

## **Preliminary Tax Provisions in the American Rescue Act (HR 1319)**

### **I. Tax Provisions with Direct Impact on Vermont Revenues**

#### **1) Taxability of Unemployment Insurance Benefits for TY2020**

- Provides \$300 in Federal UI enhancement until September 6.
- First \$10,200 in UI benefits are tax-free in *tax year 2020*, for taxpayers making less than \$150,000 a year.
- ***Impact on Vermont***
  - Unclear how this will affect Vermont. The impact will depend upon whether the exclusion of the \$10,400 in income will be “above” or “below” the calculation of Adjusted Gross Income.
  - *If the exclusion is made above AGI:*
    - Vermont is linked up to Federal tax statutes as of end-2020 so Vermont taxpayers would not benefit from the exclusion on their Vermont taxes absent legislation<sup>1</sup>.
    - The Department of Taxes could face an administrative issue complying with law:
      - Since Vermont does not pick up the exclusion, Vermont AGI for TY2020 would be materially different than Federal AGI (since the Federal AGI excludes up to \$10,400 in UI benefits). This would require an add-back on Vermont TY2020 returns.
    - If Vermont wanted to pick up exclusion, it would need to pass legislation.
  - *If the exclusion is made below the line:*
    - Exclusion would not flow through to Vermont. Vermont AGI would remain the same.
    - If Vermont wanted to give the same treatment as the Federal government, legislation would need to be passed. In that event, the Department would likely require amended returns.
  - Overall, the exclusion presents major administrative complexities for the Vermont Department of Taxes, since TY 2020 filing season is already underway.

#### **2) Earned Income Tax Credit**

- The bill 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.

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<sup>1</sup> If H.315 passes. Linkup language for TY2020 is in that bill

- Tax year 2019 income can be used for purposes in determining the EITC in tax year 2021.
- **Impact on Vermont**
  - Vermont's EITC is linked to the Federal EITC amount. 36% of the Federal EITC amount.
  - Vermont picks up the rules, thresholds, and maximums of Federal EITC.
  - Vermont is linked up to Federal tax law as of end-2020. If legislature links up again, these changes would flow through. Otherwise, legislature could decouple. This, administratively, would be easier if done in CY2021.

### 3) Child and Dependent Care Credit and FSAs

- Makes the entire credit refundable 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.
    - Maximum expenses taken into account are increase from \$3,000 for one child to \$8,000 and from \$6,000 for 2 or more children to \$16,000
  - Calculated by taking 50% of qualifying expenses. Currently, it is between 20% and 35%
- Allows individuals to put aside \$10,500 a year tax free for childcare in an FSA, as opposed to normal \$5,000
- **Impact on Vermont**
  - Vermont has a child and dependent care credit that is 24% of the Federal credit. A large expansion of the credit in dollar terms will impact Vermont credit claims, reducing personal income tax revenues.
  - To the extent that more individuals claim the credit in TY2021 because of the expansions, this could increase the cost to Vermont.
  - The expansion of the FSA limit will impact personal income tax revenues, as it is a pre-tax deduction.

## II. Tax Provisions with Potential Indirect Impact on Vermont Revenues

### 1) Economy Recovery Rebates (Stimulus Checks)

- \$1,400 per adult and any dependents.
- Phases out sharply compared to previous Federal bills:
  - Single filer rebates phase out beginning at \$75,000 and are completely phased out by \$85,000
  - Married filer rebates phase out beginning at \$150,000 and are completely phased out by \$160,000
- Not considered taxable income.

- **Impact on Vermont:**
  - No direct impact on income tax revenues because the income is not taxable.
  - Stimulus checks are expected to boost spending, so Vermont could see impacts through consumption taxes.

## 2) Expansion of the Payroll Protection Program

- Expands eligibility to nonprofits
- Increases the funding level to \$813 billion, up from \$806 billion.
- **Impact on Vermont:**
  - Vermont businesses have benefitted and will likely benefit from PPP.
    - Taxability of PPP loans will depend upon link up to TY2021 Federal statutes.

## 3) Refundability of the Child Tax Credit, and monthly installments

- The bill increases the size of the Child Tax Credit from \$2000 to \$3000 (\$3600 for children under 5) and makes it fully refundable for TY2021.
- Up to half of the credit can be issued in advanced monthly installments by the IRS to the taxpayer.
- Married taxpayers with AGI below \$150,000 would receive full amount of credit and the extra amount above \$2000 is gradually phased out.
- After the extra is phased out, the \$2000 credit is phased out for married couples over \$400,000 and single filers over \$200,000.
- **Impact on Vermont:**
  - Expanded, advanced Child Tax Credits act as a stimulus for families with children. This stimulus will likely increase spending among these families which could impact Vermont revenues in a number of ways.