Prepared by Joint Fiscal Office
April 27, 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 (all changes for TY2021 only):
    - $4000 maximum credit per qualifying individual and $8000 for two or more individuals. Currently, the credit is $2,100 for two or more individuals.
        - Higher percentages at higher income groups:
            - Old law: 20% and 35% of qualifying expenses, phased out after $15,000 and with a floor of 20% after $43,000.
            - New for TY2021: Calculated by taking 50% of qualifying expenses and phasing out after $125,000 of AGI. Phases down to 0% by $440,000.
        - Maximum expenses increase:
            - Old law: $3,000 for one child, $6,000 for 2 or more children.
            - New law: $8,000 for one child, $16,000 for two or more children.

***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.