

Summary of Governor's Recommended Tax Proposals

House Committee on Ways and Means

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JFO

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Governor's Recommended Tax Policy

- For FY 2026, the Governor recommended changes that expand several existing credits and exemptions including,
 - Vermont Child Tax Credit to include children ages 6 and younger,
 - Vermont Earned Income Tax Credit to increase the maximum credit amount for claimants without children from 38% to 100% of the federal credit,
 - Vermont Social Security Income exemption to increase the income thresholds to qualify, and
 - Full exemption of military pension/survivor benefits.
- All of these proposals would affect the General Fund starting in FY2026 and into the future.

Net Change in Revenue (millions)	
Tax Policy Proposal to Existing Credits and Exemptions	FY2026
Child Tax Credit for Children up to Age 6	-\$4.5
EITC 100% for Filers without Children	-\$3.0
Social Security Exemption Income Threshold Increase	-\$2.1
Full Military Pension/Survivor Benefits Exemption	-\$3.9
Total	-\$13.5



Child Tax Credit



Overview of the Vermont Child Tax Credit

- The existing VT CTC was established in Act 138 (2022) and made effective starting tax year 2022.
- Taxpayers with children ages 5 and under and who have AGI below \$175,000 qualify for the CTC.
 - The \$175,000 threshold applies for all filing statuses.
- The CTC is *fully refundable*.
- Claimants receive \$1,000 per child if they have AGI below \$125,000.
- For AGI's above \$125,000, the credit is phased out at a rate of 2% per additional \$1,000 in AGI until it reaches \$0 at \$175,000.



Overview of the Vermont Child Tax Credit

- Federal law provides a child tax credit up to \$2,000 per child ages 16 and under. The amount of credit depends on the taxpayers' income.
- Vermont currently provides a refundable credit equal to \$1,000 per child ages 5 and under.
 - Claimants can receive the full credit amount if their AGI is \$125,000 or lower. The credit is phased out over the next \$50,000 of income so filers earning more than \$175,000 are not eligible to receive the credit.
 - Approximately 21,000 tax returns are forecasted to claim the CTC in TY 25 and receive \$24.0 million in credit value.
 - This is slightly lower than the \$25.1 million that was received in 2022.



Proposed Change

- Increasing the existing age eligibility from 5 and under to 6 and under would result in an **estimated additional \$4.5 million in forgone revenue annually**.
 - This would increase the total estimated tax expenditure from this credit to \$28.5 million, making it the second largest VT tax expenditure.
- Based on US Census Bureau data, JFO estimates this change would increase the number of children eligible to be claimed by 18.5%.
- The tax expenditure from this credit could decrease in future years as Vermont's birthrate has been persistently low, and population of young children has been declining.



Statistical Summary of TY 2022 Results*

- In tax year 2022:
 - **21,034 tax returns** claimed the CTC.
 - **27,214 children** were claimed.
 - CTC credit value to these filers totaled approximately **\$25.1 million**.
- CTC claimants filed their taxes several ways:
 - 20,431 (97%) filed electronically and 603 (3%) submitted paper returns.
 - Of the electronic filers, 227 (1%) filed through the IRS Volunteer Income Tax Assistance (VITA), a free tax preparation program available to low-income, disabled or limited English proficiency filers.
 - Of the electronic filers, 8,387 (41%) filed using a paid provider, meaning the majority either filed themselves or used another free provider.
 - The Tax Department outlines some of the free options here:
<https://tax.vermont.gov/individuals/free-tax-preparation-assistance>

*The following results are from a JFO report published December of 2023 <https://ljfo.vermont.gov/assets/Subjects/Tax-Expenditure-Reports/11b4d43c7d/2023-Tax-Expenditure-Reviews-Report.pdf>



Statistical Summary of TY 2022 Results

- **Key Findings:**

- Most Vermont CTC claimants were from low- and moderate-income households.
- Moderate- to higher-income household CTC claimants claimed more children on average.
- Married CTC claimants were more likely to be higher income, while single CTC claimants were more likely to be lower income.
- There was significant overlap between the CTC, EITC, and CDCC with many filers claimed two or all three.



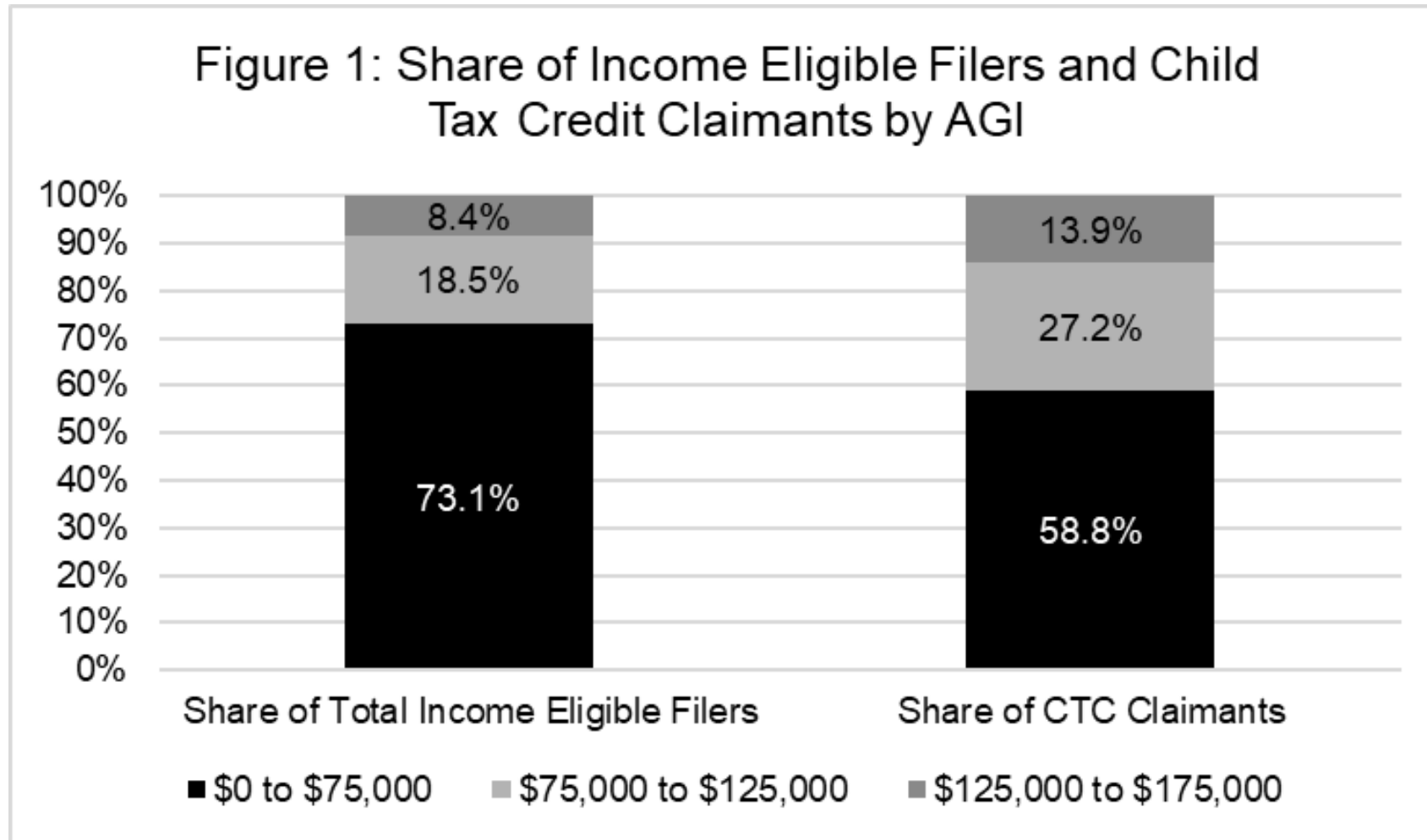
Income Distribution of Credit Recipients

- Approximately 92% (303,015) of VT taxpayers are *income eligible* for the CTC, although many don't have age eligible children.
- Those with lower income make up the majority of CTC claimants, but as income increases filers are more likely to be eligible and claim the CTC.

Income	Total Income Eligible Filers	CTC Claimants	Share of Filers in AGI Group that Claimed the CTC
\$0 to \$75,000	221,373	12,375	5.6%
\$75,000 to \$125,000	56,209	5,726	10.2%
\$125,000 to \$175,000	25,433	2,933	11.5%
Total	303,015	21,034	6.9%

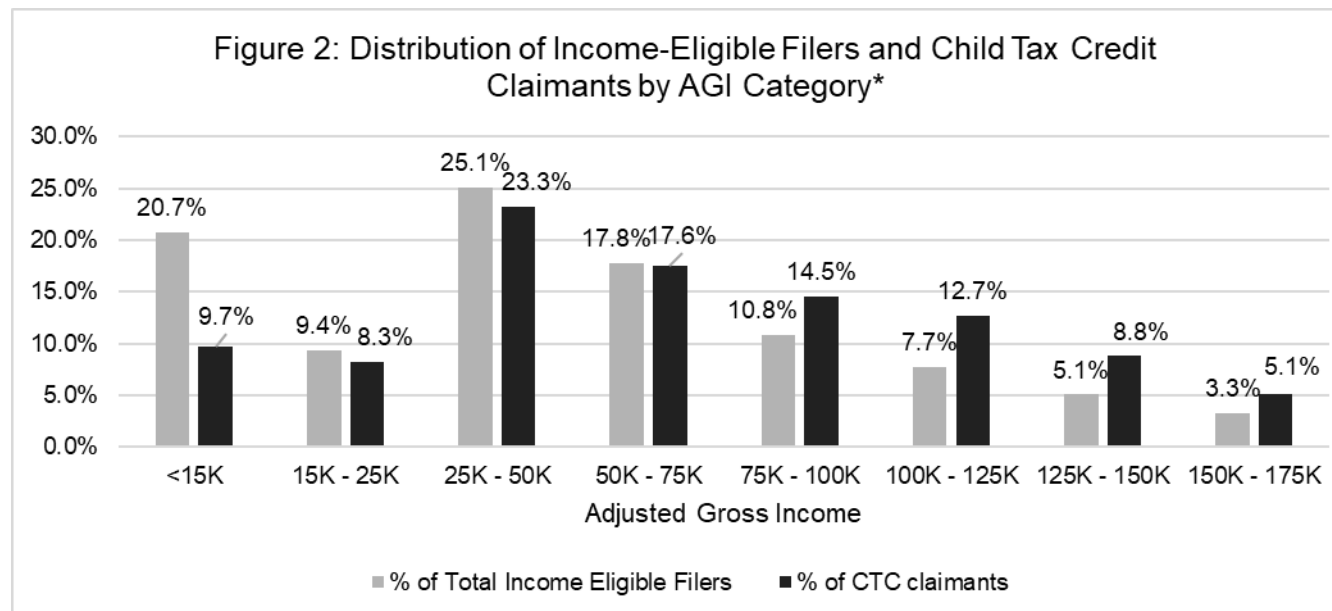


Income Distribution of Credit Recipients



Income Distribution of Credit Recipients

- Claimants with lower income claim the CTC at lower rates than those with higher income.
- This indicates that lower income households are less likely to have age eligible children.
- However, there is potentially a cohort of eligible households that either don't file taxes or do not know that they are eligible and can claim the CTC.



Earned Income Tax Credit



Overview of the EITC

- The existing VT Earned Income Tax Credit (EITC), as established in 32 V.S.A. § 5828b, provides refundable tax credits to low- and moderate-income workers and families.
- The credit works by reducing personal income tax liability for filers based on income level, marital status and the number of dependent children.
- Statutory Purpose in 32 V.S.A. § 5813s is to provide incentives for low-income working families and individuals and to offset the effect on these Vermonters of traditionally regressive taxes.



Overview of the EITC

- The federal EITC was established in 1975 on a temporary basis and was made permanent in 1978.
- The Vermont EITC was initially established in 1980 as a flat 23% of the federal credit.
 - Context: 23% was also the “applicable percentage” used to determine state tax liability.
 - Example: If Vermonters had \$1,000 in federal tax liability and received a \$100 EITC on the federal level, their tax liability in Vermont would be \$230 and their State EITC would be \$23.



Overview of the EITC

- Because the Vermont EITC is a flat percentage of the federal EITC, eligibility criteria and maximum credit amounts are established at the federal level.
- Today the Vermont “applicable percentage” used to calculate the State EITC is 38% (was last increased from 36% in 2022 in Act 138).
- Any changes to the EITC made on the federal level flow directly down to Vermont.
 - Temporary changes made for tax year 2021 at the federal level had significant impacts on Vermonters, effectively tripling the maximum credit they could receive.



Proposed Change

- The proposed change would increase the existing credit amount claimants without children can receive from 38% to 100% of the federal credit amount.
 - Does not change the credit amount for claimants with children.
- **This change is estimated to result in an additional \$3.0 million in forgone revenue annually.**
 - This would increase the total value of this tax expenditure to \$29.9 million annually.
 - The EITC has long been the largest VT tax expenditure.



Eligibility Criteria and Credit Amounts

Because the Vermont EITC piggybacks off the federal EITC, all eligibility criteria and the initial credit calculations are based on the federal structure.



EITC Eligibility Criteria: Federal Level

- Three primary criteria need to be met to qualify for the federal EITC:
 - Filers are required to have earned income (wages, salaries, tips, etc.).
 - Filers must be within certain AGI ranges.

AGI Thresholds for the 2025 Tax Year		
Children or Relatives Claimed	Filing as Single Head of Household or Widowed	Filing as Married Filing Jointly
Zero	\$19,104	\$26,214
One	\$50,434	\$57,554
Two	\$57,310	\$64,430
Three or more	\$61,555	\$68,675

- Filers cannot have investment income greater than \$11,950 in tax year 2025.



Maximum EITC Amounts

- Maximum credit amounts vary based on the number of dependent children claimed.
 - Currently, Vermont provides a credit worth 38% of the federal EITC amount regardless of the number of eligible dependents claimed.
 - The proposal would increase the maximum credit amount for claimants without children to 100% of the federal credit.

Tax Year 2025 Maximum EITC Amounts			
Children or Relatives Claimed	Maximum Federal Credit Amount	Existing Maximum VT Credit Amount	Proposed Maximum VT Credit Amount
Zero	\$649	\$247	\$649
One	\$4,328	\$1,645	\$1,645
Two	\$7,152	\$2,718	\$2,718
Three or more	\$8,046	\$3,057	\$3,057



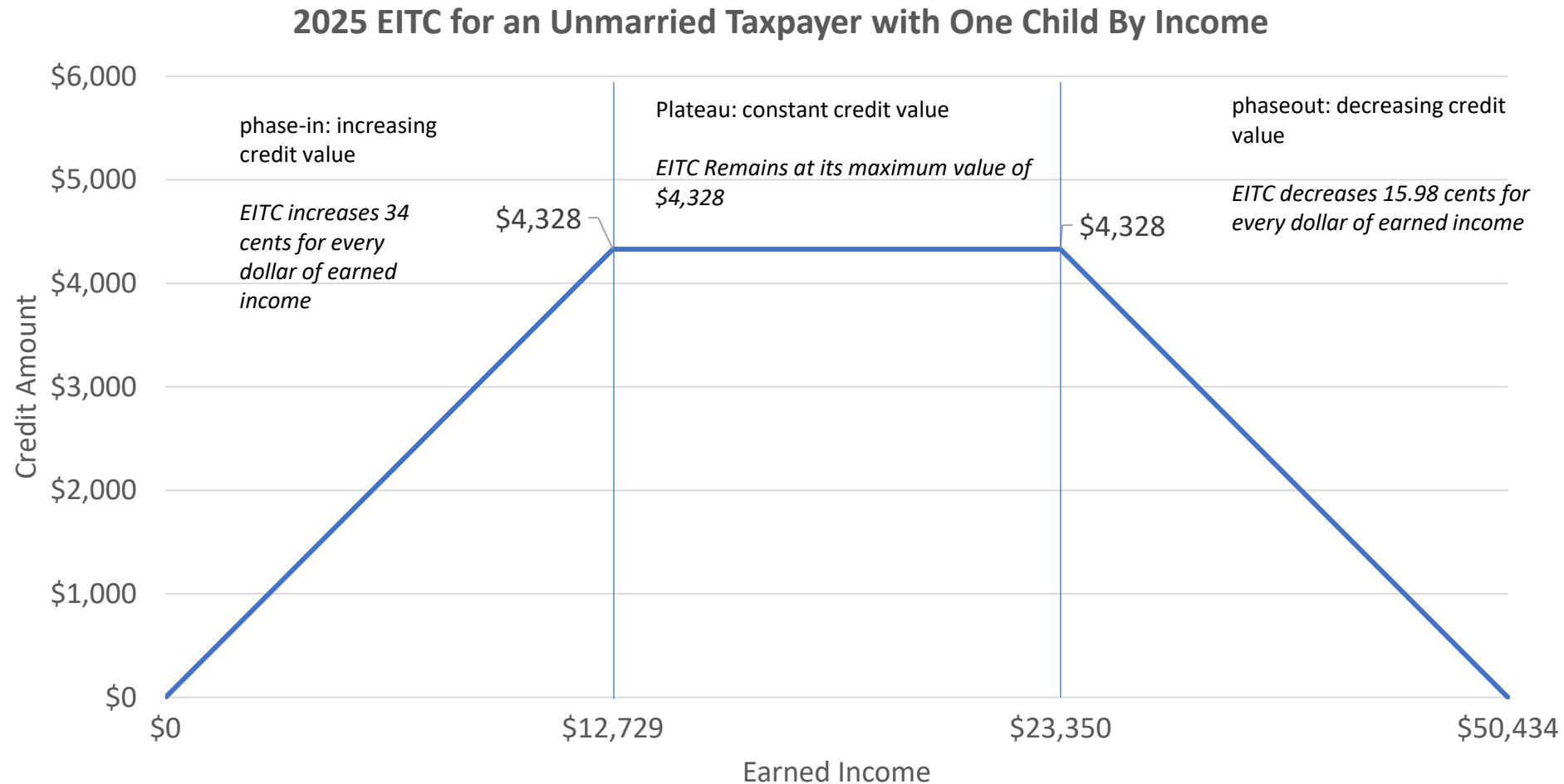
EITC Amounts: Federal Level

Parameters	Unmarried Filers			
Number of Qualifying Children	0	1	2	3+
Credit Rate	7.65%	34%	40%	45%
Earned Income Amount	\$8,490	\$12,730	\$17,880	\$17,880
Maximum Credit Amount	\$649	\$4,328	\$7,152	\$8,046
Phaseout Amount Threshold	\$10,620	\$23,350	\$23,350	\$23,350
Phaseout Rate	7.65%	15.98%	21.06%	21.06%
Income Where Credit = 0	\$19,104	\$50,434	\$57,310	\$61,555

Parameters	Married Filers			
Number of Qualifying Children	0	1	2	3+
Credit Rate	7.65%	34%	40%	45%
Earned Income Amount	\$8,490	\$12,730	\$17,880	\$17,880
Maximum Credit Amount	\$649	\$4,328	\$7,152	\$8,046
Phaseout Amount Threshold	\$17,730	\$30,470	\$34,715	\$30,470
Phaseout Rate	7.65%	15.98%	21.06%	21.06%
Income Where Credit = 0	\$26,214	\$57,554	\$68,675	\$68,675



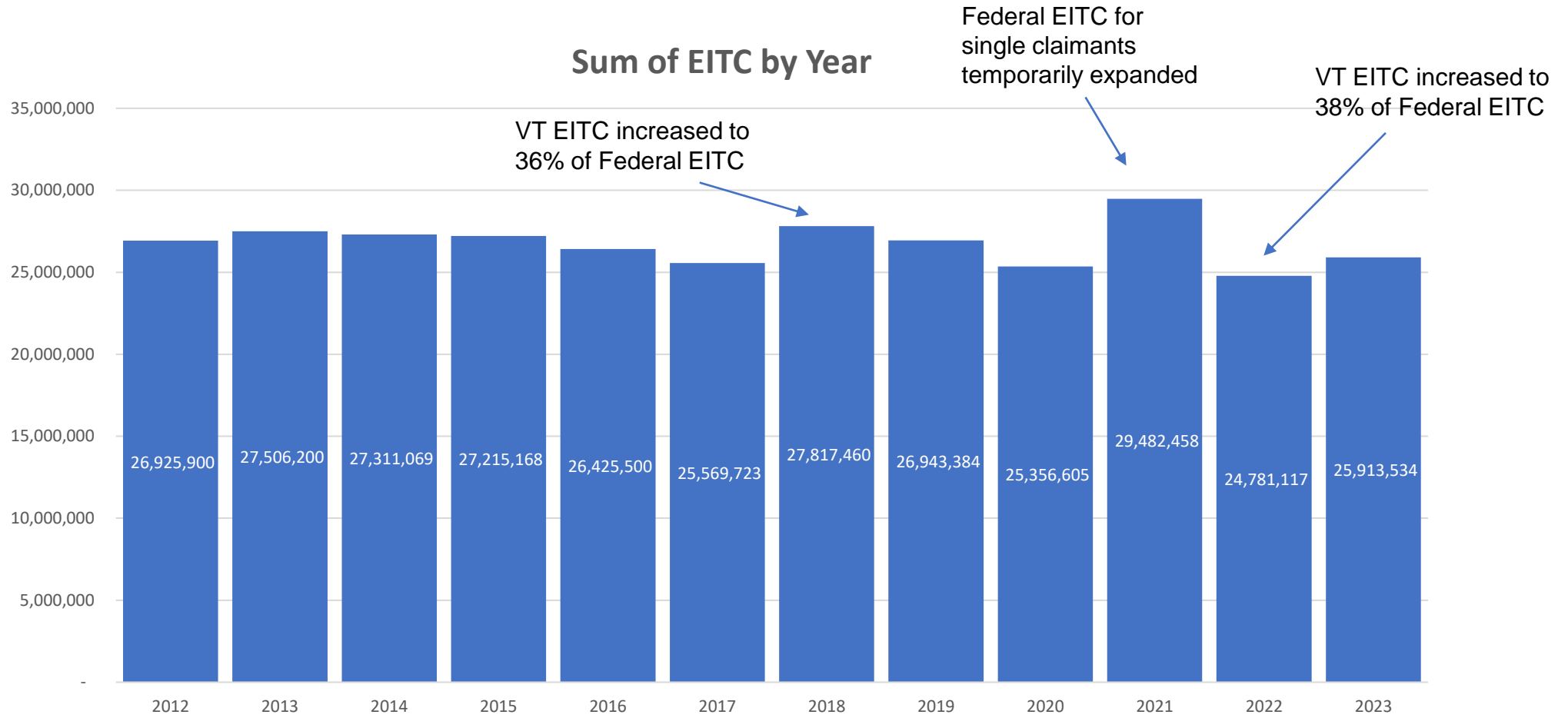
EITC Amounts: Federal Level



Vermont EITC by the Numbers

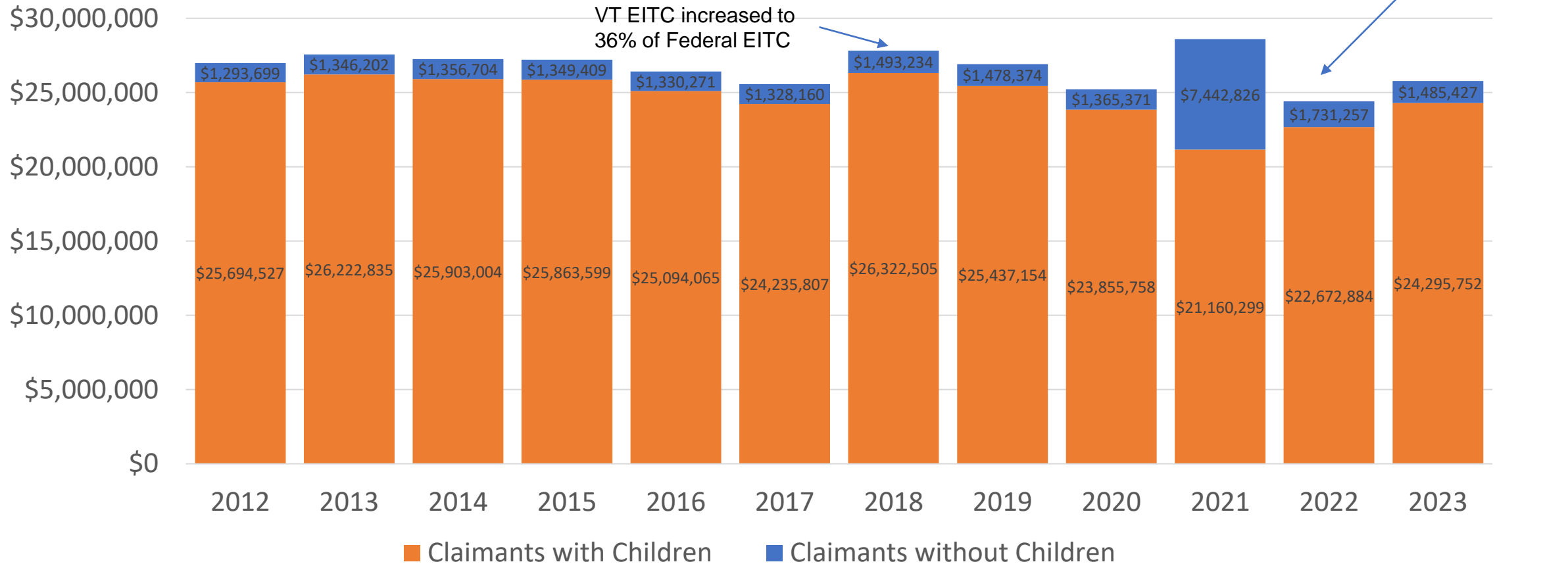


Total Value of the VT EITC by Year



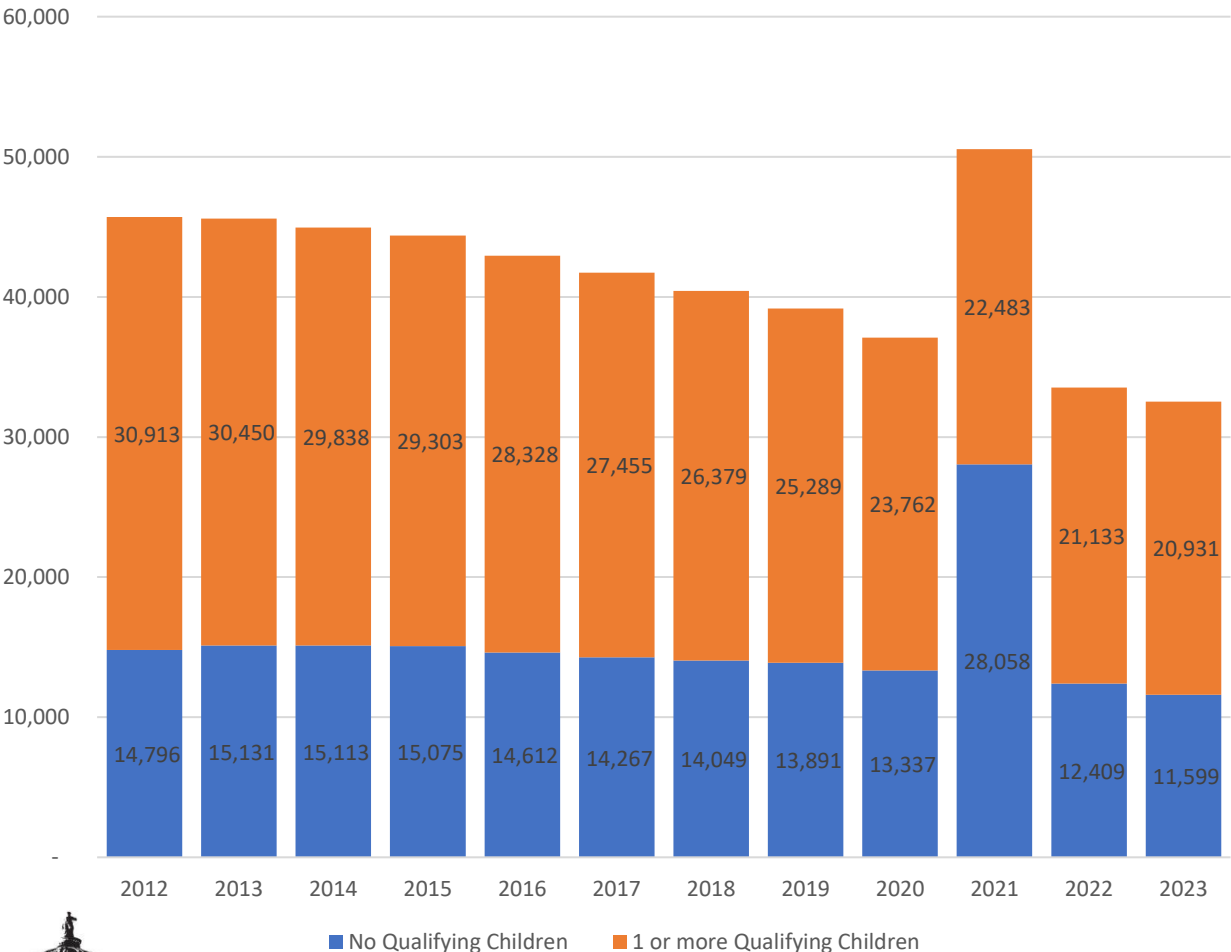
Total Value of the VT EITC by Year

Value of EITC Received by Year and Children Claimed

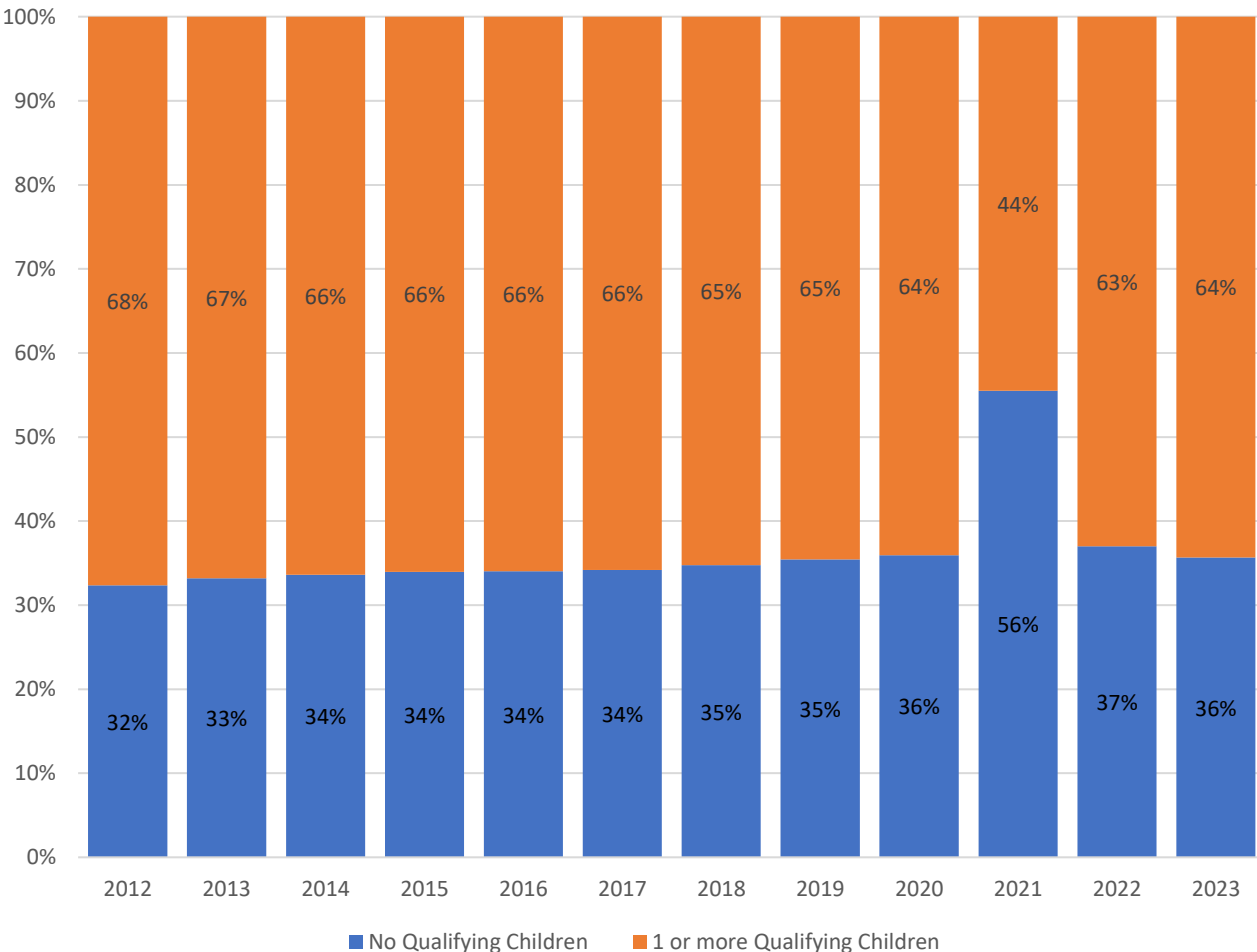


EITC Claimants by Children Claimed

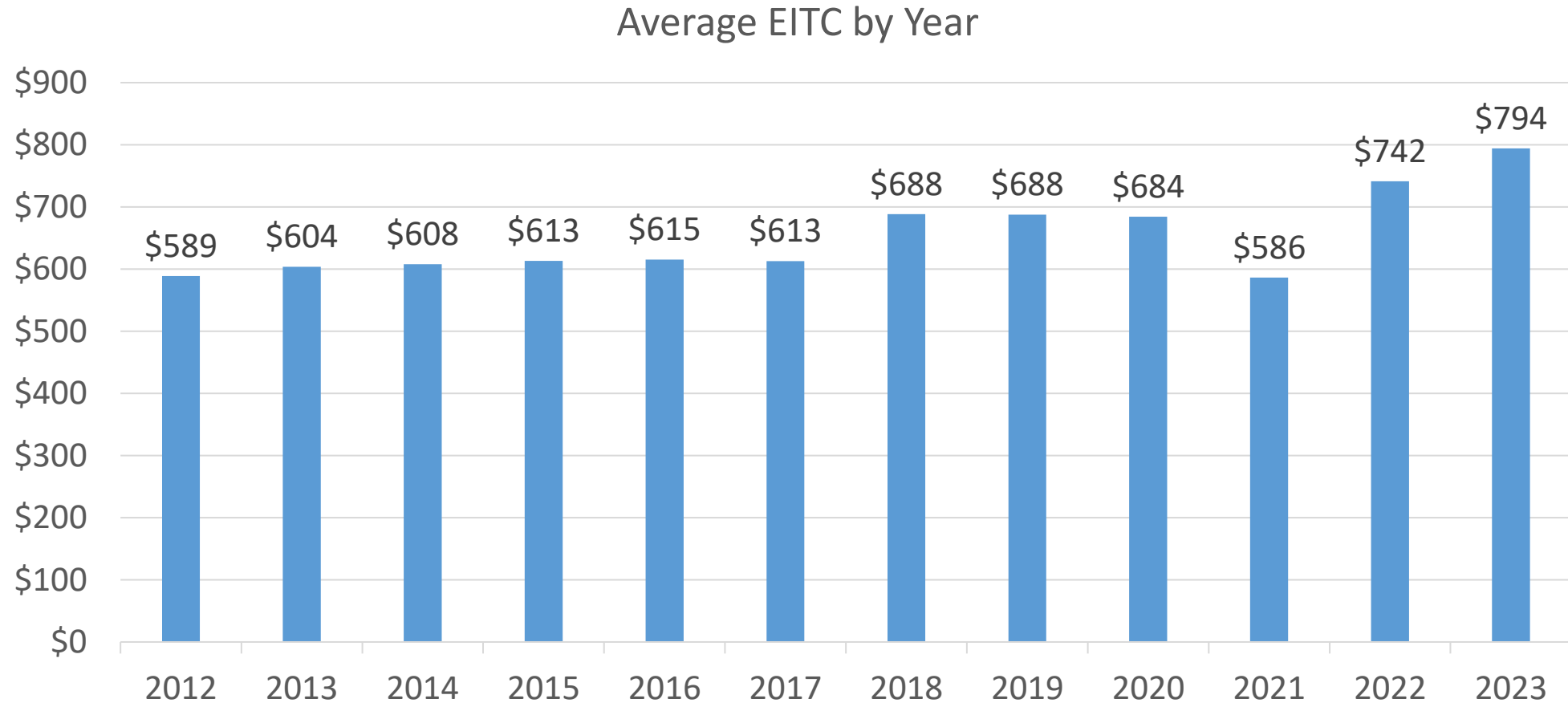
Total VT EITC Claimants by Year and Children Claimed



Share of EITC Claimants by Year and Children Claimed

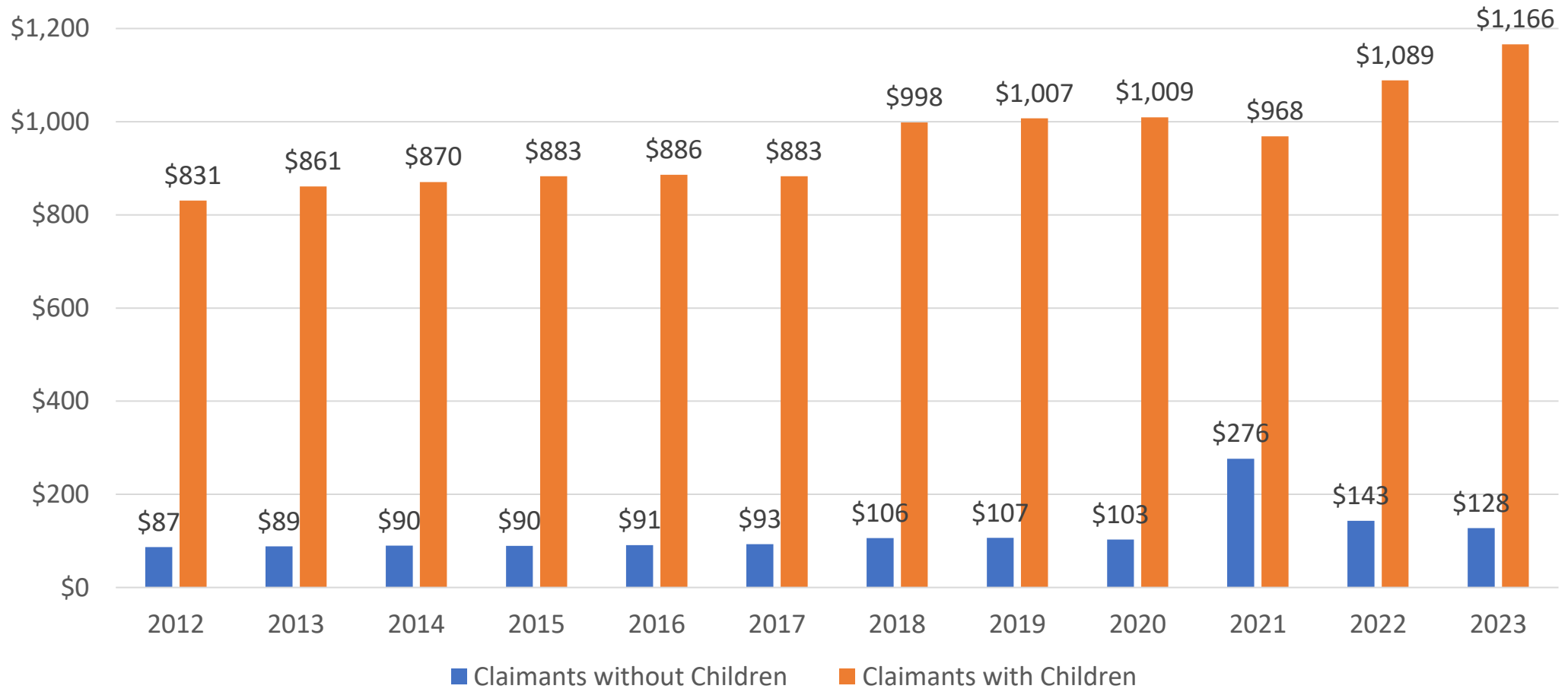


Average Value of the VT EITC by Year



Average Value of the VT EITC by Year

Average EITC by Year and Children Claimed



Share of EITC Claimants by Inflation Adjusted AGI

Share of Vermont EITC Claimants by Inflation Adjusted AGI			
AGI (Inflation Adjusted) (\$)	2013	2018	2023
<\$0	0.7%	0.7%	0.7%
\$0-\$10,000	21.4%	21.1%	23.9%
\$10,000-\$25,000	37.3%	36.0%	35.4%
\$25,000-\$35,000	14.7%	14.9%	13.7%
\$35,000-\$50,000	18.9%	20.7%	21.5%
>\$50,000	6.7%	6.6%	4.7%



Other State EITCs

- 31 states and DC offer a state EITC.
- Structure of state EITCs vary, but the most common type is a refundable credit set at a percentage of the federal credit (like Vermont).
- Washington, D.C., Maine and Maryland provide different flat percentages of the federal credit to claimants based on how many dependent children they have.

Washington, D.C.	Provides 70% of the federal credit to claimants with children and 100% of the federal credit to claimants without children
Maine	Provides 12% of the federal credit to claimants with children and 25% of the federal credit to claimants without children
Maryland	Provides 45% of the federal credit to claimants with children and 100% of the federal credit to claimants without children

- Some states take the opposite approach and provide a larger percentage of the federal credit to claimants the more children they have.
 - Oregon
 - Wisconsin



Vermont EITC and CTC Claimant Overlap



Overlapping Credits

- Many EITC claimants are also eligible to claim the CTC and many do so.

2023 Vermont EITC and CTC Data						
Filer Adjusted Gross Income	Filers receiving EITC	Total EITC received	Filers receiving CTC	Total CTC received	Filers receiving EITC and CTC	Total combined EITC and CTC received
≤\$0	257	\$136,213	132	\$176,629	19	\$63,477
\$1-\$27,699	20,346	\$15,460,612	3,604	\$4,515,171	3,354	\$9,644,163
≥\$27,700	11,930	\$10,304,453	16,549	\$19,318,919	4,399	\$9,866,913
Grand Total	32,533	\$25,901,278	20,285	\$24,010,719	7,772	\$19,574,553

Source: VT Department of Taxes PIT-IN112 as of 12/09/24



Social Security and Civil Service Retirement System Exemption



Vermont Social Security Exemption

- Currently Vermont taxpayers can fully exempt their Social Security income if they are single with AGI \$50,000 or below or are married with AGI of \$65,000 or below.
 - The exemption is phased out over the next \$10,000 of AGI for both filing status types.
- This proposal would increase the existing thresholds by \$5,000 each.
- JFO estimates this change would result in an additional \$2.1 million in forgone revenue annually, likely growing over time as Vermont's population continues to age.



Federal and Other States' Treatment of SS Income

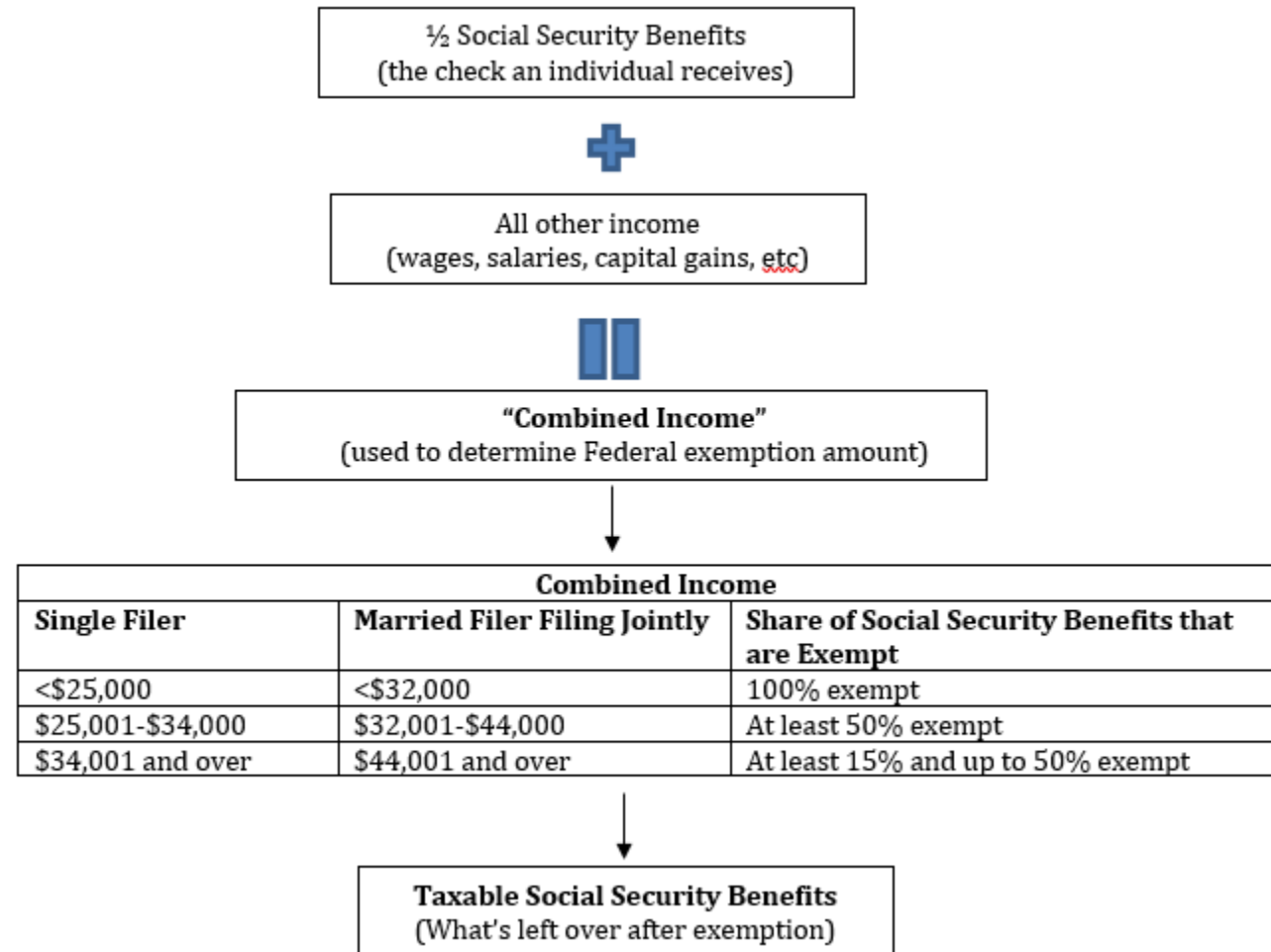
- A portion of Social Security income is exempt from federal income tax.

Single/Separate/Widow(er)/HoH Combined Income	Married Joint Combined Income	Percentage of Social Security Benefits that are Taxed
Less than \$25,000	Less than \$32,000	0%
\$25,000-\$34,000	\$32,000 - \$44,000	Up to 50%
Greater than \$34,000	Greater than \$44,000	Up to 85%

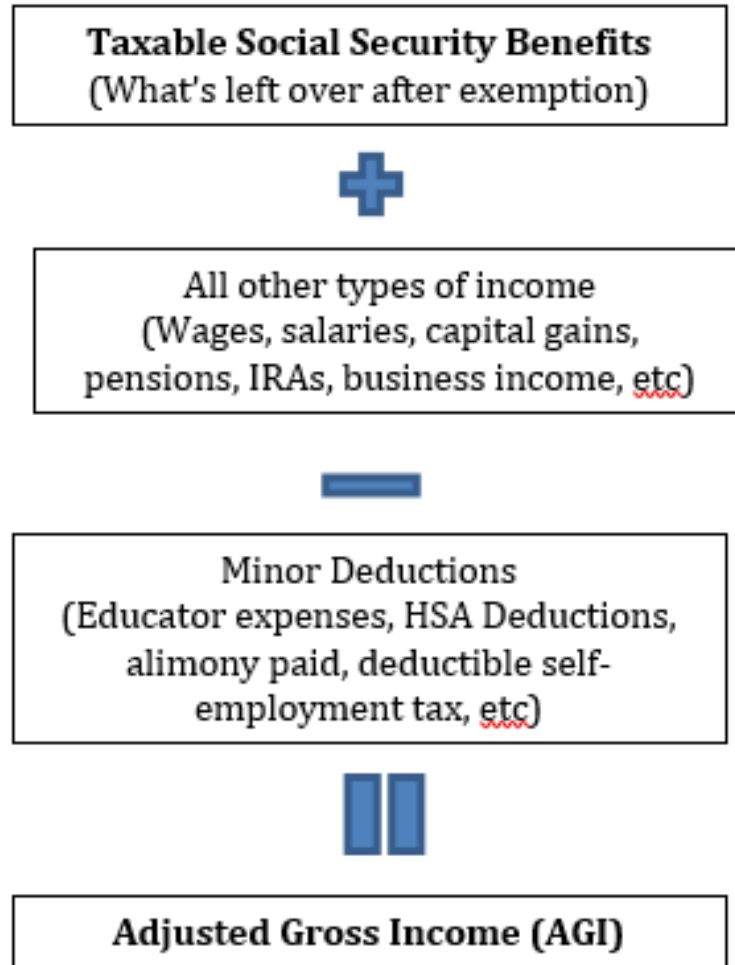
- 41 states and DC don't tax Social Security benefits at all (7 of those states have no income tax).
- 9 states (including Vermont) offer a partial Social Security income exemption. All states offer either full or partial exemptions.



Federal Determination of Taxable SS Benefits



How does this affect AGI?



- The starting point for Vermont personal income taxes is AGI which is defined federally and affected by federal exemptions on Social Security income.
- The federal social security exemption flows through to taxpayers' Vermont tax return.
- Even if Vermont had no State exemption for Social Security income, the federal treatment would exempt a portion of this income from Vermont state taxes.



Vermont's Social Security Exemption

How does Vermont's exemption work?

Taxable Social Security Benefits



How much is exempt?

- Single: Under \$50,000 in AGI, 100% exempt
- Married: Under \$65,000 in AGI, 100% exempt
- Over the next \$10,000, the exemption is phased-out

What this proposal would do?

Taxable Social Security Benefits



How much is exempt?

- Single: Under \$55,000 in AGI, 100% exempt
- Married: Under \$70,000 in AGI, 100% exempt
- Over the next \$10,000, the exemption is phased-out

- The tax expenditure from the current exemption on Social Security income is forecasted to forgo approximately \$8.2 million in fiscal year 2026.
- Currently, Vermont resident filers are estimated to pay approximately \$59.7 million in taxes on their Social Security income.
 - This amount is anticipated to grow over time as Vermont's population continues to age.



Social Security Taxes Paid in Vermont

**Table 4: Taxes Paid on Social Security Benefits in Vermont by Income Group
(Resident Returns Only)**

Income Group		Tax Returns Collecting Social Security	Total Tax Paid on Social Security (in millions)	Average Tax Paid on Social Security Benefits
Negative	\$25,000	29,122	\$0.00	\$0
\$25,000	\$40,000	7,855	\$0.00	\$0
\$40,000	\$50,000	4,655	\$0.00	\$0
\$50,000	\$75,000	11,567	\$4.04	\$349
\$75,000	\$100,000	9,906	\$10.28	\$1,038
\$100,000	\$125,000	7,235	\$9.49	\$1,312
\$125,000	\$150,000	4,906	\$9.38	\$1,912
\$150,000	\$200,000	5,216	\$8.01	\$1,536
\$200,000	\$300,000	3,590	\$9.10	\$2,535
\$300,000	Infinity	2,604	\$9.43	\$3,621
Total		86,656	\$59.73	Average; \$689



Military Retirement/Survivor Benefits Income Exemption



Vermont Military Retirement Exemption

- Currently Vermont taxpayers can fully exempt up to \$10,000 their military retirement income if they are single with AGI \$50,000 or below or are married with AGI of \$65,000 or below.
 - The exemption is phased out over the next \$10,000 of AGI for both filing status types.
- This proposal would remove the income thresholds and uncap the amount of income that can be exempted.
- JFO estimates this change would result in an additional \$3.9 million in forgone revenue annually.



Vermont Military Retirement Exemption

- **Important Distinction:**

- *A veteran* refers to any person who has served any length of time in any military service branch. They may have served in combat or been medically discharged. Generally, this is any individual who has completed basic training.
- *A military retiree* is a veteran who has spent at least 20 years in uniformed service and has since left the military.
- Military retirees are always veterans, but veterans are not always military retirees.
 - Currently, there are 34,076 veterans in Vermont.
 - There are 3,921 retirees in Vermont, 3,593 are receiving benefits.



Vermont Military Retirement Exemption

Table 1: Total Military Retirees in Vermont and U.S.				
	Total	Paid by DoD	Annual Payment	Average
Vermont	3,921	3,593	\$90,792,000	\$25,269
United States	2,190,448	1,998,452	\$62,698,680,000	\$31,374

Table 2: 2022 Officer and Enlisted Retirees for Vermont and U.S.				
Officers				
	Total	Paid by DoD	Annual Payment	Average
Vermont	953	944	\$40,488,000	\$42,890
Percent of Total Military Retirees	24.3%	26.3%		
United States	554,924	548,624	\$27,808,500,000	\$50,688
Percent of Total Military Retirees	25.3%	27.5%		
Enlisted				
	Total	Paid by DoD	Annual Payment	Average
Vermont	2,968	2,649	\$50,292,000	\$18,985
Percent of Total Military Retirees	75.7%	73.7%		
United States	1,635,524	1,449,828	\$34,789,428,000	\$23,996
Percent of Total Military Retirees	74.7%	72.5%		



Vermont Military Retirement Exemption - Survivors

- As of 2022 there were 751 survivors receiving benefits.
- Total annual benefits payments were about \$8.9 million or \$11,808 on average per recipient.
- Survivors' benefits allow a retiree to ensure, after death, a continuous lifetime annuity for their spouse and/or dependents.



Vermont Military Retirement Exemption

- The Joint Fiscal Office estimates that a full exemption of military retirement benefits would reduce personal income tax revenue by \$3.9 million.
- This amount is expected to grow modestly over time as the number of military retirees in the State has historically grown very slowly, and benefits payments are adjusted for inflation annually.



Summary



Governor's Recommended Tax Policy Changes

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Full Military Pension/Survivor Benefits Exemption	-\$3.9
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Questions?

