



VERMONT LEGISLATIVE  
**Joint Fiscal Office**

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## Fiscal Note

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### **H.510 – An Act Relating to Tax Reductions and Other Aid for Vermonters As Recommended by the Senate Committee on Finance**

#### URL for bill:

<https://legislature.vermont.gov/Documents/2022/WorkGroups/Senate%20Finance/Bills/H.510/Drafts,%20Amendments%20and%20Legal%20Documents/H.510~Abby%20Shepard~%20Draft%20203.1,%204-20-2022%20-%20Strike-All%20Amendment~4-21-2022.pdf>

### Bill Summary

**T**his bill makes several changes and additions to Vermont's tax code within the personal income tax, the Affordable Housing tax credit, and includes two appropriations.

Within the Personal Income Tax:

- It creates a new refundable tax credit for families with young children. The tax credit is equal to \$1,000 per child aged five and under. For both single and married tax filers, this credit is phased out beginning at \$55,000 in Adjusted Gross Income (AGI), until \$135,000 when it is completely phased out. This credit is sunset by January 1, 2025.
- It expands Vermont's existing Child and Dependent Care tax credit by amending the current credit of 24% of the Federal equivalent tax credit to 100% and making the credit fully refundable. This is sunset by January 1, 2025.
- It creates a new Vermont Student Loan Interest deduction, allowing single taxpayers with AGI below \$120,000 and married taxpayers below \$200,000 to fully deduct student loan interest paid from their Vermont taxable income. This is sunset by January 1, 2025.
- It expands the income thresholds for Vermont's Social Security exemption by \$5,000. Single taxpayers with AGI below \$50,000 and married taxpayers with AGI below \$65,000 would now receive a full Vermont tax exemption on their Social Security benefits.
- It expands the income limitations for the retirement exemptions for Civil Service Retirement System (CSRS) annuitants and military retirees passed in S.53 of 2022.<sup>1</sup>

The bill also expands the cap on first year credit allocations for manufactured homes within the Affordable Housing tax credit from \$425,000 to \$675,000.

Finally, it contains two appropriations from the General Fund in FY 2023: \$750,000 in additional State funding to the Aid to the Aged, Blind and Disable (AABD) program, and \$3.5 million in additional funds

<sup>1</sup> <https://legislature.vermont.gov/Documents/2022/Docs/BILLS/S-0053/S-0053%20Senate%20proposal%20of%20amendment%20to%20House%20proposal%20of%20amendment%20Unofficial.pdf>

to be used for childcare retention payments.

## Fiscal Impact

JFO estimates this bill will result in a fiscal impact of \$36.27 million in FY 2023 on the General Fund. \$32.02 million of this is reductions in State General Fund revenues while \$4.25 million is from appropriations from the General Fund.

The appropriations in this bill are for FY 2023 only, so the future fiscal impacts of this bill are limited to the tax changes. In FY2024, the bill is expected to reduce revenues by \$32.12 million, increasing by approximately \$350,000 per year thereafter (Table 1).<sup>2</sup>

Table 1: Fiscal Impacts of H.510, Senate (in millions of dollars)				
Tax Changes (General Fund)				
Section	Description	FY2023	FY2024	FY2025
1	Child Tax Credit	-\$22.50	-\$22.50	-\$22.50
2	Child and Dependent Care Credit	-\$5.35	-\$5.35	-\$5.35
4	Student Loan Interest Deduction	-\$2.20	-\$2.20	-\$2.20
12	Social Security Exemption Threshold Increase	-\$1.67	-\$1.77	-\$1.88
12	CSRS and military retirement threshold increase	-\$0.05	-\$0.05	-\$0.05
13	Affordable Housing tax credit: manufactured homes	-\$0.25	-\$0.50	-\$0.75
<b>Total State Revenue Impact</b>		<b>-\$32.02</b>	<b>-\$32.37</b>	<b>-\$32.73</b>
Appropriations (General Fund)				
Section	Description	FY2023	FY2024	FY2025
14	Aid for the Aged, Blind and Disabled	\$0.75		
15	Child Care Worker Retention Grant Program	\$3.50		
<b>Total Appropriations</b>		<b>\$4.25</b>		

## Details and analysis

### Section 1: Child Tax Credit

Section 1 of the bill creates a new Child Tax Credit for personal income taxes equal to \$1,000 per child aged five and under. The credit is fully refundable. It phases out beginning at \$55,000 in AGI and is completely phased out by \$135,000 for single and married taxpayers alike. The credit is sunset by January 1, 2025.

JFO estimates that the Child Tax Credit in Section 1 will reduce State revenues by \$22.5 million in FY 2023. The cost of this tax credit is not expected to grow in the short-term reflecting Vermont's declining birth rates. It is estimated this credit will be provided to just under 30,800 children and around 25,000 tax returns.

JFO expects this tax credit to significantly reduce tax liabilities and effective tax rates on average for lower- and middle-income groups in Vermont. According to the Department of Taxes, in 2020, the average tax

<sup>2</sup> Note: Section 12, the expansion of the income thresholds for the retirement exemptions for CSRS and military retirees shown in Table 1 reflects only the fiscal impact of raising the income thresholds for those exemptions. These exemptions were passed in the further Senate amended version of S.53 of 2022 with lower income thresholds, reflecting the current income thresholds for the Social Security exemption. S.53 has not been enacted into law. The total cost of those exemptions was \$660,000 in FY2023. Should S.53 fail to be enacted into law but H.510 be enacted, the fiscal impact of these exemptions would be \$710,000 as opposed to the \$50,000 shown here.

paid by income group is \$1,000 or less for taxpayers with AGI less than \$50,000. This means that for most families with children aged 5 and under with incomes below this level, this tax credit will likely reduce their Vermont tax liability to zero or result in refund payments from the State. In many cases, this credit will augment further payments from the State because many of these taxpayers claim the State’s refundable Earned Income Tax Credit.

*Section 2: Child and Dependent Care Tax Credit*

This section expands the existing Vermont Child and Dependent care tax credit.

Under current law, Vermonters with out-of-pocket childcare expenses can claim a tax credit against expenses paid. Single taxpayers with AGI below \$30,000 and married taxpayers with incomes below \$40,000 receive a credit equal to 50% of the Federal Child and Dependent Care tax credit and it is fully refundable. For taxpayers above those thresholds, the tax credit is 24% of the Federal credit and is not refundable.

This bill expands the existing Vermont credit making it 100% of the Federal equivalent and fully refundable for all taxpayer regardless of income. This credit is sunset on January 1, 2025.

**JFO estimates this section will reduce State revenues by \$5.35 million in FY 2023.** Of this amount, \$5.34 million is from resident tax returns and the remaining is part-time residents. Based upon modelling by JFO, almost 13,000 resident tax returns will benefit from this expansion, with an average tax credit of \$413 (Table 2):

Table 2: Estimated Impacts of Section 2: Child and Dependent Care Tax Credit Expansion					
AGI Group	Number of Returns Impacted	Total Tax Change (in millions)	Average Tax Decrease	Effective Tax Rate Change	
Negative	242	-\$0.07	-\$289	-1.35%	
\$25,000	2,003	-\$0.80	-\$399	-1.06%	
\$50,000	1,775	-\$0.72	-\$406	-0.64%	
\$75,000	2,101	-\$0.92	-\$438	-0.50%	
\$100,000	3,763	-\$1.57	-\$417	-0.35%	
\$150,000	1,653	-\$0.69	-\$417	-0.24%	
\$200,000	909	-\$0.36	-\$396	-0.17%	
\$300,000	492	-\$0.21	-\$427	-0.09%	
<b>Total</b>	<b>12,938</b>	<b>-\$5.34</b>	<b>-\$413</b>	<b>-0.34%</b>	

Many of the taxpayers benefitting from the Child Tax Credit in Section 1 would also benefit from the expansion of the Child and Dependent Care tax credit if they had a child five and under and childcare expenses. The exact number of these taxpayers is unclear.

*Section 4: Student Loan Interest Deduction*

This section of the bill creates a new deduction for student loan interest paid by a taxpayer, subject to income limits.

Under current law, since the starting point for Vermont income taxes is AGI, the Federal student loan interest deduction flows through to Vermont since it is a pre-AGI deduction. The Federal deduction is limited to \$2,500 and has income limits of \$70,000 for single filers and \$140,000 for married couples.

This section of the bill creates a Vermont deduction on top of that Federal deduction. Vermonters will be

able to deduct their student loan interest beyond \$2,500 for their Vermont taxes. The deduction in this section is also limited by income to \$120,000 for a single filer and \$200,000 for a married couple. This credit is sunset on January 1, 2025.

**JFO estimates this section will reduce State revenues by \$2.2 million in FY2023 and remain at that level until FY 2025.**

### *Section 12: Retirement exemptions*

#### *Social Security Exemption*

This section of the bill increases the income thresholds for the Vermont Social Security income exemption.

Under current law, Vermont exempts Social Security income from taxation for single taxpayers with AGI below \$45,000 and married filers with AGI below \$60,000. Over the next \$10,000 of AGI, the exemption is phased out. This bill would increase those thresholds by \$5,000: \$50,000 for single filers and \$65,000 for married filers. The phase out over the next \$10,000 of AGI remains.

**JFO estimates that this will reduce State revenues by \$1.67 million in FY 2023, growing by approximately \$100,000 each year thereafter.** The beneficiaries of this tax change are heavily concentrated among Social Security recipients with AGI above \$50,000 and below \$70,000. About 7,800 tax returns are expected to be impacted, and the average tax change is expected to be a tax cut of \$215 (Table 3)

AGI Group	Tax Returns Impacted	Total Tax Impact (in millions)	Average Tax Cut	
Negative	\$40,000	0	\$0.00	
	\$40,000	\$50,000	1,170	-\$0.14
	\$50,000	\$60,000	2,312	-\$0.56
	\$60,000	\$70,000	2,848	-\$0.70
	\$70,000	\$80,000	1,472	-\$0.27
	\$80,000	Infinity	0	\$0.00
<b>Total</b>		<b>7,802</b>	<b>-\$1.67</b>	<b>-\$215</b>

#### *\$5,000 expansion for retiree exemption passed in S.53*

S.53 of the 2022 legislative session, as passed by the Senate, included a \$10,000 income tax exemption for military retirees, Civil Service Retirement System (CSRS) annuitants, and any other individual who receives a pension that does not allow for them to receive Social Security. Those exemptions were subject to the AGI thresholds of the current law Social Security exemption, which are \$45,000 for a single filer and \$60,000 for a married couple.

Because Section 12 of this bill increases the Social Security thresholds by \$5,000, the exemptions passed by the Senate in S.53 are also amended to reflect that increase in the Social Security thresholds. **This increase in the income thresholds is estimated to cost an additional \$50,000 in State revenues, on top of the \$660,000 cost of the exemptions in S.53.**<sup>3</sup>

<sup>3</sup> [https://ljfo.vermont.gov/assets/Publications/Senate-Bills/7b4376aec2/GENERAL-361032-v1-S\\_53\\_Fiscal\\_Note\\_2022\\_Session.pdf](https://ljfo.vermont.gov/assets/Publications/Senate-Bills/7b4376aec2/GENERAL-361032-v1-S_53_Fiscal_Note_2022_Session.pdf)

*Section 13: Affordable Housing Tax Credit for manufactured homes*

This section of the bill increases the first-year allocation for the manufactured homes credit within the Affordable Housing Tax Credit

The Affordable Housing Tax Credit program under 32 V.S.A. § 5930u allocates tax credits to individuals or businesses who construct affordable rentals housing or affordable owner-occupied housing as defined by 26 U.S.C. § 42 or 26 U.S.C. § 143. These credits can be taken against the personal income tax, the corporate income tax, the bank franchise tax or the insurance premiums tax. The credits awarded are 5 year credits. Within the Affordable Housing Tax credit, a certain amount is allocated to the construction of new manufactured homes.

Section 13 of the bill increases the first-year allocation for the manufactured homes tax credit within the Affordable Housing Tax Credit from \$425,000 to \$675,000. These tax credits reduce available General Fund revenues. They are five-year credits. As such, the total revenue impact of the state increases by \$250,000 each year for five years, with the maximum revenue impact occurring in FY2027 of \$1.25 million (see table below).

Overall Flow of Revenue Impact, Manufactured Housing Credit Expansion							
	FY23	FY24	FY25	FY26	FY27	FY28	FY29
<b>Credits Issued Year 1</b>	-\$250,000	-\$250,000	-\$250,000	-\$250,000	-\$250,000	\$0	\$0
<b>Credits Issued Year 2</b>	\$0	-\$250,000	-\$250,000	-\$250,000	-\$250,000	-\$250,000	\$0
<b>Credits Issued Year 3</b>	\$0	\$0	-\$250,000	-\$250,000	-\$250,000	-\$250,000	-\$250,000
<b>Credits Issued Year 4</b>	\$0	\$0	\$0	-\$250,000	-\$250,000	-\$250,000	-\$250,000
<b>Credits Issued Year 5</b>	\$0	\$0	\$0	\$0	-\$250,000	-\$250,000	-\$250,000
<b>Credits Issued Year 6</b>	\$0	\$0	\$0	\$0	\$0	-\$250,000	-\$250,000
<b>Credits Issued Year 7</b>	\$0	\$0	\$0	\$0	\$0	\$0	-\$250,000
<b>Total Revenue Impact</b>	<b>-\$250,000</b>	<b>-\$500,000</b>	<b>-\$750,000</b>	<b>-\$1,000,000</b>	<b>-\$1,250,000</b>	<b>-\$1,250,000</b>	<b>-\$1,250,000</b>

**In FY 2023, this expansion will reduce General Fund revenues by \$250,000, growing by \$250,000 per year through FY 2027.** After FY2027, the increase in the manufactured housing allocation of the Affordable Housing Tax Credit will total \$1.25 million.

*Section 14: Appropriation for the Aid to the Aged, Blind, and Disabled (AABD) program*

Section 14 appropriates an additional \$750,000 in General Funds to the AABD program. This appropriation will be matched with \$950,000 in funds from the Global Commitment fund, for a total increase to the program of \$1.7 million.

This increase in funding is expected to benefit individuals in the program by approximately \$110 per year.

*Section 15: Appropriation for the Childcare Worker Retention Grant Program*

This section appropriates an additional \$3.5 million in FY 2023 General Funds to the Department of Children and Families to be used as childcare worker retention grants.

This program was created under Section G.300 of Act 74 of 2021 (FY2022 budget), amended by Act 83 of 2022 (FY 2022 Budget Adjustment). The Department is authorized to establish the parameters for employees in the childcare sector to receive these retention bonuses in Act 83 of 2022.

JFO estimates that there are approximately 5,500 childcare workers in Vermont who could benefit from these bonuses, although the exact number of beneficiaries will be determined by the parameters of the

program created by the Department.

## Sources

The following sources were used in the analysis and estimates for this bill:

- State economists' consensus state population forecast by single year of age. December 2021.
- United States Census Bureau, American Community Survey, 2019
- Taxpayer data from the Department of Taxes
- Chainbridge Income Tax Model
- Correspondence with the Department of Children and Families