

Tax Cuts and Jobs Act Overview

House Committee on Ways and Means

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TCJA Changes to Personal Income Taxes



TCJA Changes to Personal Income Taxes

- TCJA made several changes to federal personal income taxes in 2017 that would have flowed through under normal conformity to Vermont.
- These include, but are not limited to the following;
 - Expanding the standard deduction
 - Eliminating personal Exemptions
 - Created a deduction for pass through income
 - Suspended limits on itemized deductions
 - Change to home mortgage interest
 - Limit on state and local taxes deduction
 - Casualty losses
 - Charitable contributions
 - Medical expenses
 - Moving expenses



TCJA Changes to Personal Income Taxes

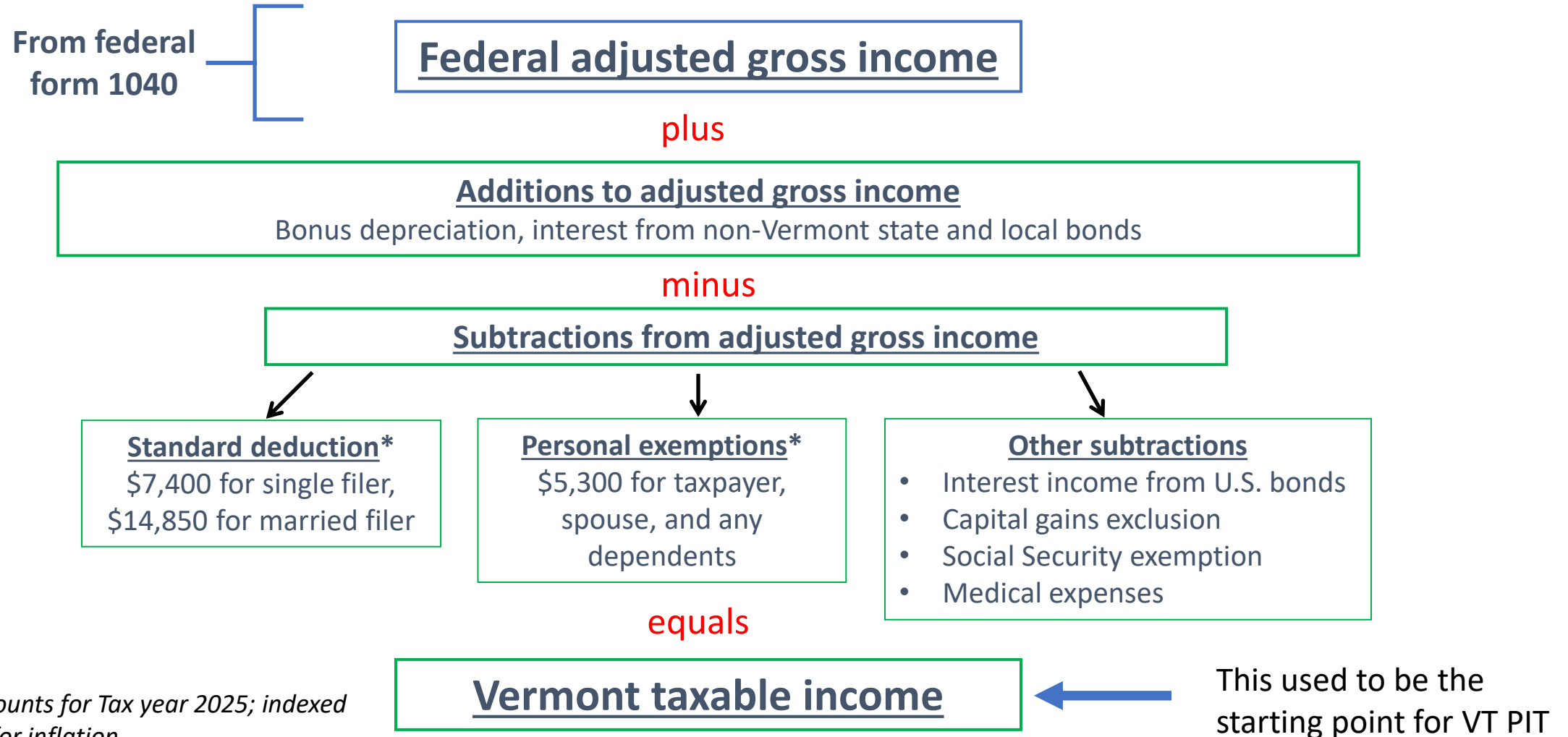
- There were many other changes in TCJA that did not flow through to Vermont including;
 - Lowered marginal income tax rates
 - Doubled the child tax credit from \$1,000 to \$2,000 and increased the refundable portion of the credit. Also increased income thresholds for eligibility.
 - Doubled the estate tax exemption to \$11.2 million for singles and \$22.4 million for couples.
 - Increased the exemption amount and phaseout for the alternative minimum tax.
 - TCJA also included many changes to corporate income taxes that did not flow through to Vermont.



TCJA Changes to Personal Income Taxes That Flow Through



Prior to TCJA the starting point for Vermont PIT was taxable income.



Note: Amounts for Tax year 2025; indexed annually for inflation



Standard Deduction and Personal Exemptions

- TCJA expanded the standard deduction from \$6,500 to \$12,000 for single filers and from \$13,000 to \$24,000 for married filers.
 - If allowed to flow through this would have had a large downward effect on Vermont revenues.
- The bill also eliminated personal exemptions. Previously, taxpayers could deduct \$4,150 for each of the filer, spouse and any dependents.
 - If allowed to flow through this would have had a large upward effect on Vermont revenues.



Itemized Deductions

- Prior to TCJA, taxpayers who itemized their deduction had their deducted amount phased down if they were single and had income over \$261,500 or were married and had income over \$313,800.
- TCJA suspended the limitation on itemized deductions for tax years 2018 to 2025.
- This provision would have had a potential downward effect on Vermont revenues for those taxpayers with high income and itemized their deductions.



Deduction for Pass Through Income

- Prior to TCJA income earned through a pass-through entity had that income taxed as ordinary income at the taxpayer's applicable marginal rate.
- TCJA allowed a deduction of 20% of qualified business income for itemizing taxpayers.
 - Taxpayers who did not itemize would instead take the standard deduction and this would not apply.
- This provision would have had a potential downward effect on Vermont revenues for those taxpayers who had this type of income and itemized their deductions.



Mortgage Interest and Casualty Losses

- Prior to TCJA, itemizing taxpayers could deduct mortgage interest on up to \$1M in indebtedness for up to two homes.
 - TCJA reduced the limit on acquisition indebtedness from \$1M to \$750,000.
 - Lowering the indebtedness threshold would have had a downward effect on Vermont revenues by reducing the amount of interest-paid that itemizers could deduct.
- Prior to TCJA, taxpayers could deduct losses not compensated by insurance if they exceeded 10% of their AGI.
 - TCJA limited casualty losses to losses incurred during a federally declared emergency.
 - This would have had an upward effect on Vermont revenues if itemizing taxpayers had these losses outside of an emergency.



State and Local Taxes

- Prior to TCJA itemizing taxpayers could deduct all of their state and local property taxes and either state and local income taxes or sales taxes.
- TCJA limited the amount of state and local taxes itemizing filers could deduct to \$10,000.
 - Taxpayers who did not itemize would instead take the standard deduction and this would not apply.
- At the time Vermont did not allow the federal deduction for state and local *income* taxes into the calculation of taxable income, but did allow it for state and local *property* taxes.
- For itemizing filers this would incentivize them to apply their property taxes paid to the deduction and use the residual amount (if any) from income taxes towards the deduction.
- This change could have had a small upward effect on Vermont revenues.



Charitable Contributions

- Prior to TCJA, itemizing taxpayers could deduct charitable contributions up to 50% of their AGI.
- TCJA increased the income-based percentage limit for charitable contributions of cash to public charities to 60%.
- Increasing the percentage from 50% to 60% of AGI increased the value of the deduction for itemizing taxpayers which would have a downward effect on Vermont revenues for itemizing taxpayers.



Medical Expenses and Moving Expenses

- Prior to TCJA, itemizing taxpayers could deduct unreimbursed medical expenses to the extent they exceeded 10% of their AGI.
 - TCJA lowered that threshold to 7.5% of AGI.
 - For itemizing taxpayers this would increase the amount they could deduct and thus decrease their taxable income creating a downward effect on Vermont revenues.
- Prior to TCJA, taxpayers were allowed an above the line deduction for work related moving expenses that met certain work requirements.
 - TCJA generally repealed this deduction except for members of the military who move.
 - This had a small upward effect on Vermont revenues because it removed an above the line deduction which increased gross income.



TCJA Changes to Personal Income Taxes That Did Not Flow Through



Personal Income Tax Brackets and Rates

TABLE 1

**Individual Income Tax Brackets and Rates
2018**



Prior Law					Tax Cuts and Jobs Act				
Taxable Income (\$)					Taxable Income (\$)				
Single Filers		Married Couples Filing Jointly		Tax Rate (percent)	Single Filers		Married Couples Filing Jointly		Tax Rate (percent)
Over	But not over	Over	But not over		Over	But not over	Over	But not over	
\$0	\$9,525	\$0	\$19,050	10.0%	\$0	\$9,525	\$0	\$19,050	10.0%
\$9,525	\$38,700	\$19,050	\$77,400	15.0%	\$9,525	\$38,700	\$19,050	\$77,400	12.0%
\$38,700	\$93,700	\$77,400	\$156,150	25.0%	\$38,700	\$82,500	\$77,400	\$165,000	22.0%
\$93,700	\$195,450	\$156,150	\$237,950	28.0%	\$82,500	\$157,500	\$165,000	\$315,000	24.0%
\$195,450	\$424,950	\$237,950	\$424,950	33.0%	\$157,500	\$200,000	\$315,000	\$400,000	32.0%
\$424,950	\$426,700	\$424,950	\$480,050	35.0%	\$200,000	\$500,000	\$400,000	\$600,000	35.0%
\$426,700	and over	\$480,050	and over	39.6%	\$500,000	and over	\$600,000	and over	37.0%

Sources: Gale, William G., et al. June 2018. Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis. Washington, DC: The Urban-Brookings Tax Policy Center; Internal Revenue Service. *Revenue Procedures*. Various years.



Child Tax Credit

- TCJA increased the child tax credit from \$1,000 per qualifying child to \$2,000.
- Also, the credit was previously refundable up to 15% of earned income over \$3,000. The refundable amount was changed to \$1,400 and an additional nonrefundable amount of \$500 was allowed for qualifying dependents who were not qualifying children.
- Previously, the credit was phased out at \$75,000 for individual filers and at \$110,000 for joint filers. These phaseout thresholds were increased to \$200,000 and \$400,000 respectively.
- This provision did not flow through to Vermont and had no effect on State revenue.



Estate Tax Exemption

- Prior to TCJA, \$5 million for individual estates and \$10 million for joint estates was exempt from the federal estate tax.
 - These thresholds were indexed for inflation and by 2017 were \$5.49 and \$10.98.
- TCJA doubled those amounts to \$10 million and \$20 million respectively and also continued indexing the thresholds.
 - For 2026 \$15 million per individuals and \$30 million for married couples.
- Vermont was not coupled to these federal estate tax thresholds so these amounts did not effect State revenue.

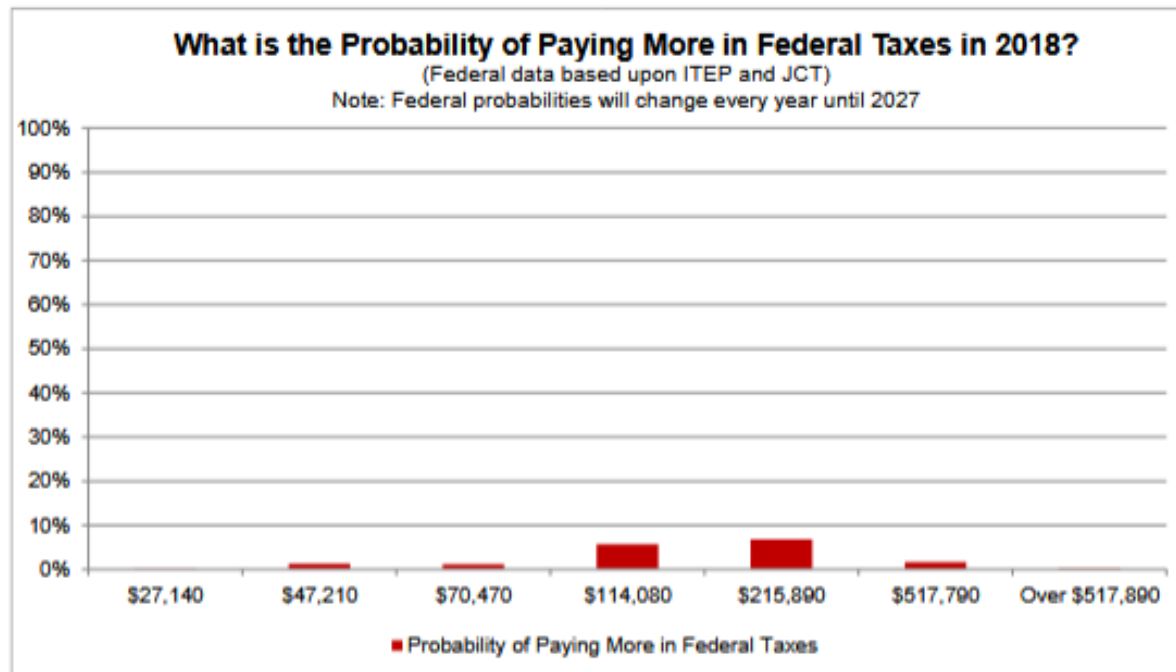


Impact on Vermont taxpayers assuming normal conformity

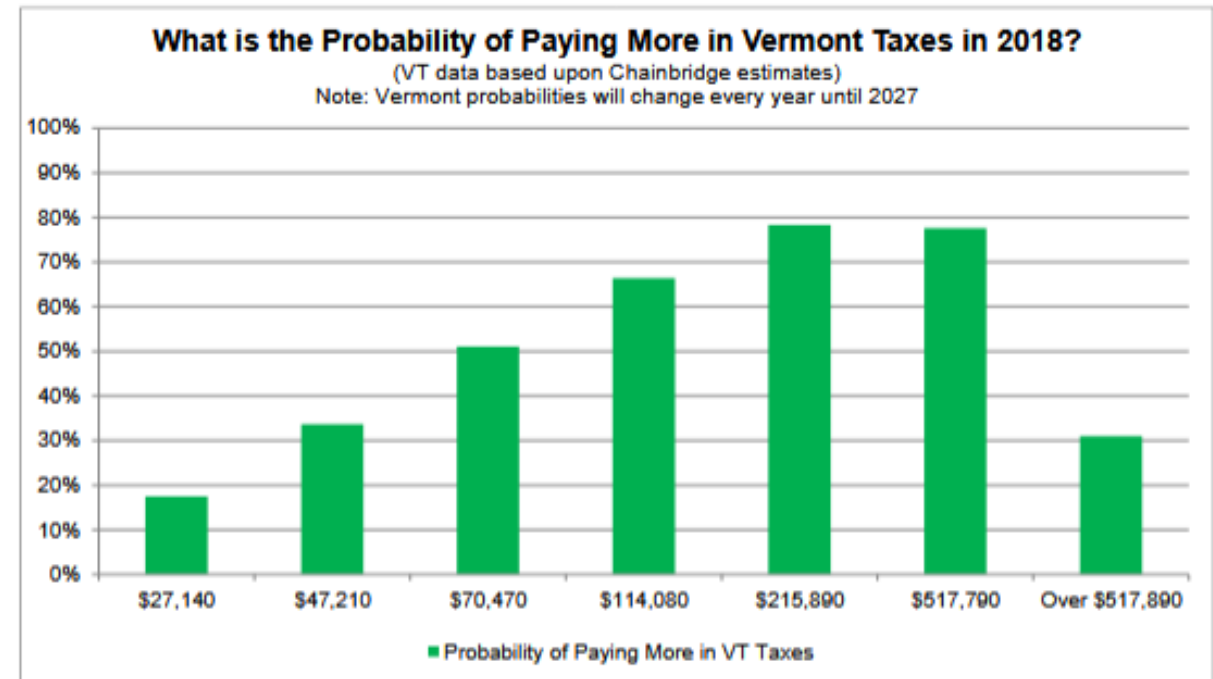


For those who would pay more

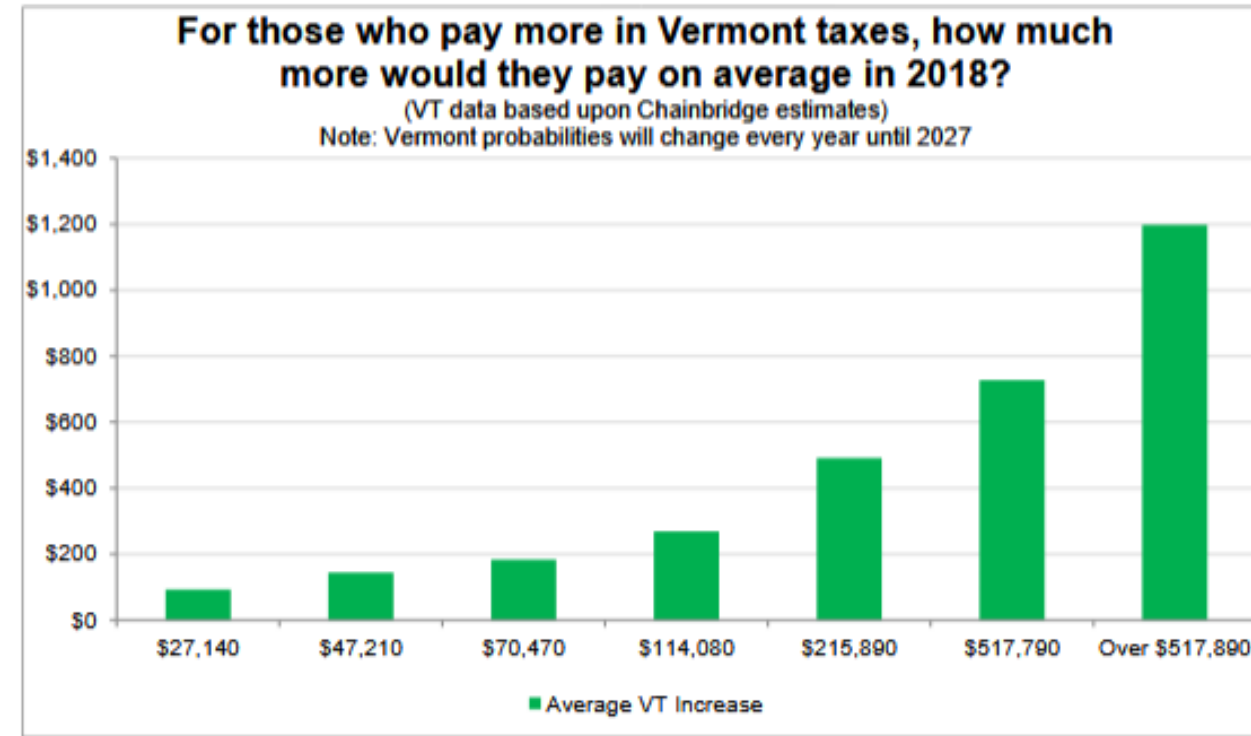
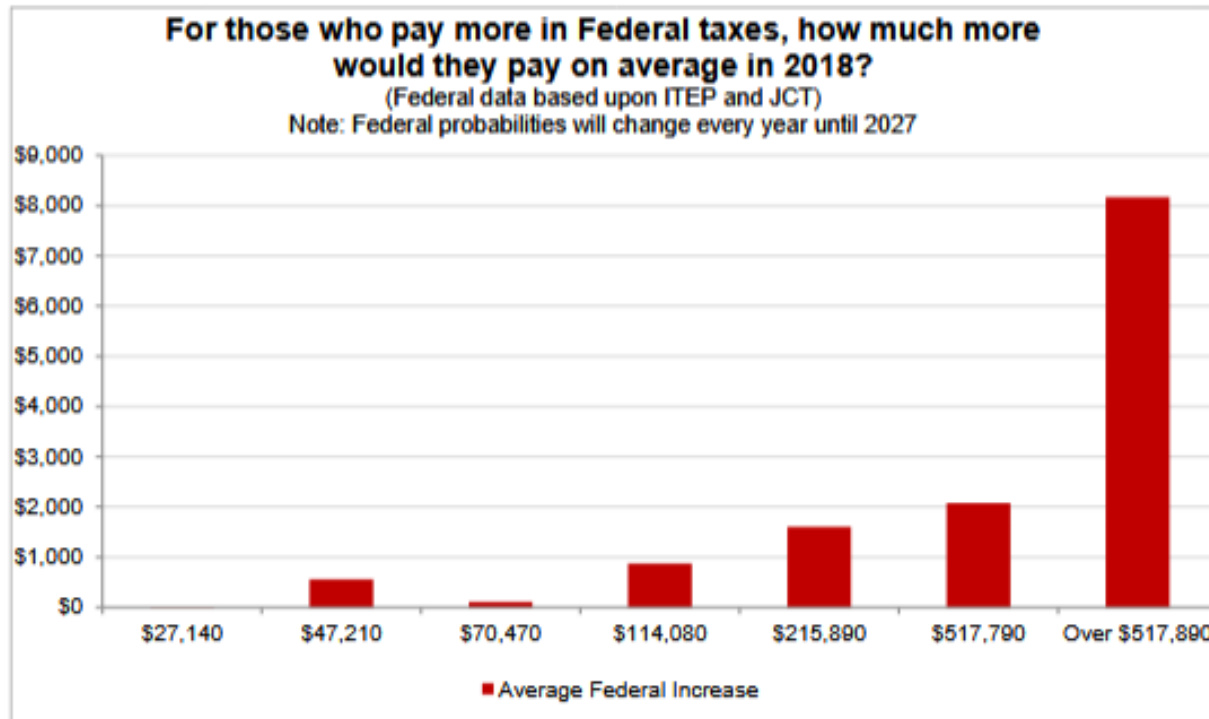
Federal Taxes



Vermont Taxes



For those who would pay more



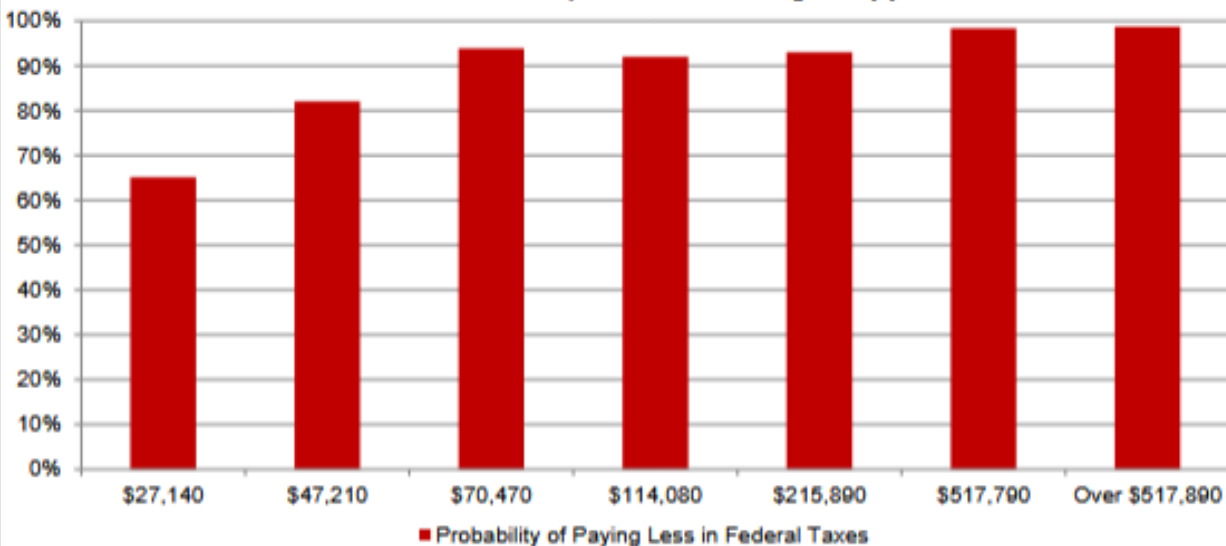
For those who would pay less

Federal Taxes

What is the Probability of Paying Less in Federal Taxes in 2018?

(Federal data based upon ITEP and JCT)

Note: Federal and Vermont probabilities will change every year until 2027



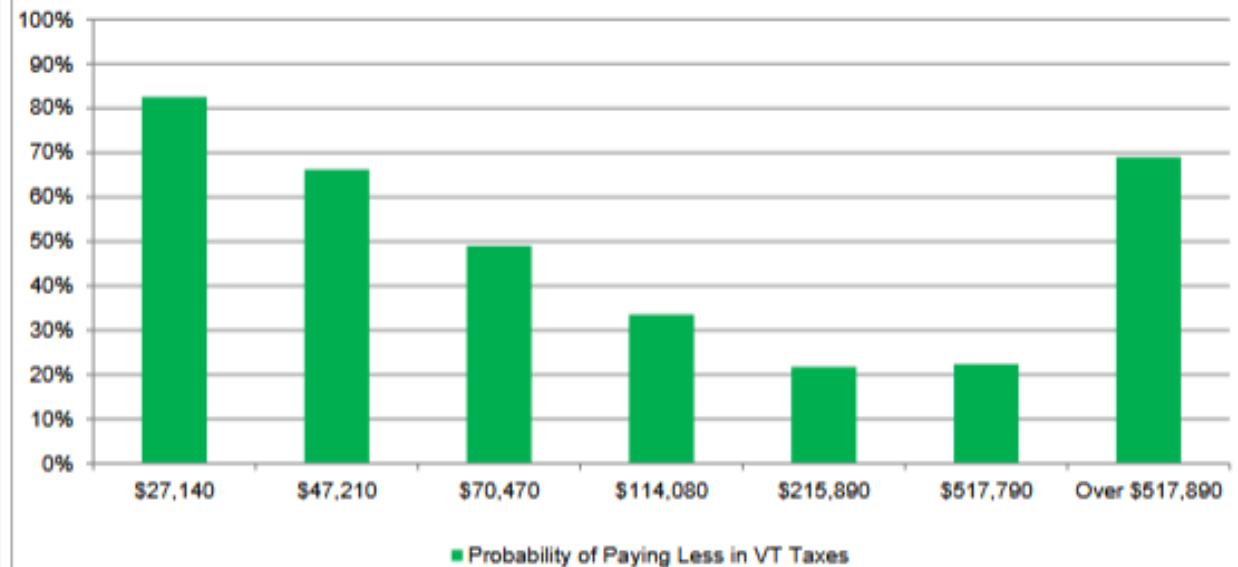
Note: The \$27,140 and \$47,210 income groups have a 35% and 17% probability of no change in Federal taxes respectively

Vermont Taxes

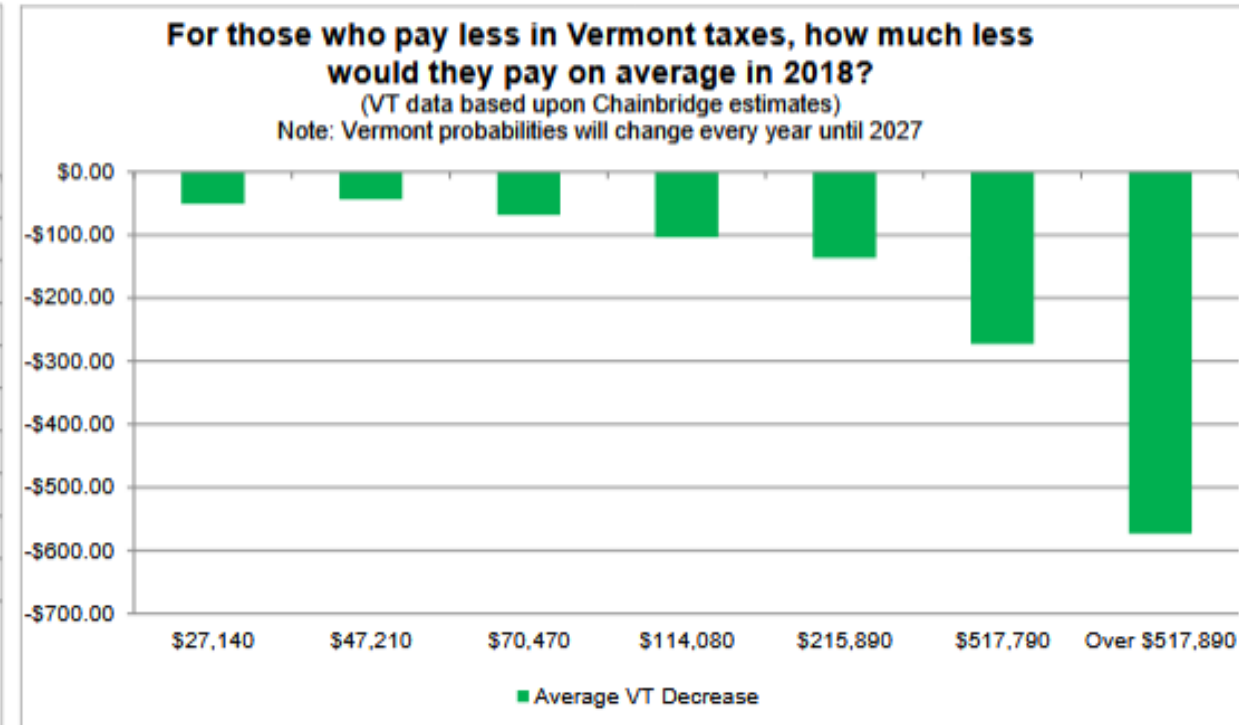
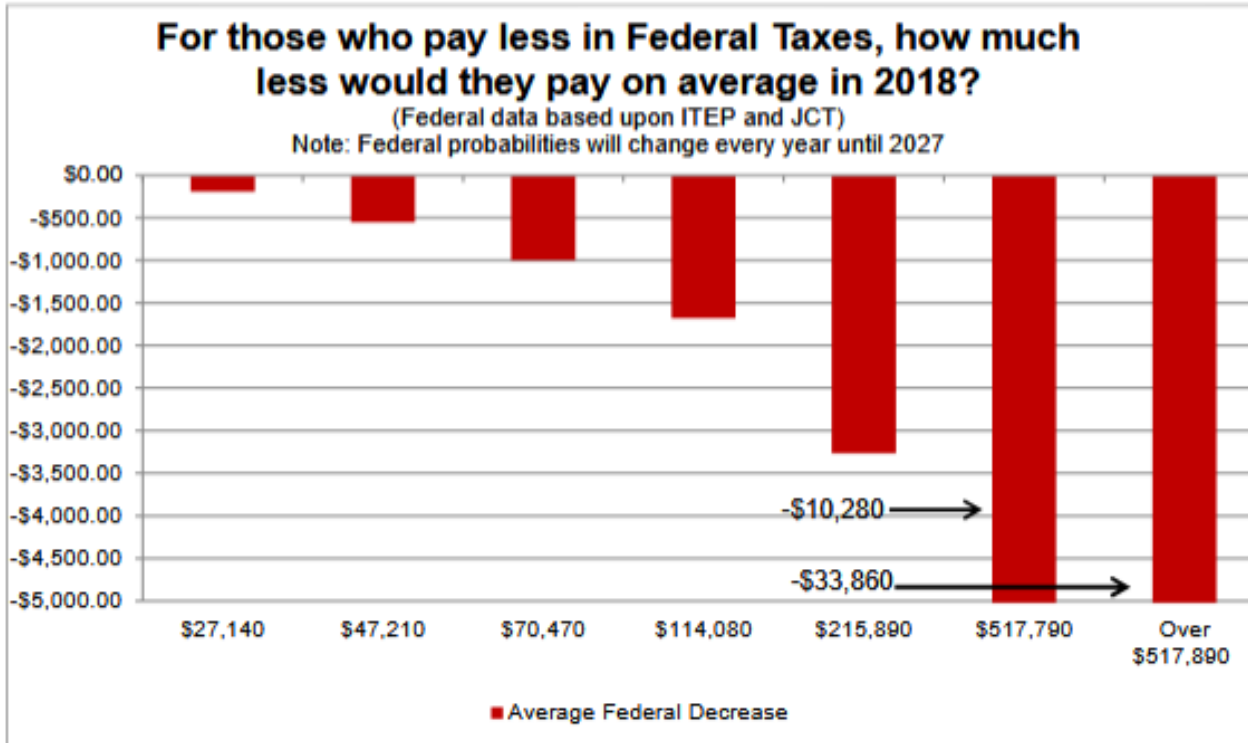
What is the Probability of Paying Less in Vermont Taxes in 2018?

(VT data based upon Chainbridge estimates)

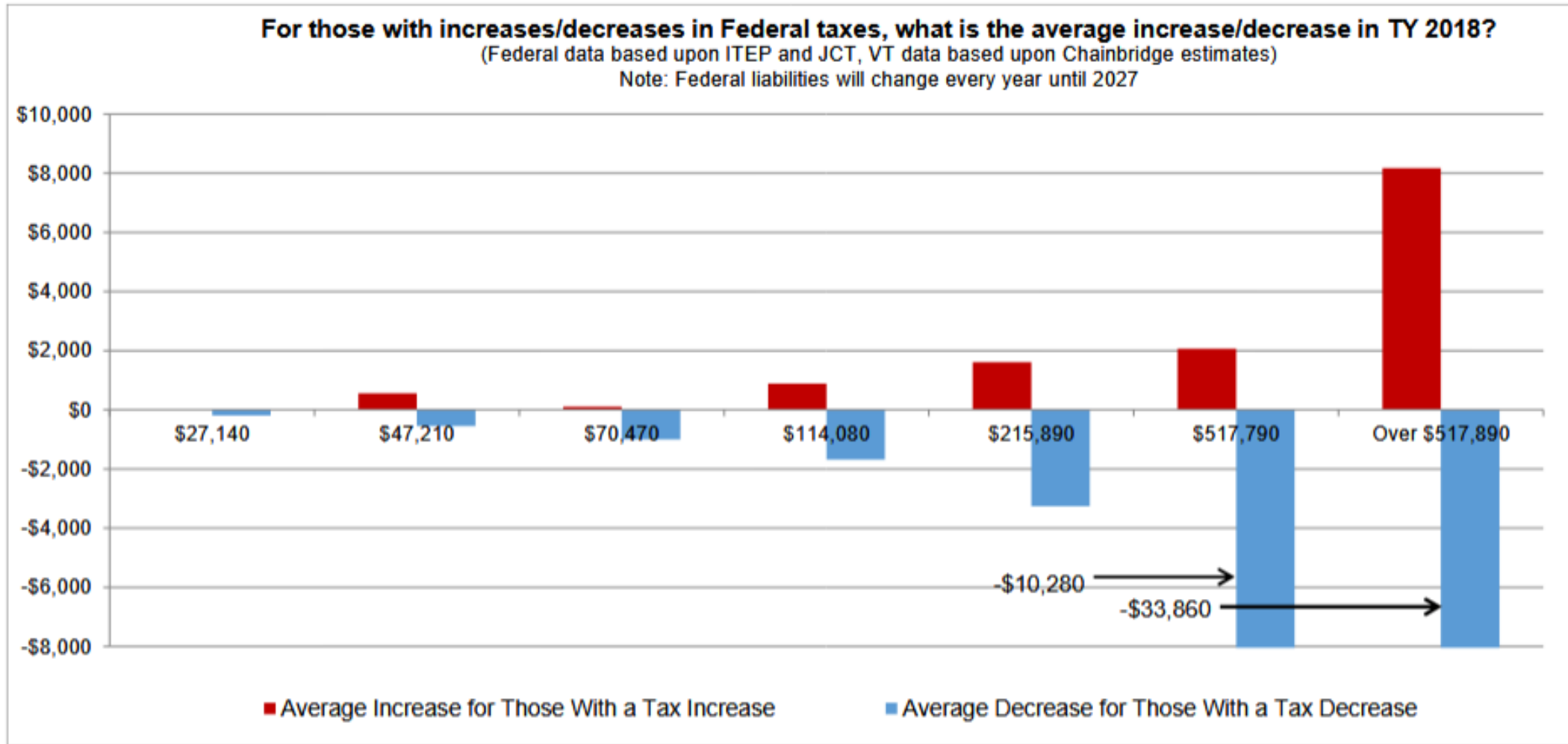
Note: Vermont probabilities will change every year until 2027



For those who would pay less



Average tax increases and decreases



Estimated Net Effect

- At the time it was estimated that those who would pay more in Vermont taxes would owe approximately \$42 million more.
- For those who would pay less, it was estimated they would pay an estimated \$12 million less in Vermont income taxes.
- This meant that the net estimated revenue change would have been a \$30 million increase in State collections.



Why the disparity?

- As shown, it was expected that many Vermonters would see tax decreases federally, but increases in Vermont **taxes**.
- On the federal side, changes to the marginal income tax brackets, paired with the reduction in marginal rates provided very large tax breaks at most income levels above \$25,000 AGI.
- TCJA also made several deductions available for itemizers less generous, which was largely more than offset by the bracket and rate changes.
- The large expansion of the standard deduction was hoped to reduce the number of taxpayers who itemized their deductions...
- But the elimination of personal exemptions increased taxes on taxpayers with more exemptions than the expanded standard deduction reduced taxes.



Why the disparity?

Change to Vermont Taxable Income: Pre-TCJA vs. TCJA (Non-itemizer)					
Filing Status	Number of Exemptions Claimed				
	1	2	3	4	5
Single/MFS	\$ (1,350)	\$ 2,800	\$ 6,950	\$ 11,100	\$ 15,250
Joint	\$ (6,850)	\$ (2,700)	\$ 1,450	\$ 5,600	\$ 9,750
HoH	\$ (4,300)	\$ (150)	\$ 4,000	\$ 8,150	\$ 12,300

Filer Counts by Filing Status and Exemptions Combination – Non-Itemizers					
Filing Status	Number of Exemptions Claimed				
	1	2	3	4	5
Single/MFS	123,000	30,000	1,000	1,000	-
Joint	-	43,000	30,000	45,000	8,000
HoH	1,000	18,000	7,000	2,000	-



Why the disparity?

Vermont Tax Change by Filing Status

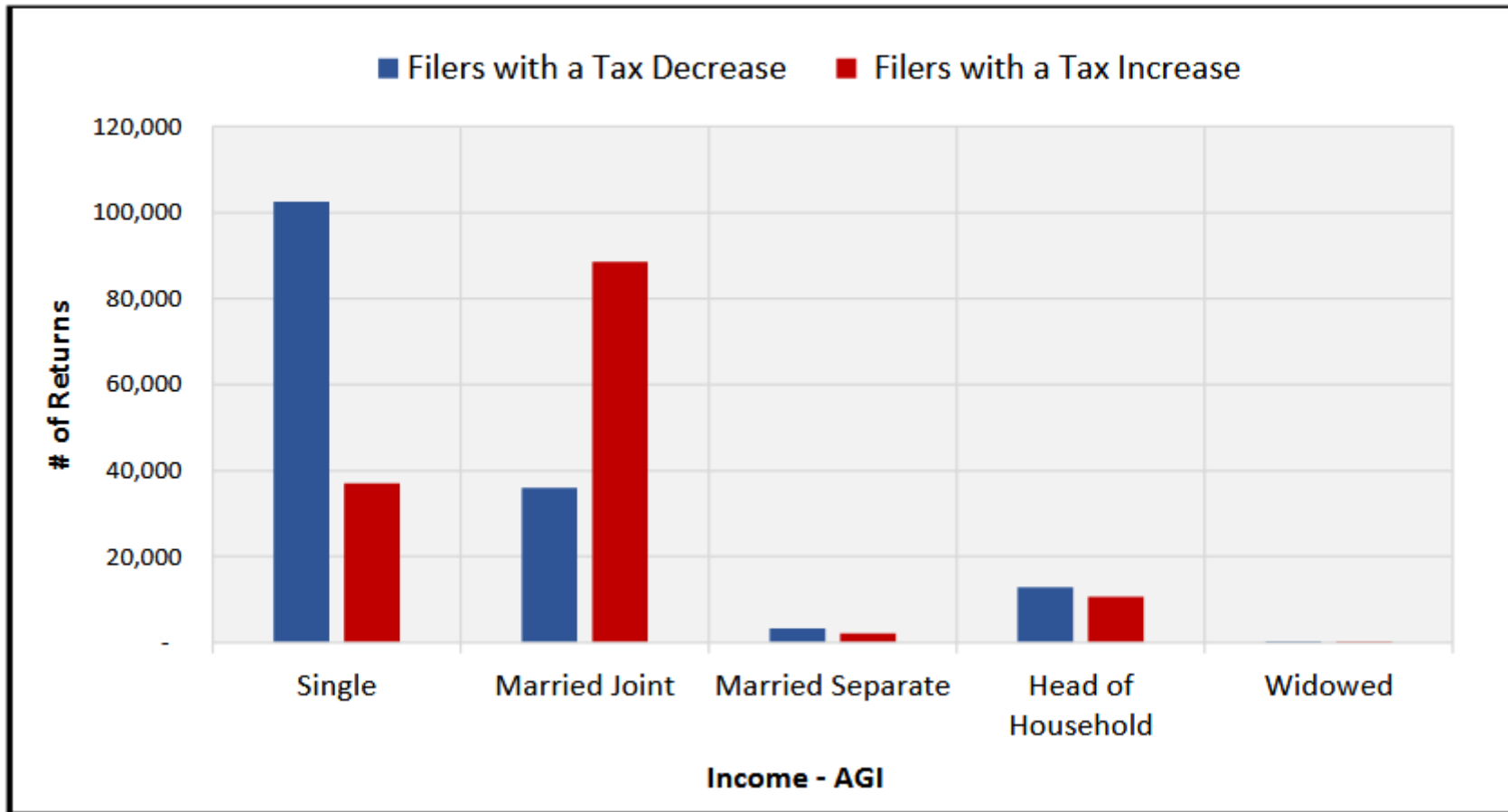


Table 1: Total Effect of Federal Tax Reform on VT Taxes by AGI		
Income - AGI	# of Filers	Net Change (\$Millions)
-Infinity - \$10K	60,385	-\$0.22
\$10K - \$25K	66,722	-\$1.33
\$25K - \$50K	87,867	\$1.62
\$50K - \$100K	87,798	\$7.87
\$100K - \$125K	24,205	\$5.63
\$125K - \$150K	14,253	\$4.47
\$150K - \$200K	13,895	\$5.41
\$200K - \$300K	9,868	\$5.27
\$300K - \$500K	5,275	\$1.80
\$500K - \$1M	3,049	-\$0.05
\$1M - \$10M	2,371	\$0.13
\$10M - Infinity	348	-\$0.17
Total	376,036	\$30.41

**VT
Tax
Increases**



Vermont Response to TCJA



Vermont's Response to TCJA

- In the 2018 special session, Vermont included decoupling language in the budget that;
 - Decoupled Vermont from the federal standard deduction and established a State level standard deduction
 - Decoupled Vermont from the federal personal exemption repeal and established a State level personal exemption
 - Created the Vermont Charitable Deduction
 - Increased the Vermont EITC from 32% to 36% of the federal EITC amount
 - Lowered marginal tax rates and collapsed the top two brackets
 - Implemented the Social Security Income exemption
- The net effect of these changes was an approximately \$30 million reduction in taxes compared to the baseline assuming normal conformity.
 - The policy was designed largely to offset the expected net State revenue increases that would have resulted from normal conformity with TCJA.



Questions?

