

Vermont's Income Tax Structure: An Overview and Recent Changes

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Personal Income Tax- What is it?

Form 1040 Department of the Treasury—Internal Revenue Service (99) **2019** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)
 Check only one box. If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial Last name Your social security number
 If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Presidential Election Campaign
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
 Foreign country name Foreign province/state/county Foreign postal code If more than four dependents, see instructions and ✓ here ▶

Standard Deduction Someone can claim: You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1955 Are blind Spouse: Was born before January 2, 1955 Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see instructions):
			Child tax credit	Credit for other dependents
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

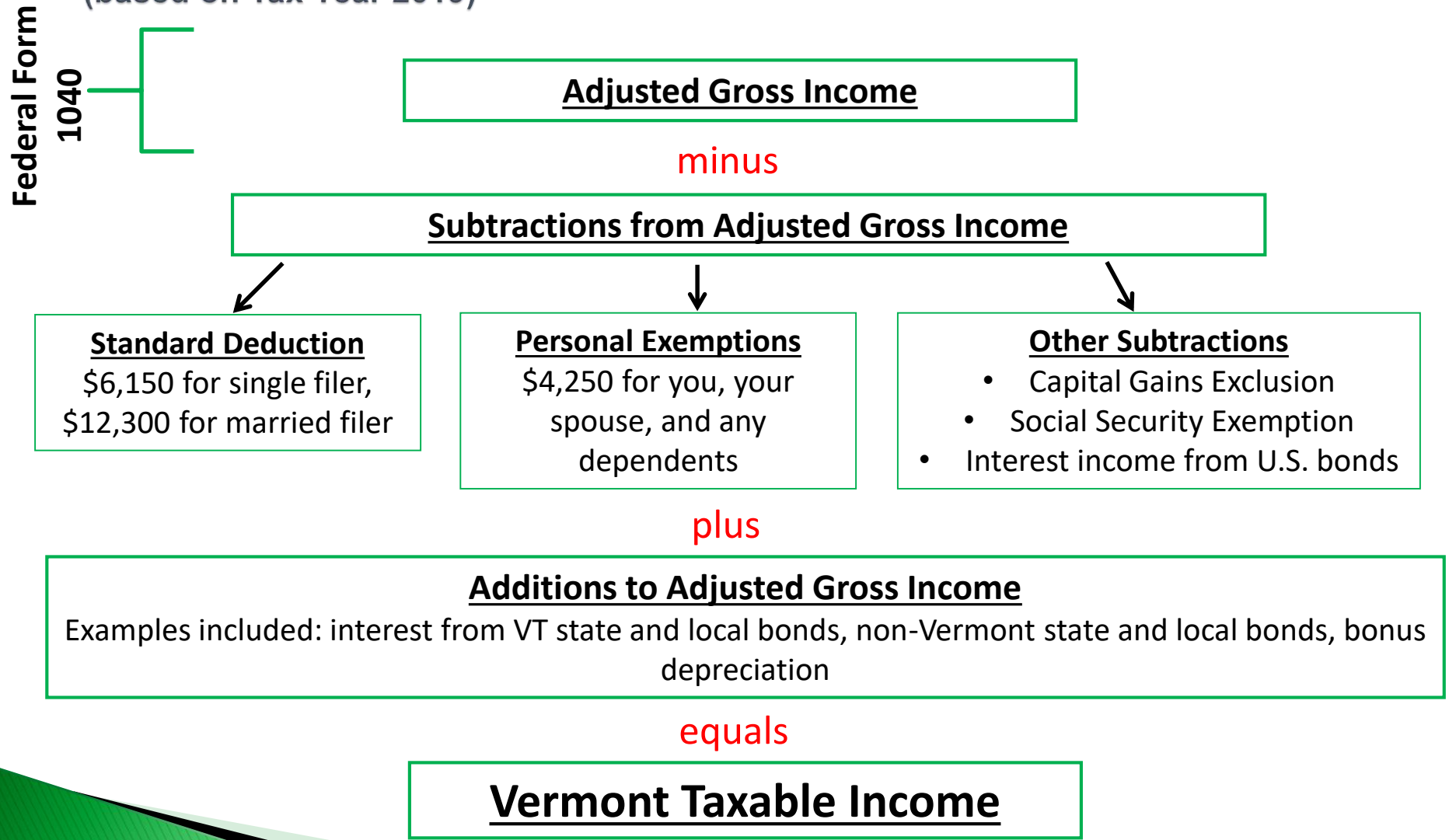
1 Wages, salaries, tips, etc. Attach Form(s) W-2		1
2a Tax-exempt interest	2a	2b Taxable interest. Attach Sch. B if required
3a Qualified dividends	3a	3b Ordinary dividends. Attach Sch. B if required
4a IRA distributions	4a	4b Taxable amount
c Pensions and annuities	4c	4d Taxable amount
5a Social security benefits	5a	5b Taxable amount
6 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		6
7a Other income from Schedule 1, line 9		7a
d Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your total income		7b
8a Adjustments to income from Schedule 1, line 22		8a
b Subtract line 8a from line 7b. This is your adjusted gross income		8b
9 Standard deduction or itemized deductions (from Schedule A)	9	
10 Qualified business income deduction. Attach Form 8995 or Form 8995-A	10	
11a Add lines 9 and 10		11a
b Taxable income. Subtract line 11a from line 8b. If zero or less, enter -0-		11b

Standard Deduction for—
 • Single or Married filing separately, \$12,200
 • Married filing jointly or Qualifying widow(er), \$24,400
 • Head of household, \$18,350
 • If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2019)

Personal Income Tax- What is it?

(based on Tax Year 2019)



How to calculate tax liability

Vermont Taxable Income (VTI)

Multiplied by

Income tax rates at various brackets
of income

Married Filing Jointly, Schedule Y-1

Use if your filing status is:

Married Filing Jointly; Qualifying Widow(er); or Civil Union Filing Jointly

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	66,150	0.00	3.35%	0
66,150	75,000	2,216.00	6.60%	66,150
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	159,950	2,800.00	6.60%	75,000
159,950	243,750	8,407.00	7.60%	159,950
243,750	-	14,776.00	8.75%	243,750

Single Individuals, Schedule X

Use if your filing status is:

Single

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	39,600	0.00	3.35%	0
39,600	75,000	1,327.00	6.60%	39,600
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	96,000	3,663.00	6.60%	75,000
96,000	200,200	5,049.00	7.60%	96,000
200,200	-	12,968.00	8.75%	200,200

Equals

Initial Vermont Tax Liability (Before Credits)

How to calculate final tax liability

Initial Vermont Tax Liability (Before Credits)

minus

Non-Refundable Credits

Credit for child and dependent care expenses, credit for elderly and disabled, investment tax credit, Charitable Tax Credit

minus

Refundable Credits

Earned Income Tax Credit

Multiplied by

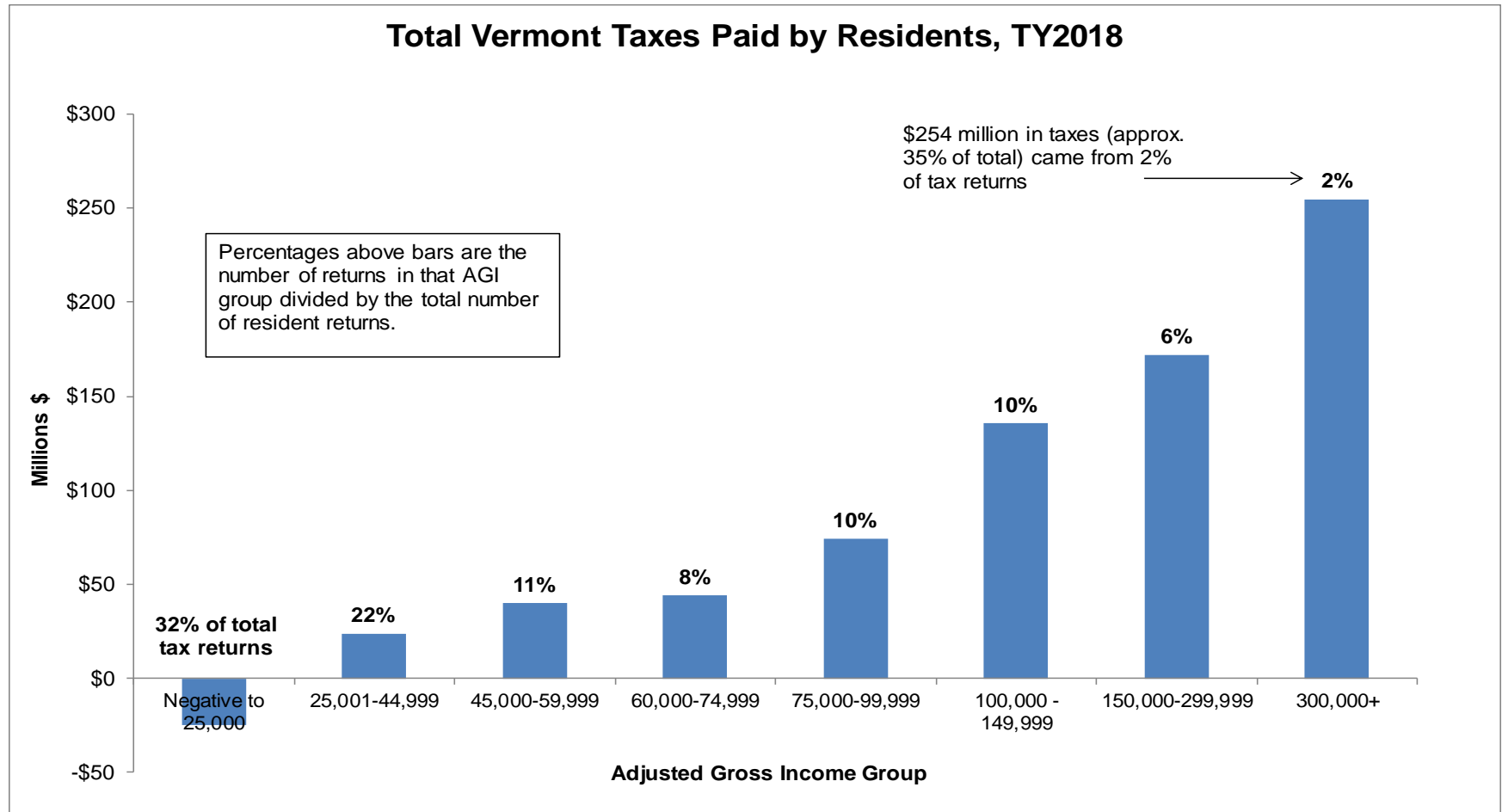
Vermont Apportionment Percentage

The percentage of income based in Vermont

Equals

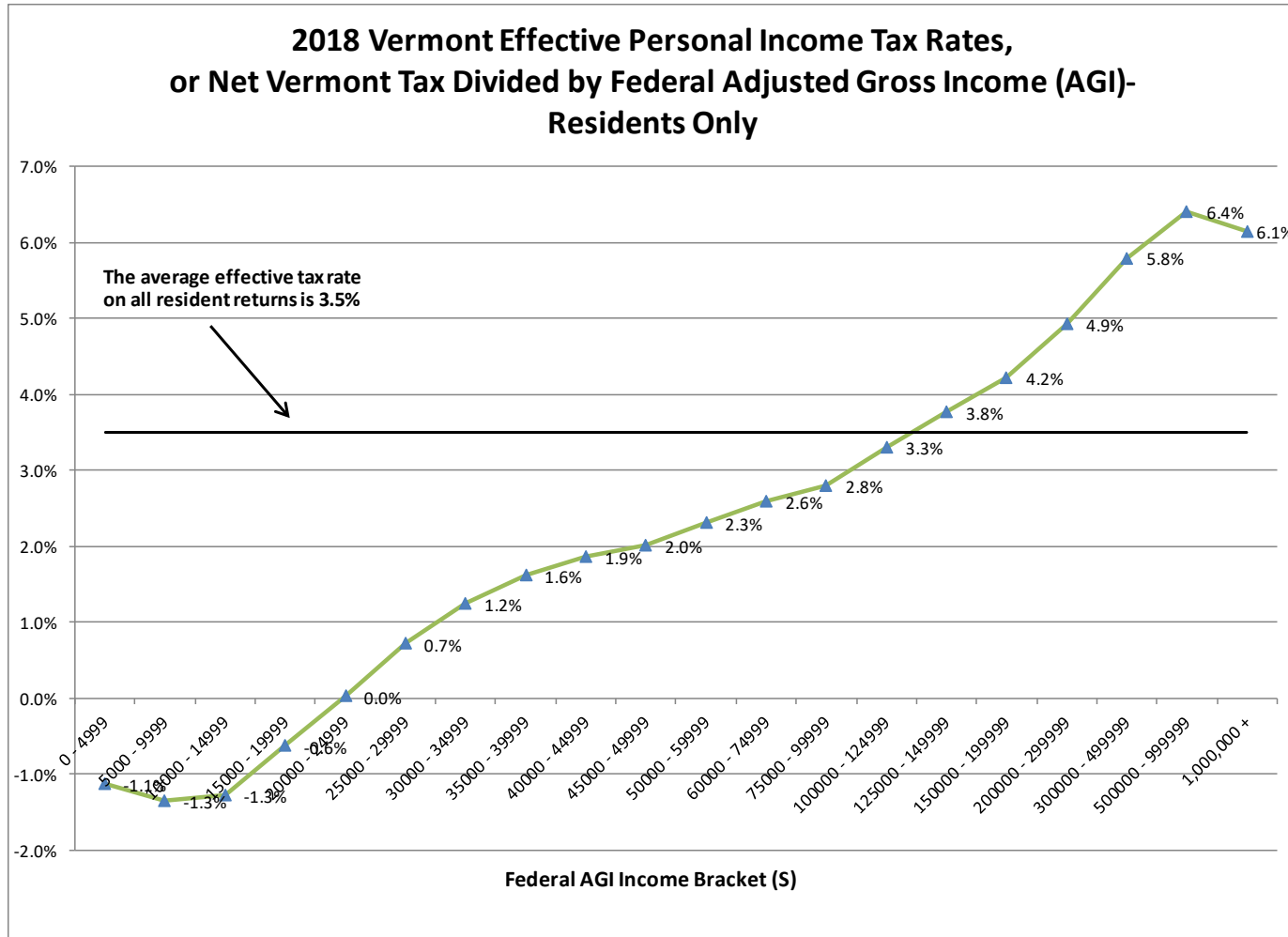
Final Vermont Tax Liability (or Refund)

Personal Income Tax- Who Pays?



Source: Department of Taxes

Personal Income Tax- Who Pays?



Source: Department of Taxes

Tax Cuts and Jobs Act and Act 11 of 2018

- ▶ Prior to Act 11 of 2018, Vermont's PIT system was closely linked to Federal system:
 - Itemized deductions from Federal return flowed through to Vermont
 - Limited by 2.5x the Standard Deduction
 - Included Charitable, SALT, and Medical Deductions
 - Federal Standard Deduction and Personal Exemptions were directly pulled from the Federal form
- ▶ When TCJA passed, it was estimated that absent legislative action, Vermonter's income taxes would have increased by \$30 million in aggregate
 - Most of this was due to the repeal of the personal exemptions, which affected families.
 - Some was also due to the limitation of itemized deductions at the Federal level.

Act 11 of 2018

- ▶ Vermont responded by decoupling from the Federal code and creating new VT-specific deductions and exemptions:
 - Vermont standard deduction
 - Vermont personal exemption
 - Vermont 5% charitable giving tax credit
 - Limited to up to \$20,000 in contributions.
 - Social Security exemption for low and middle income Vermont households.
 - Expansion of the EITC from 32% of Federal and 36% of Federal.
 - Collapsing the top bracket from 5 brackets down to 4
 - Top rate went from 8.95% kicking it at ~\$416,000 for married couples, down to 8.75% kicking in at \$237,000
 - All brackets lowered by 0.2%

Impacts Predicted in 2018

EITC Expansion
and SS Exemption

Summary of Income Tax Impacts: H.911 (CoC Agreement)						
Relative to 2017 Vermont Tax Law						
(Note: All estimates are on a calendar year basis)						
AGI Bracket		Total Tax Change of H.911 (In Millions of Dollars)	Average Change in Taxes	Change in Effective Tax Rate from H.911		Percent of 2014 Taxable Returns
\$0	\$5,000	-\$0.08	-\$15.48	-0.14%		2.0%
\$5,000	\$10,000	-\$0.23	-\$17.07	-0.15%		4.5%
\$10,000	\$15,000	-\$0.46	-\$25.77	-0.18%		6.1%
\$15,000	\$20,000	-\$0.60	-\$32.52	-0.17%		6.4%
\$20,000	\$25,000	-\$0.72	-\$36.30	-0.16%		6.7%
\$25,000	\$30,000	-\$0.88	-\$43.21	-0.16%		6.6%
\$30,000	\$35,000	-\$0.99	-\$49.06	-0.16%		6.3%
\$35,000	\$40,000	-\$1.12	-\$56.05	-0.16%		5.8%
\$40,000	\$45,000	-\$1.20	-\$64.27	-0.16%		5.0%
\$45,000	\$50,000	-\$1.18	-\$71.92	-0.16%		4.4%
\$50,000	\$60,000	-\$1.56	-\$52.68	-0.11%		7.5%
\$60,000	\$75,000	-\$0.87	-\$23.85	-0.04%		9.0%
\$75,000	\$100,000	-\$0.29	-\$8.36	-0.01%		11.1%
\$100,000	\$125,000	\$0.88	\$37.11	0.03%		6.7%
\$125,000	\$150,000	\$1.03	\$73.96	0.06%		3.7%
\$150,000	\$200,000	\$1.48	\$110.57	0.07%		3.5%
\$200,000	\$300,000	\$2.51	\$274.65	0.13%		2.4%
\$300,000	\$500,000	\$1.05	\$225.59	0.07%		1.3%
\$500,000	Infinity	\$5.06	\$1,187.69	0.05%		1.3%
Totals		\$1.81	\$9.71	0.00%		100%

Note: Estimates are based upon 2014 tax year data

Charitable Tax Credit cap at
\$20,000 and repeal of itemized
deductions

Impacts on High Income Filers

- ▶ Charitable Giving Tax Deduction vs Credit
 - Pre-Act 11, tax expenditure was \$15.740 million
 - Largely concentrated amongst high-income filers because it was an itemized deduction.
 - TY2019 expenditure was \$9.240 million
 - Value of credit is lower for high-income taxpayers
 - Credit is capped at \$20,000 of contributions
 - 5% credit is worth less than a deduction if your effective tax rate is higher than 5%, which is anyone with income higher than \$300,000 on average in VT
 - About 20% of the value of the expenditure goes to taxpayers below \$100,000 which is significantly higher than the deduction

Act 71 of 2019

- ▶ Limitation of the capital gains exclusion
 - Individuals can either take a \$5,000 flat exclusion of capital gains or a 40% exclusion for certain sales of assets (farms, businesses, investment properties, timber).
 - Act 71 limited the 40% exclusion to \$350,000 (or up to \$875,000 worth of gains).
- ▶ Estate tax exemption increased from \$2.75 million up to \$5 million by 2021.

Updated Effects of Act 71

- ▶ Effect will depend on tax year
 - Years with large capital gains will see greater revenue impact

Impact of CG Exclusion Limit in 2018 Tax Returns		
AGI Group		Total Tax Change (in Millions)
0	\$500,000	\$0.00
\$500,000	\$1,000,000	\$0.00
\$1,000,000	\$2,000,000	\$0.29
\$2,000,000	\$5,000,000	\$0.63
\$5,000,000	Infinity	\$3.90
Total		\$4.82