Vermont Income Taxes: Before and After Proposed Changes

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Joint Fiscal Office
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Anatomy of a tax

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

The bigger the base, the lower the rate
The higher the rate, the smaller the base
Calculating the Tax Base
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.

\[
\text{BASE} \times \text{RATE} = \text{LIABILITY}
\]

(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

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

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/Federal Links:
If no legislation is enacted

Adjusted Gross Income

- 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

Personal Exemptions

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

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

equals

Vermont Taxable Income (VTI)
Federal Return

Adjusted Gross Income

\[ \text{minus} \]

VT Standard Deduction
- $6000 (singles), $12,000 (married)

\[ \text{minus} \]

VT Personal Exemptions
- $4000 in Admin proposal, $4150 in H.911

\[ \text{plus} \]

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)

\[ \text{minus} \]

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

-Social Security Exemption

equals

Vermont Taxable Income (VTI)
Calculating Tax Liability
How to calculate tax liability

Vermont Taxable Income (VTI) Multiplied by
Income tax rates at various brackets of income

<table>
<thead>
<tr>
<th>VT Taxable Income is over</th>
<th>But Not Over</th>
<th>Tax Rate income in this range</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>63,300</td>
<td>3.55%</td>
</tr>
<tr>
<td>63,300</td>
<td>153,100</td>
<td>6.80%</td>
</tr>
<tr>
<td>153,100</td>
<td>233,300</td>
<td>7.80%</td>
</tr>
<tr>
<td>233,300</td>
<td>416,650</td>
<td>8.80%</td>
</tr>
<tr>
<td>416,650</td>
<td>-</td>
<td>8.95%</td>
</tr>
</tbody>
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2017 law

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</tr>
<tr>
<td>233,300</td>
<td>416,650</td>
<td>8.60%</td>
</tr>
<tr>
<td>416,650</td>
<td>-</td>
<td>8.75%</td>
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Admin. Proposal

<table>
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H.911

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</tr>
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<td>416,650</td>
<td>-</td>
<td>8.60%</td>
</tr>
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Equals

Initial Vermont Tax Liabilty (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

<table>
<thead>
<tr>
<th>Initial Tax Base</th>
<th>Adjusted Gross Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>minus</td>
<td>No statutory change in either H.911 or Admin Proposal</td>
</tr>
<tr>
<td>Deductions and Exemptions</td>
<td></td>
</tr>
<tr>
<td>Equals</td>
<td></td>
</tr>
</tbody>
</table>

Vermont Taxable Income (VTI) | Multiplied by |
<table>
<thead>
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<th></th>
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</tr>
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<tbody>
<tr>
<td>Vermont tax rates</td>
<td>Vermont tax rates</td>
</tr>
<tr>
<td>minus</td>
<td>minus</td>
</tr>
<tr>
<td>Vermont tax credits</td>
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Final Vermont Tax Liability