

# Vermont Legislative Joint Fiscal Office

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## **Background and Preliminary Estimate: S.200**

### **S.200: An act relating to the phased-in exemption from State income taxation of Social Security payments for certain taxpayers**

**Brief description of bill:** Taxpayers with federal adjusted gross income (AGI) of less than \$60,000 would receive a progressive 10% exemption of their taxable social security benefits for taxable years 2018 to 2027. In other words, in taxable year 2018, a Vermonter's taxable income would be reduced by 10% of their taxable Social Security benefits. In 2019, it would be reduced by 20%. By 2027 and thereafter, the exemption would be 100%. Throughout the phase-in of the exemption, the \$60,000 AGI threshold does not change.

#### **Background:**

At the Federal level, a certain amount of Social Security benefits are exempt from taxation, based on certain income thresholds. To determine their income for exemption purposes, taxpayers sum their income from other sources (wages, self-employment, interest and dividends) plus 1/2 of their social security benefits.

**Federal Taxation of Social Security Benefits**

Combined Income		% of Social Security Benefits exempt
Single	Married Filing Joint	
< \$25,000	< \$32,000	All 100% Exempt
\$25,001 - \$34,000	\$32,001 - \$44,000	Up to 50% Exempt
\$34,001 and over	\$44,001 and over	At least 15% exempt and up to 50% exempt

Source: Social Security Administration (<https://www.ssa.gov/planners/taxes.html>)

Federally taxed social security benefits (in other words, the amount that results after the above exemption) are included in Vermont's taxable income base.

37 states do not apply their income tax rates to taxable social security benefits. 13 states, including Vermont, tax a portion of the benefit based upon age or income level. Under current law, Vermont only allows the federal exemption (the above table). The remaining benefits after the federal exemption are taxed at Vermont income tax rates.

Tax Treatment of Social Security Benefits	State
No State Income Tax (9)	Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming (Note NH and TN tax interest and dividend income)
Social Security Benefits Exempt (28 and DC)	Alabama, Arizona, Arkansas, California, Delaware, DC, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Virginia, and Wisconsin
Same as Federal (5) based on income level	Minnesota, New Mexico, North Dakota, Vermont and West Virginia
Partial Exemption (8) based on income level or age	Colorado, Connecticut, Kansas, Missouri, Montana, Nebraska, Rhode Island, and Utah

Just over 20,300 tax returns in tax year 2014 had some amount of taxable social security benefits and adjusted gross income of less than \$60,000.

**JFO Preliminary Estimate**

Based upon estimates from the Chainbridge Tax Model and data from the Social Security Administration, JFO estimates the following impact to personal income tax revenues.

<b>Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
<b>Estimate (in millions)</b>	-0.6 to -0.75	-1.2 to -1.5	-1.9 to -2.1	-2.4 to -2.6	-3.0 to -3.3	-3.6 to -4.0	-4.2 to -4.8	-4.8 to -5.6	-5.5 to -6.4	-6.0 to -7.23