

2022 FEDERAL TAX UPDATES

Graham Campbell

Senior Fiscal Analyst

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Vermont Legislative
JOINT FISCAL OFFICE

Reminder...

- Vermont “links up” to the Federal IRC as of a certain date.
 - *It does this in a retroactive way*
- Typically, this is December 31 of the *previous year*.
 - *For example: Tax Year 2019.*
 - Taxes for TY2019 filed January-April 2020
 - Link up passed in October 2020
 - Linked to IRC as of December 31, 2019
- As a result, *historically*, Vermont has a pseudo rolling conformity regime, without specifically writing it in statute.
- ARPA and CARES Act made this tricky with midyear Federal tax changes
- Tax year 2020 (and future tax years) is linked up to IRC as of March 31, 2021



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*



Major 2022 Changes with VT Impact

- 2022 Federal EITC Amounts and Thresholds
 - Vermont EITC is 36% of Federal EITC
 - APRA changes were estimated to cost VT \$6.2 million

Filing Status		No Children	One Child	Two Children	Three or More Children
Single or Head of Household	Income at Max Credit	\$7,320	\$10,980	\$15,410	\$15,410
	Maximum Credit	\$560	\$3,733	\$6,164	\$6,935
	Phaseout Begins	\$9,160	\$20,130	\$20,130	\$20,130
	Phaseout Ends (Credit Equals Zero)	\$16,480	\$43,492	\$49,399	\$53,057
Married Filing Jointly	Income at Max Credit	\$7,320	\$10,980	\$15,410	\$15,410
	Maximum Credit	\$560	\$3,733	\$6,164	\$6,935
	Phaseout Begins	\$15,920	\$26,260	\$26,260	\$26,260
	Phaseout Ends (Credit Equals Zero)	\$22,610	\$49,622	\$55,529	\$59,187

Down significantly from 2021. Was \$1,500 last year because of ARPA

Major 2022 Changes with VT Impact

- Child and Dependent Care Credit was hugely expanded in 2021 due to ARPA
 - *Estimated to cost Vermont \$1.5 million in FY2022*
 - Vermont's CDCC is 24% of the Federal CDCC and is partially refundable.
- For TY2022, CDCC reverts to old CDCC

Parameter	2020 CDCC	2021 CDCC
Eligible expenses	\$3000 or \$6000 for 2 or more children	\$8000 or \$16,000 for two or more children
Percentage of eligible expenses	Range of 20% to 35%. 35% at \$15,000 of AGI, 20% after \$43,000 in AGI	50%, only phased out after \$125,000 of AGI. Phases down to 0% by \$400,000 AGI
Maximum Credit	\$1050 or \$2100 for 2 or more children	\$8000 or \$16,000 for two or more children
Refundability	Non-refundable	Fully refundable



Minor FY2022 Changes with VT Impact

- 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 2021*
- Educator expenses deduction
 - *Maximum deduction is \$250 (single) and \$500 (married). Unchanged from 2021*
 - *Affects us because this is a pre-AGI deduction*
- Exclusion for gifts on the estate tax
 - *Increased to \$16,000 to gifts to any person, and \$164,000 for gifts to spouse*
 - *VT Estate Tax requires reporting Federal taxable gifts on return*
 - *Up from 2021*
- Pass-through deduction thresholds
 - *Thresholds are \$170,100 (single) and \$340,100 (married)*
 - *Impact through estates and trusts*



Federal Tax Issues of Interest

- Child Tax Credit (CTC)

- *ARPA greatly expanded the Federal CTC*

- From \$2,000 for each child under 17 to \$3,600 for children aged 5 and younger, and \$3,000 for children 6 to 17.

- \$300 per child monthly payments from July through December

- *Half is paid in advance, other half comes at filing*

- Made fully refundable

- *ARPA changes were only for tax year 2021 but Biden Administration has been trying to extend it*



Build Back Better

- Passed the House in December, in the Senate.
- **Direct Vermont revenue impact:**
 - *One-year extension of EITC changes from ARPA*
- **Indirect Vermont revenue impact:**
 - *15% minimum tax on the profits of C-corporations over \$1 billion*
 - *1% surcharge on corporate stock buybacks*
 - *5% high-income surcharge on AGI in excess of \$10 million (married) plus 3% on AGI in excess of \$25 million (married)*
- **Other areas of interest to Vermonters:**
 - *One-year extension of Child Tax Credit expansions in ARPA and permanent extension of its refundability*
 - *SALT Cap Limit expanded*
 - TCJA limited the deduction of state and local taxes to \$10,000.
 - *BBB expands it to \$80,000*



Build Back Better

- Other smaller provisions:
 - *Limitations on business interest expense deductions for international C-corps*
 - *Limitations on C-Corp foreign profit deductions (FDII and GILTI)*
 - *Electric vehicle tax credits up to \$8,000. \$7,500 for electric bikes.*
 - Phased out for taxpayers over \$500,000 in AGI (married)
 - *IRA scale-backs for high-income and high-value accounts*
 - If value exceeds \$10 million, required minimum distributions would be required
 - Prohibits contributions that would make the account exceed \$10 million. Applies to taxpayers above \$400,000 in AGI (married)



Infrastructure Bill

- Included minimal tax changes.
- Ends the employee retention credit created during CARES Act for wages paid after September 31, 2021.
- Requires brokers to report crypto asset exchanges to IRS and SEC.

