

H.759

Introduced by Representatives Dobrovich of Williamstown, Bosch of
Clarendon, Burt of Cabot, Coffin of Cavendish, Galfetti of
Barre Town, Goslant of Northfield, and Southworth of Walden

Referred to Committee on

Date:

Subject: Taxation; income tax; education property tax; sales and use tax; flat
income tax

Statement of purpose of bill as introduced: This bill proposes to repeal several
existing Vermont tax types and replace them with a flat income tax.

An act relating to a flat income tax

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. FINDINGS

The General Assembly finds:

(1) Vermont's current tax system, including personal and corporate
income tax, sales and use tax, property tax, and estate tax, is complex and
burdensome, hindering economic growth and fairness.

(2) A flat income tax rate can provide a transparent and equitable
funding mechanism for essential State services, including education,
healthcare, public safety, and infrastructure.

1 (3) Targeted relief for low-income households and support for rural
2 communities will mitigate regressive impacts and ensure equitable access to
3 services.

4 (4) Simplifying the tax code will attract residents and businesses,
5 fostering economic development while maintaining fiscal stability through
6 legislative and public oversight.

7 (5) A balanced transition plan is necessary to phase out existing taxes
8 and implement the new system effectively.

9 Sec. 2. REPEALS; REPORT

10 (a) Repeal of Vermont tax types.

11 (1) 24 V.S.A. § 138 (local option tax) is repealed.

12 (2) 32 V.S.A. chapters 135 and 154 (education property tax) are
13 repealed.

14 (3) 32 V.S.A. chapters 185, 187, 189, and 190 (estate and gift taxes) are
15 repealed.

16 (4) 32 V.S.A. chapter 219 (purchase and use tax) is repealed.

17 (5) 32 V.S.A. chapter 215 (uniform capacity tax) is repealed.

18 (6) 32 V.S.A. chapter 231 (property transfer tax) is repealed.

19 (7) 32 V.S.A. chapter 233 (sales and use tax) is repealed.

20 (8) 32 V.S.A. chapter 236 (land gains tax) is repealed.

21 (9) 32 V.S.A. chapter 237 (hazardous waste tax) is repealed.

1 (10) 32 V.S.A. chapter 243 (health care claims tax) is repealed.

2 (11) 32 V.S.A. chapter 246 (child care contribution) is repealed.

3 (12) 33 V.S.A. § 2503 (fuel tax) is repealed.

4 (b) The Office of Legislative Counsel shall make all conforming changes to
5 Vermont statutes as necessary to effectuate the repeals in subsection (a) of this
6 section, including the repeal of any special fund solely funded by the taxes
7 repealed under this section.

8 (c) It is the intent of the General Assembly that any program or institution
9 funded solely through a special fund that is effectively repealed by this section
10 will instead be funded through appropriation from the General Fund. It shall
11 be presumed that the General Assembly has chosen not to fund the program or
12 institution if an appropriation is not made for that program or institution.

13 Sec. 3. 32 V.S.A. § 5811(21) is amended to read:

14 (21) “Taxable income” means, in the case of an individual, federal
15 adjusted gross income ~~determined without regard to 26 U.S.C. § 168(k) and:~~

16 ~~(A) increased by the following items of income (to the extent such~~
17 ~~income is excluded from federal adjusted gross income):~~

18 ~~(i) interest income from non-Vermont state and local obligations;~~

19 and

20 ~~(ii) dividends or other distributions from any fund to the extent~~
21 ~~they are attributable to non-Vermont state or local obligations; and~~

1 ~~(B) decreased by the following items of income (to the extent such~~
2 ~~income is included in federal adjusted gross income):~~

3 ~~(i) income from U.S. government obligations;~~

4 ~~(ii) with respect to adjusted net capital gain income as defined in~~
5 ~~26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend~~
6 ~~income: either the first \$5,000.00 of such adjusted net capital gain income or~~
7 ~~40 percent of adjusted net capital gain income from the sale of assets held by~~
8 ~~the taxpayer for more than three years, except not adjusted net capital gain~~
9 ~~income from:~~

10 ~~(I) the sale of any real estate or portion of real estate used by the~~
11 ~~taxpayer as a primary or nonprimary residence; or~~

12 ~~(II) the sale of depreciable personal property other than farm~~
13 ~~property and standing timber; or stocks or bonds publicly traded or traded on~~
14 ~~an exchange, or any other financial instruments; regardless of whether sold by~~
15 ~~an individual or business; and provided that the total amount of decrease under~~
16 ~~this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable~~
17 ~~income or \$350,000.00, whichever is less;~~

18 ~~(iii) recapture of State and local income tax deductions not taken~~
19 ~~against Vermont income tax;~~

1 ~~(iv) the portion of certain retirement income and federally taxable~~
2 ~~benefits received under the federal Social Security Act that is required to be~~
3 ~~excluded under section 5830e of this chapter;~~

4 ~~(v) the amount of any federal deduction or credit that the taxpayer~~
5 ~~would have been allowed for the cultivation, testing, processing, or sale of~~
6 ~~cannabis or cannabis products as authorized under 7 V.S.A. chapter 33 or 37,~~
7 ~~but for 26 U.S.C. § 280E; and~~

8 ~~(vi) the amount of interest paid by a qualified resident taxpayer~~
9 ~~during the taxable year on a qualified education loan for the costs of attendance~~
10 ~~at an eligible educational institution; and~~

11 ~~(C) decreased by the following exemptions and deductions:~~

12 ~~(i) a personal exemption of \$4,150.00 per person for the taxpayer,~~
13 ~~for the spouse or the deceased spouse of the taxpayer whose filing status under~~
14 ~~section 5822 of this chapter is married filing a joint return or surviving spouse,~~
15 ~~and for each individual qualifying as a dependent of the taxpayer under 26~~
16 ~~U.S.C. § 152, provided that no exemption may be claimed for an individual~~
17 ~~who is a dependent of another taxpayer;~~

18 ~~(ii) a standard deduction determined as follows:~~

19 ~~(I) for taxpayers whose filing status under section 5822 of this~~
20 ~~chapter is unmarried (other than surviving spouses or heads of households) or~~
21 ~~married filing separate returns, \$6,000.00;~~

1 ~~(II) for taxpayers whose filing status under section 5822 of this~~
2 ~~chapter is head of household, \$9,000.00; and~~

3 ~~(III) for taxpayers whose filing status under section 5822 of this~~
4 ~~chapter is married filing joint return or surviving spouse, \$12,000.00;~~

5 ~~(iii) an additional deduction of \$1,000.00 for each federal~~
6 ~~deduction under 26 U.S.C. § 63(f) that the taxpayer qualified for and received;~~
7 ~~and~~

8 ~~(iv) an amount equal to the itemized deduction for medical~~
9 ~~expenses taken at the federal level by the taxpayer, under 26 U.S.C. § 213;~~

10 ~~(I) minus the amount of the Vermont standard deduction and~~
11 ~~Vermont personal exemptions taken by the taxpayer under this subdivision~~
12 ~~(C); and~~

13 ~~(II) minus any amount deducted at the federal level that is~~
14 ~~attributable to the payment of an entrance fee or recurring monthly payment~~
15 ~~made to a continuing care retirement community regulated under 8 V.S.A.~~
16 ~~chapter 151, which exceeds the deductibility limits for premiums paid during~~
17 ~~the taxable year on qualified long-term care insurance contracts under 26~~
18 ~~U.S.C. 213(d)(10)(A).~~

19 ~~(D) The dollar amounts of the personal exemption allowed under~~
20 ~~subdivision (C)(i) of this subdivision (21), the standard deduction allowed~~
21 ~~under subdivision (C)(ii) of this subdivision (21), and the additional deduction~~

1 ~~allowed under subdivision (C)(iii) of this subdivision (21) shall be adjusted~~
2 ~~annually for inflation by the Commissioner of Taxes beginning with taxable~~
3 ~~year 2018 by using the Consumer Price Index and the same methodology as~~
4 ~~used for adjustments under 26 U.S.C. § 1(f)(3); provided, however, that as~~
5 ~~used in this subdivision (D), “consumer price index” means the last Consumer~~
6 ~~Price Index for All Urban Consumers published by the U.S. Department of~~
7 ~~Labor.~~

8 Sec. 4. 32 V.S.A. § 5822 is amended to read:

9 § 5822. TAX ON INCOME OF INDIVIDUALS, ESTATES, AND TRUSTS

10 (a) A tax is imposed for each taxable year upon the taxable income earned
11 or received in that year by every individual, estate, and trust, subject to income
12 taxation under the laws of the United States at a rate of 13 percent, ~~in an~~
13 ~~amount determined by the following tables, and adjusted as required under this~~
14 ~~section:~~

15 ~~(1) Married individuals filing joint returns and surviving spouses:~~

16	If taxable income is:	The tax is:
17	Not over \$64,600.00	3.35% of taxable income
18	Over \$64,600.00 but	\$2,164.00 plus 6.6% of
19	not over \$156,150.00	the amount of taxable
20		income over \$64,600.00
21	Over \$156,150.00 but	\$8,206.00 plus 7.6%

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1	Over \$38,700.00 but	\$1,296.00 plus 6.6% of
2	not over \$93,700.00	the amount of taxable
3		income over \$38,700.00
4	Over \$93,700.00 but	\$4,926.00 plus 7.6%
5	not over \$195,450.00	of the amount of taxable
6		income over \$93,700.00
7	Over \$195,450.00	\$12,659.00 plus 8.75%
8		of the amount of taxable
9		income over \$195,450.00
10	(4) Married individuals filing separate returns:	
11	If taxable income is:	The tax is:
12	Not over \$32,300.00	3.35% of taxable income
13	Over \$32,300.00 but	\$1,082.00 plus 6.6% of
14	not over \$78,075.00	the amount of taxable
15		income over \$32,300.00
16	Over \$78,075.00 but	\$4,103.00 plus 7.6%
17	not over \$118,975.00	of the amount of taxable
18		income over \$78,075.00
19	Over \$118,975.00	\$7,212.00 plus 8.75%
20		of the amount of taxable
21		income over \$118,975.00

1 ~~(5) Estates and trusts:~~

2 ~~If taxable income is:~~

~~The tax is:~~

3 ~~\$2,600.00 or less~~

~~3.35% of taxable income~~

4 ~~Over \$2,600.00 but~~

~~\$87.00 plus 6.6% of~~

5 ~~not over \$6,100.00~~

~~the amount of taxable~~

6

~~income over \$2,600.00~~

7 ~~Over \$6,100.00 but~~

~~\$318.00 plus 7.6%~~

8 ~~not over \$9,350.00~~

~~of the amount of taxable~~

9

~~income over \$6,100.00~~

10 ~~Over \$9,350.00~~

~~\$565.00 plus 8.75%~~

11

~~of the amount of taxable~~

12

~~income over \$9,350.00~~

13 ~~(6) If the federal adjusted gross income of the taxpayer exceeds~~

14 ~~\$150,000.00, then the tax calculated under this subsection shall be the greater~~

15 ~~of the tax calculated under subdivisions (1)-(5) of this subsection or three~~

16 ~~percent of the taxpayer's federal adjusted gross income.~~

17 ~~(b) As used in this section:~~

18 ~~(1) "Married individuals," "surviving spouse," "head of household,"~~

19 ~~"unmarried individual," "estate," and "trust" have the same meaning as under~~

20 ~~the Internal Revenue Code.~~

1 ~~(2) The amounts of taxable income shown in the tables in this section~~
2 ~~shall be adjusted annually for inflation by the Commissioner of Taxes using~~
3 ~~the Consumer Price Index adjustment percentage, in the manner prescribed for~~
4 ~~inflation adjustment of federal income tax tables for the taxable year by the~~
5 ~~Commissioner of Internal Revenue, beginning with taxable year 2003;~~
6 ~~provided, however, notwithstanding 26 U.S.C. § 1(f)(3), that as used in this~~
7 ~~subdivision, “consumer price index” means the last Consumer Price Index for~~
8 ~~All Urban Consumers published by the U.S. Department of Labor.~~

9 ~~(c) The amount of tax determined under subsection (a) of this section shall~~
10 ~~be:~~

11 ~~(1) increased by 24 percent of the taxpayer’s federal tax liability for the~~
12 ~~taxable year for the following:~~

13 ~~(A) additional taxes on qualified retirement plans, including~~
14 ~~individual retirement accounts and medical savings accounts and other tax-~~
15 ~~favored accounts;~~

16 ~~(B) recapture of the federal investment tax credit attributable to the~~
17 ~~Vermont portion of the investment; and~~

18 ~~(C) tax on qualified lump sum distributions of pension income not~~
19 ~~included in federal taxable income; and~~

20 ~~(2) decreased by 24 percent of the reduction in the taxpayer’s federal tax~~
21 ~~liability due to farm income averaging.~~

1 ~~(d)(1) A taxpayer shall be entitled to a credit against the tax imposed under~~
2 ~~this section of 24 percent of each of the credits allowed against the taxpayer's~~
3 ~~federal income tax for the taxable year as follows: the credit for people who~~
4 ~~are elderly or permanently totally disabled and the investment tax credit~~
5 ~~attributable to the Vermont property portion of the investment.~~

6 ~~(2) Any unused solar energy investment tax credit under this section may~~
7 ~~be carried forward for not more than five years following the first year in~~
8 ~~which the credit is claimed.~~

9 ~~(3) Individuals shall receive a nonrefundable charitable contribution~~
10 ~~credit against the tax imposed under this section for the taxable year. The~~
11 ~~credit shall be five percent of the first \$20,000.00 in charitable contributions~~
12 ~~made during the taxable year that are allowable under 26 U.S.C. § 170. This~~
13 ~~credit shall be available irrespective of a taxpayer's election not to itemize at~~
14 ~~the federal level.~~

15 ~~(e) The tax determined under subsections (a) through (d) of this section~~
16 ~~shall be reduced by a percentage equal to the portion of adjusted gross income~~
17 ~~that is not Vermont income; provided, however, that if a taxpayer's Vermont~~
18 ~~income exceeds the taxpayer's adjusted gross income, no reduction shall be~~
19 ~~made and provided, further, that if a taxpayer has zero or negative Vermont~~
20 ~~income and the taxpayer's Vermont income computed without regard to the~~

1 ~~reductions in subsection 5823(a) of this chapter does not equal or exceed the~~
2 ~~taxpayer's adjusted gross income, no tax shall be due under this section.~~

3 Sec. 5. REPEAL OF CORPORATE INCOME TAX

4 32 V.S.A. chapter 151, subchapter 3 (corporate income tax) is repealed.

5 Sec. 6. CONFORMING CHANGES

6 The Office of Legislative Counsel shall make conforming changes to
7 32 V.S.A. chapter 151 as necessary to effectuate the changes made under Secs.
8 4 and 5 of this act, including the repeal any tax credits available for the
9 corporate income tax. The Office of Legislative Counsel shall take into
10 account the intent of the General Assembly that corporations shall not be liable
11 for income tax pursuant to 32 V.S.A. chapter 151.

12 Sec. 7. 32 V.S.A. § 5830h is added to read:

13 § 5830h. LOW-INCOME RELIEF CREDIT

14 (a) A resident individual or part-year resident individual shall be entitled to
15 a refundable credit against the tax imposed by section 5822 of this title for the
16 taxable year.

17 (b) A taxpayer shall be eligible for the credit under this section provided
18 the federal adjusted gross income of the taxpayer is less than or equal to
19 150 percent of the federal poverty level, as updated by the U.S. Department of
20 Health and Human Services for the current year.

1 (c) The credit available under this section shall be the lesser of an amount
2 equal to 50 percent of a taxpayer's tax liability or \$1,000.00.

3 (d) The credit amount allowed under subsection (c) of this section shall be
4 adjusted annually for inflation by the Commissioner of Taxes beginning with
5 taxable year 2025 by using the Consumer Price Index and the same
6 methodology as used for adjustments under 26 U.S.C. § 1(f)(3); provided,
7 however, that as used in this subsection, "consumer price index" means the last
8 Consumer Price Index for All Urban Consumers published by the U.S.
9 Department of Labor.

10 Sec. 8. REPEAL; INCOME TAX CREDITS

11 Repeal of personal income tax credits.

12 (1) 32 V.S.A. § 5825a (Vermont Higher Education Investment Plan
13 contributions) is repealed.

14 (2) 32 V.S.A. § 5828 (mobile home park sale; capital gain credit) is
15 repealed.

16 (3) 32 V.S.A. § 5828b (earned income tax credit) is repealed.

17 (4) 32 V.S.A. § 5828c (child and dependent care credit) is repealed.

18 (5) 32 V.S.A. § 5830 (taxpayer identification numbers; credits) is
19 repealed.

20 (6) 32 V.S.A. § 5830b (Entrepreneurs' Seed Capital Fund) is repealed.

1 (7) 32 V.S.A. § 5830c (tax credits for charitable investments in housing)
2 is repealed.

3 (8) 32 V.S.A. § 5830e (retirement income; Social Security income) is
4 repealed.

5 (9) 32 V.S.A. § 5830f (Vermont child tax credit) is repealed.

6 (10) 32 V.S.A. § 5830g (Vermont veteran tax credit) is repealed.

7 Sec. 9. INTENT; EDUCATION FUNDING

8 (a) It is the intent of the General Assembly to annually transfer funds from
9 the General Fund to the Education Fund to provide for public education. It is
10 further intended that up to \$100,000,000.00 shall be transferred annually to a
11 local education stabilization fund, administered by the Agency of Education, to
12 support rural school districts and school districts with low property value grand
13 lists.

14 (b) It is the intent of the General Assembly to annually transfer funds from
15 the General Fund to the Transportation Fund to provide for transportation
16 needs.

17 Sec. 10. 32 V.S.A. § 3116 is added to read:

18 § 3116. REVENUE REPORT

19 (a) Annually, on or before December 31, the Commissioner shall submit a
20 report to House Committee on Ways and Means and the Senate Committee on
21 Finance a report on revenue collection in the previous year. The report shall

1 address education funding in the coming year and a recommended amount to
2 be transferred from the General Fund to the Education Fund in the coming
3 year.

4 (b) Biennially, the report shall further include a revenue and expenditure
5 review addressing whether an income tax rate adjustment is advisable in
6 consideration of economic data, inflation, and extraordinary demands. The
7 Commissioner shall provide opportunities for public input and engagement
8 relating to this section of the report.

9 Sec. 11. 32 V.S.A. § 5822a is added to read:

10 § 5822a. TAX RATE ADJUSTMENT; CHAPTER AMENDMENT

11 (a) Any adjustment to the tax rate imposed pursuant to section 5822 of this
12 title shall require passage by two-thirds of the members present in the House
13 and Senate.

14 (b) In addition to the other requirements under this section, any amendment
15 to this chapter passed after January 1, 2027, shall be referred to a statewide
16 vote by the citizens of this State.

17 (c)(1) The Governor may propose a temporary rate adjustment for one year,
18 provided the rate adjustment is approved by the General Assembly, requiring
19 passage by two-thirds of the members present in the House and Senate, and
20 further provided that, at the time of the budget adjustment process, the Office

1 of Budget and Management predicts there will be a budget shortfall within the
2 current fiscal year of at least 10 percent of the most recently passed budget.

3 (2) Notwithstanding subdivision (1) of this subsection (c), the Governor
4 shall not propose a temporary rate adjustment under this subsection (c) if a
5 temporary rate adjustment was made in both of the two consecutive years
6 immediately prior to the current year.

7 Sec. 12. SMALL BUSINESS INCENTIVE; 2027

8 A nonrefundable tax credit of up to \$5,000.00 shall be available in tax year
9 2027 for taxpayers with pass-through income from a business with fewer than
10 50 employees and gross receipts of less than \$5,000,000.00.

11 Sec. 13. PUBLIC EDUCATION CAMPAIGN; ADOPTION OF

12 REGULATIONS

13 (a) In calendar year 2026, the Department of Taxes shall conduct a
14 statewide public education campaign to educate Vermonters on the flat income
15 tax system, the benefits, and the relief available for households with low
16 incomes.

17 (b) The Commissioner shall begin the process to adopt new rules relating to
18 the income tax on or before July 1, 2026. The Commissioner shall adopt
19 emergency income tax rules on or before July 1, 2026, to take effect while the
20 rulemaking process takes place.

1 Sec. 14. LOCAL EDUCATION STABILIZATION; AGENCY OF
2 EDUCATION

3 On or before January 1, 2027, the Agency of Education shall establish
4 policies and procedures to allocate local education stabilization funds for
5 school districts pursuant to Sec. 9 of this act.

6 Sec. 15. 32 V.S.A. chapter 225 is amended to read:

7 CHAPTER 225. ~~MEALS AND ROOMS~~ ALCOHOLIC BEVERAGES TAX

8 * * *

9 § 9241. IMPOSITION OF TAX

10 (a) ~~An operator shall collect a tax of nine percent of the rent of each~~
11 ~~occupancy.~~ [Repealed.]

12 (b) ~~An operator shall collect a tax on the sale of each taxable meal at the~~
13 ~~rate of nine percent of each full dollar of the total charge and on each sale for~~
14 ~~less than one dollar and on each part of a dollar in excess of a full dollar in~~
15 ~~accordance with the following formula:~~

16 \$0.01-0.11	\$0.01
17 0.12-0.22	0.02
18 0.23-0.33	0.03
19 0.34-0.44	0.04
20 0.45-0.55	0.05
21 0.56-0.66	0.06

(c) An operator shall collect a tax on each sale of alcoholic beverages at the rate of 10 percent of each full dollar of the total charge and on each sale for less than one dollar and on each part of a dollar in excess of a full dollar in accordance with the following formula:

8	\$0.01–0.14	\$0.01
9	0.15–0.24	0.02
10	0.25–0.34	0.03
11	0.35–0.44	0.04
12	0.45–0.54	0.05
13	0.55–0.64	0.06
14	0.65–0.74	0.07
15	0.75–0.84	0.08
16	0.85–0.94	0.09
17	0.95–1.00	0.10

18 ***

19 § 9301. ~~IMPOSITION; SHORT TERM RENTAL IMPACT SURCHARGE~~

~~(a) An operator shall collect a surcharge of three percent of the rent of each occupancy that is a short term rental. As used in this subchapter, “short term~~

1 ~~rental” means a furnished house, condominium, or other dwelling room or self-~~
2 ~~contained dwelling unit rented to the transient, traveling, or vacationing public~~
3 ~~for a period of fewer than 30 consecutive days and for more than 14 days per~~
4 ~~calendar year. As used in this subchapter, “short-term rental” does not mean an~~
5 ~~occupancy in a lodging establishment licensed under 18 V.S.A. chapter 85.~~

6 ~~(b) The surcharge shall be in addition to any tax assessed under section~~
7 ~~9241 of this chapter. The surcharge assessed under this section shall be paid,~~
8 ~~collected, remitted, and enforced under this chapter in the same manner as the~~
9 ~~rooms tax assessed under section 9241 of this title. [Repealed.]~~

10 Sec. 16. CONFORMING CHANGES; ALCOHOLIC BEVERAGES TAX

11 During statutory revision, the Office of Legislative Counsel shall make all
12 conforming changes to the Vermont Statutes Annotated as necessary to
13 effectuate the intent of Sec. 16 of this act, which is to eliminate the taxes on
14 meals and rooms and the short-term rental surcharge but retain the tax on sales
15 of alcoholic beverages for immediate consumption.

16 Sec. 17. EFFECTIVE DATES

17 (a) This section and Secs. 6 (conforming changes), 9 (intent), 13 (public
18 education campaign), and 14 (local education stabilization) shall take effect on
19 passage.

20 (b) All other sections shall take effect on January 1, 2027, and apply to tax
21 years commencing after January 1, 2027.