Prepared by Joint Fiscal Office
April 20, 2021

Major Issues in TY21 Linkup

1) Earned Income Tax Credit (EITC)

What is Vermont's law? Vermont EITC is 36% of the Federal EITC. Fully refundable.

What are the Federal changes?

- ARPA expands the EITC for individuals without children. For tax year 2021, the maximum credit for individuals without children increases from $543 to $1,402.
- Repeals the maximum age limit of 65
- Lowers the minimum age from 25 to 19.
- Maximum investment income threshold is increased from $2,220 to $10,000.
- Tax year 2019 income can be used for purposes in determining the EITC in tax year 2021.

Revenue Impact on Vermont with link up: -$6.19 million in FY2022, -$100,000 in FY2023

Information on other states:

- 28 states and DC have a state EITC, usually linked to Federal EITC
- At least 7 states have static conformity and an EITC
- No information on which states have "coupled" or "decoupled"

Static Conformity States and EITC			
Static	**EITC?**	**Refundable?**	**Share of Federal**
Maine	Yes	Yes	12%, except 25% for childless workers
Ohio	Yes	No	30%, but limited to 50% of tax liability if TI>$20,000
West Vriginia	No		
Kentucky	No		
Indiana	Yes	Yes	9%
North Carolina	No		
South Carolina	Yes	No	62.50%
Georgia	No		
Iowa	Yes	Yes	15%
Wisconsin	Yes	Yes	4% for families with one child, 11% for families with two children, 34% for families with three or more
Idaho	No		
Oregon	Yes	Yes	9%

Source: Tax Policy Center

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2) Child and Dependent Care Credit (CDCC)

What is Vermont's law? Vermont CDCC is nonrefundable and 24% of the Federal CDCC. Low-Income CDCC is 50%, with income thresholds.

What are the Federal changes?

- Makes the entire credit refundable Federally for tax year 2021.
- The credit is also expanded:
    - $4000 maximum credit per qualifying individual and $8000 for two or more individuals. Currently, the credit is $2,100 for two or more individuals.
        - Calculated by taking 50% of qualifying expenses. Currently, it is between 20% and 35%
        - Maximum expenses taken into account are increased from $3,000 for one child to $8,000 and from $6,000 for 2 or more children to $16,000
- Increases income limits:
    - Current law is credit percentage is phased out by 1% for every $2,000 above $15,000 in AGI.
    - New law is 1% for every $2,000 above $125,000

Revenue Impact on Vermont with link up: -$1.5 million in FY2022

Information on other states:

- 22 states and DC have a state CDCC, usually linked to Federal CDCC
    - Although many have separate income thresholds
- At least 7 states have static conformity and a CDCC
- No information on which states have "coupled" or "decoupled"

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Static Conformity States and CDCC			
Static	**CDCC?**	**Refundable?**	**Share of Federal**
Georgia	Yes	No	30%
Idaho	No		
Indiana	No		
Iowa	Yes	Yes	Depends upon income. 75% if AGI<$10,000, 30% if AGI<$45,000 but greater than $40,000
Kentucky	Yes	No	20%
Maine	Yes	Yes, up to $500	25% normally, 50% if expenses are from a center with a "Quality Certificate"
North Carolina	No		
Ohio	Yes	No	100% for incomes less than $20,000. 25% under $40,000. 0% after that
Oregon	Yes	No	Depends upon income. Starts at 30% if FTI is less than $5,000. Phases out to 0% by $45,000
South Carolina	Yes	No	No link to Federal. 7% of eligble expenses
West Virginia	No		

Source: Tax Credits for Working Families

3) Paycheck Protection Program (PPP) loans

What is Vermont's law? H.315 picked up Federal tax-free treatment for TY2020 forgiven loans. For TY2021, H.315 set as a default that any loans forgiven after TY2020 would be considered taxable, but deductions would be permitted.

What are the Federal changes?

- CARES Act established the PPP and said a forgiven PPP loan would be tax-exempt.
- IRS from April through December ruled that expenses paid with PPP loans would not be deductible.
- HR133 explicitly made any PPP-paid expenses deductible.

Revenue Impact on Vermont: Link up to the Federal statute is assumed in the forecast. Therefore, if the Legislature links up, there is no revenue impact. If the Legislature decouples, $9.77 million would be generated in FY2022, and $1.25 million in FY2023.

Information on other states:

- 11 states either are statically conformed or have explicitly decided to tax PPP loans.
    - Explicit state actions
        - California (AB1577) disallows the deduction
        - Virginia: excludes PPP loans as tax, but decouples from expense deduction, allowing up to $100,000 to be deducted.

  - Utah passed law confirming state tax-exempt status last year but hasn't taken up a bill to conform to deductibility.
- States that have passed bills in one chamber to exempt either the loan or allow deductibility: New Hampshire, Minnesota, Massachusetts, Florida.

- Recent actions either excluding income from tax or allowing expense deduction:
  - April: Ohio and Arizona pass laws conforming to Federal treatment of PPP loans.
  - March:
    - Idaho, Maine, Kentucky, Arkansas all conform to Federal treatment
    - Virginia enacts $100,000 deduction.
  - February:
    - Georgia and West Virginia follow Federal treatment.