

2020 Federal Tax Updates

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Things that happen every year that don't affect us

- Inflation adjustments in the following items
 - Federal tax brackets
 - Federal standard deductions
 - Exemption amounts for the Alternative Minimum Tax
 - Refundable portion of the Child Tax Credit
 - Capital Gains taxation brackets
 - Pass-through deduction thresholds

Inflation adjustments that will affect us

- Earned Income Tax Credit Thresholds
 - VT's EITC is 36% of the Federal EITC

Filing Status		No Children	One Child	Two Children	Three or More Children
Single or Head of Household	Income at Max Credit	\$7,030	\$10,540	\$14,800	\$14,800
	Maximum Credit	\$538	\$3,584	\$5,920	\$6,660
	Phaseout Begins	\$8,790	\$19,330	\$19,330	\$19,330
	Phaseout Ends (Credit Equals Zero)	\$15,820	\$41,756	\$47,440	\$50,954
Married Filing Jointly	Income at Max Credit	\$7,030	\$10,540	\$14,800	\$14,800
	Maximum Credit	\$538	\$3,584	\$5,920	\$6,660
	Phaseout Begins	\$14,680	\$25,220	\$25,220	\$25,220
	Phaseout Ends (Credit Equals Zero)	\$21,710	\$47,646	\$53,330	\$56,844
Source: Internal Revenue Service					

Inflation adjustments that will affect us

- Interest on Education Loans
 - Maximum deduction (\$2,500) phases out
 - Begins at \$70,000 (single), \$140,000 (married) and is phased out at \$85,000 or more (single) and \$170,000 or more (married)
 - Affects us because this is a pre-AGI deduction
 - Unchanged from 2019
- Educator expenses deduction
 - Maximum deduction is \$250 (single) and \$500 (married). Unchanged from 2019
 - Affects us because this is a pre-AGI deduction

Inflation adjustments that will affect us

- Exclusion for gifts on the estate tax
 - Increased to \$15,000 to gifts to any person, and \$155,000 for gifts to spouse
 - VT Estate Tax requires reporting Federal taxable gifts on return
 - Unchanged from 2019
- Pass-through deduction thresholds
 - Thresholds are \$163,300 (single) and \$326,600
 - Impact through estates and trusts

Year-End Spending Bill Tax Changes

- On December 20, 2019, HR 1865 was signed and became law.
- Funded the government through September 2020
- Contained numerous non-spending items:
 - Lots of Federal tax changes that don't directly affect VT revenues
 - Suspension or repeal of several healthcare taxes from the ACA
 - Healthcare device tax, Cadillac tax, and annual fees on insurance companies
 - Extends various provisions in the IRC that were set to expire
 - New Markets Tax Credits
 - Employer credits for paid family and medical leave
 - Extension of credits for biodiesel production
 - Many, many smaller credits
- 529 plans can now be used to pay back student loans up to \$10,000
 - Would have affected us if we didn't change the law last year.
- Costs the Federal government \$34 billion in TY2020, \$426 billion over the next 10 years

HR1865 provisions that will affect us

- Retirement plan changes
 - Increases the age for required minimum distributions from 70.5 to 72.
 - Vermont piggybacks on the Federal rules and receives a tiny amount revenue from the penalties for not withdrawing after age 70.5.
 - Slightly unrelated: VT uses a 24% rule still for this calculation (this may be out of date because of TCJA)
 - Other changes that flow through via AGI
 - Part-time workers can now participate in 401(k) plans
 - Older workers (above the age of 70.5) can continue to contribute to their 401(k)s
 - After the birth of a new child or adoption, parents can withdraw up to \$5000 from their retirement savings penalty-free
- Extension of the 7.5% floor for medical deductions
 - Our medical deduction will cost more because we are linked to the floor. In tax year 2019, the floor was 10%.
 - Estimate: \$300,000