



VERMONT LEGISLATIVE  
**Joint Fiscal Office**

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**Fiscal Note**

Date: February 2, 2022

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**H.510 – An act relating to creating a Vermont child tax credit  
 As Amended by the Ways and Means Committee**

**URL for bill:**

<https://legislature.vermont.gov/Documents/2022/WorkGroups/House%20Ways%20and%20Means/Bills/H.510/H.510~Abby%20Shepard~%20Draft%203.3,%202-2-2022~2-2-2022.pdf>

**Bill Summary**

This bill makes two changes to Vermont’s personal income tax system. First, it creates a new tax credit for taxpayers with young children. The tax credit is equal to \$1,200 per child aged six and under and fully refundable. Taxpayers with Adjusted Gross Income (AGI) of \$200,000 and under would be eligible for the credit regardless of filing status. For taxpayers with incomes greater than \$200,000, the credit is phased out over the next \$10,000 of income. Taxpayers will be eligible for the credit for tax year 2022 when they file in the spring of 2023. Beginning in September 2023, the credit would be paid out in two installments. Half will be paid out in September of a given tax year, and the other half will be paid upon tax filing at the conclusion of the tax year.

Second, the bill 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.

**Fiscal Impact**

JFO estimates this bill will decrease State revenues by \$49.7 million in Fiscal Year (FY) 2023. These changes will affect Personal Income Tax collections, and therefore, the General Fund. The cost of this bill is expected to increase by \$100,000 per year after FY 2023.

<b>Table 1: Fiscal Impacts of H.510 (in millions of dollars)</b>				
	<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>
Child Tax Credit	-\$48.00	-\$48.00	-\$48.00	-\$48.00
Social Security Exemption Threshold Increase	-\$1.67	-\$1.77	-\$1.88	-\$1.99
<b>Total Revenue Impact</b>	<b>-\$49.67</b>	<b>-\$49.77</b>	<b>-\$49.88</b>	<b>-\$49.99</b>

## Details and analysis

### *Child Tax Credit*

JFO estimates that the Child Tax Credit will reduce State revenues by \$48 million in FY 2023. The credit in this bill is forecasted to be paid out to approximately 34,000 tax returns and roughly 40,000 children in Vermont in FY 2023. Information from the Department of Taxes shows that the credit will benefit taxpayers across all income levels (Table 2).

Income Group		Taxpayers Impacted
Negative	\$25,000	6,008
\$25,000	\$50,000	8,357
\$50,000	\$75,000	5,914
\$75,000	\$100,000	4,956
\$100,000	\$200,000	9,221

Source: Vermont Department of Taxes

JFO expects this tax credit will significantly reduce tax liabilities and effective tax rates for lower- and middle-income groups on average in Vermont. According to the Department of Taxes, in 2020, the average tax paid by income group is \$1,200 or less for taxpayers with AGI less than \$60,000. This means that for most families with young children under this income level, this tax credit will likely reduce their Vermont tax liability to zero or result in payments from the State.

### *Social Security 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 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 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)

	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>

## Other Considerations

The Child Tax Credit in this bill may require some level of resources to administer on the part of the Department of Taxes, particularly in calendar year 2023 which is when the first of the two installment payments are set to occur. This bill does not contain appropriations. Any administrative costs for the Department would need to be approved by the Legislature at a later date, either in the FY 2023 or FY 2024 budget depending upon when those resources are needed.

## Sources

State economists' consensus state population forecast by single year of age. December 2021.

Taxpayer data from the Department of Taxes

Chainbridge Income Tax Model