	63,300	3.35%
63,300	153,100	6.60%
153,100	233,300	7.60%
233,300	-	8.60%

Equals

Initial Vermont Tax Liability (Before Credits)

How to calculate final tax liability

Initial Vermont Tax Liability (Before Credits)

minus

Non-Refundable Credits

Examples: Credit for child and dependent care expenses, credit for elderly and disabled, investment tax credit

-H.911 and Admin Proposal: Charitable Tax Credit

minus

Refundable Credits

Earned Income Tax Credit

-Expanded from 32% to 35% of Federal EITC in H.911 and Admin Proposal

Equals

Final Vermont Tax Liability (or Refund)

Summary of Changes

Initial Tax Base

Adjusted Gross Income

No statutory change in either H.911 or Admin Proposal

minus

Deductions and Exemptions

- Currently, these are linked to Federal Standard Deduction and Federal Personal Exemptions
- H.911 and Admin proposal would decouple us from this system. Creates a new VT personal exemption and standard deduction
- H.911 and Admin proposal no longer allows choice between standard deduction and itemizing. Everyone takes the VT standard deduction
- H.911 and Admin create an exemption for Social Security Income

Equals

Vermont Taxable Income (VTI)

- VTI is higher in H.911 and Admin proposal because of the changing of deductions.
 - Carrying through itemized deductions no longer an option

Multiplied by

Vermont tax rates

- H.911 collapses the top two income tax brackets and lowers the rates by 0.2% each
- Admin proposal lowers the rates by 0.2% each

minus

Vermont tax credits

- Both H.911 and Admin proposal create a new non-refundable credit for charitable giving, equal to 5% of contributions
 - H.911 caps the credit at \$500, or \$10,000 of contributions
- Both H.911 and Admin proposal expand the VT EITC from 32% of the Federal EITC to 35%

Equals

Final Vermont Tax Liability