

FEDERAL COVID-19 BILLS AND IMPACTS ON VERMONT TAXES

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House Ways and Means Committee
Graham Campbell, Senior Fiscal Analyst
Vermont Legislative Joint Fiscal Office



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H.R. 6201: Families First Coronavirus Response Act

- Broadly, the tax provisions of the bill relate to employers providing paid sick or family leave.
 - *Provides a 100% tax credit equal to 100% of the qualified paid sick or family leave wages paid by an employer for each calendar quarter.*
 - *The credit is refundable for self-employed individuals. It is non-refundable for everyone else.*
 - *The tax credit is applied to the employer portion of Social Security taxes.*
- Limitations
 - *\$511 per day for sick wages and \$200 per day for family leave.*
 - *Limited to \$10,000 in credits.*
 - *Not more than 10 days*
- Only in effect until December 31, 2020

H.R. 6201: Families First Coronavirus Response Act

- How does this affect Vermont corporate or personal income taxes?
 - *Any credits received by the employer will need to be included in gross income.*
 - *Vermont taxable income starts with either AGI (Personal) or Federal taxable income (Corporate)*
 - **If Vermont links up to Federal 2020 tax law, any business that made use of these credits will pay Vermont income taxes on them.**

HR 748: The CARES Act

- **Early withdrawals from retirement accounts without penalty**
 - *Up to \$100,000 may be disbursed from a retirement account without paying the usual 10% tax penalty.*
 - *To be eligible, you or your spouse must have been diagnosed with COVID-19 or faced some sort of financial hardship because of the virus such as being furloughed, laid off, or quarantined.*
 - *Any withdrawal is counted as taxable income but the amount withdrawn can be prorated over three years.*
 - *Individuals can then repay the amount back without penalty or tax consequences.*
 - o *All minimum distribution retirement rules are waived for 2020.*

- **This would affect Vermont because we piggyback on the Federal penalty**
 - Our penalty is 24% of the Federal penalty
 - Absent any legislative action, Vermont will, indirectly, adopt this.
 - 24% penalty of zero is zero.
 - Any withdrawal would be considered taxable income in Vermont

HR 748: The CARES Act

- **Temporary above the line charitable deduction**
 - *Individuals can now take a pre-AGI deduction not totally more than \$300 for any charitable contributions made*
 - *This deduction can not be taken if the taxpayer itemizes their charitable contributions*
 - *Some additional limits on charitable giving have also been suspended for TY2020 (such as the limit that the contributions not exceed 50% of taxable income).*
- **This would affect Vermont personal income taxes because Vermont taxable income begins with Adjusted Gross Income (AGI)**
 - Taxpayers in Vermont could hypothetically be “double dipping,” receiving our Charitable Tax Credit plus the \$300 deduction

HR 748: The CARES Act

■ Payroll Protection Program (PPP)

- Generally, SBA-backed loans to businesses to assist them with expenses for up to eight weeks. All types of businesses qualify.
- 75% of loan must be used to fund payroll and employee benefit costs
 - Payroll expenses are capped at \$100,000 per employee
- If these guidelines are followed, then the loan is forgiven, effectively becoming a grant.
- At the Federal level, if a loan is forgiven, the money is nontaxable income

■ Potential issues for Vermont

- Depending on how Vermont decides to link-up, it is possible a forgiven loan may become taxable income in Vermont
- Deductibility of PPP-related expenses: IRS has said these are not deductible

HR 748: The CARES Act

■ Economic Impact Payments (Stimulus Checks)

- *Individuals and families will be receiving rebates from the Federal government*
 - \$1,200 for an individual, \$2400 for a married couple plus \$500 for each child.
 - Phases out after income is greater than \$75,000 for an individual and \$150,000 for a married couple. Phase-out \$5 for every \$100 after those thresholds.
- Individuals with AGI greater than \$75,000 and couples with greater than \$150,000 will receive no rebate.
- Payment is considered an “advanced refund” tax credit. To be paid out as soon as possible by the Treasury. Therefore, not taxable income federally.

■ Is this taxable in Vermont?

- Does not appear to be. Vermont does not tax federal refund payments. Stimulus checks are considered “advanced refunds.”

HR 748: The CARES Act

- **Deductibility of Business Interest**

- Prior to the Tax Cuts and Jobs Act, businesses were able to deduct most of the interest expense of borrowing. That was limited by TCJA to no more than 30% of taxable income.
- CARES Act relaxed that threshold by making the limitation 50% of taxable income.

- **This would affect Vermont because business deductibility is part of total income, which flows to Vermont taxable income.**

- The magnitude of this change is somewhat uncertain in Vermont.
- Vermont did not decouple or address this when TCJA was passed

HR 748: The CARES ACT

- **Student loan payments made by employers**
 - The bill allows for the payments of employer-paid student loans to be deducted as income for the individual. For payments before January 2021. The limit is \$5,250 per employee.
 - This expires December 31, 2020
- **It appears Vermont would pick up this deduction if we link up to Federal 2020 tax law.**