

Tax Policy in Governor's FY26 Recommended Budget



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Tax Policy Proposals

Property Tax Stabilization

1. One-time transfer from General Fund
2. Waterfall for education transformation

Personal Income Tax Credits and Exemptions Expansion

1. Child Tax Credit
2. Earned Income Tax Credit (EITC)
3. Social Security benefits exemption
4. Military retirement and survivor benefits exemption

Downtown and Village Center Tax Credit Cap Increase

Property Tax Stabilization

\$77 million in one-time General Fund money to stabilize property taxes in FY26

- If education spending is held at or below the projection in the December 1st letter, this investment will eliminate projected FY26 property tax increase

Waterfall for education changes in FY27

- Use General Fund surplus to fund education system transformation
- [32 V.S.A. § 308c\(a\)](#)

Personal Income Tax Credits – CTC

Current Law and Expenditure

- Federal law provides a child tax credit (CTC) up to \$2,000 per child under age 17 (16 and under) depending on taxpayers' income. I.R.C. § 24.
- CTCs have been shown to reduce poverty and bring stability to households and communities
- Vermont provides a refundable credit of \$1,000 per child under age 6 (5 and under)
 - Vermont CTC phases out for taxpayers with AGI over \$125,000; no credit for AGI over \$175,000
 - About 21,000 Vermont filers currently receive the CTC at a cost of \$25.4 million
 - [32 V.S.A. § 5830f](#)

Proposal

- Expand Vermont CTC age limits for qualifying children from age 5 to age 6
- Estimated impact: \$4.5 million and 3,600 filers
 - Total new estimated expenditure: \$29.9 million

Personal Income Tax Credits – EITC

Current Law and Expenditure

- Federal law provides an earned income tax credit (EITC). I.R.C. § 32.
- EITC is recognized as one of the most successful antipoverty programs in the country
- Vermont provides a refundable credit that is 38% of the federal credit
 - About 34,000 EITC filers in Vermont
 - Cost \$24.5 million in FY23 per [2025 Tax Expenditure report](#)
 - [32 V.S.A. § 5828b](#)

Proposal

- Expand VT EITC for claimants without dependents from 38% to 100% of the federal credit
 - Targeted to working adults with incomes below \$24,000
- Estimated impact: \$3 million and 13,600 filers
 - Total new estimated expenditure: \$27.5 million

Personal Income Tax Exemptions – Social Security

Current Federal Law and National Landscape

- 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 don't have a personal income tax)
- Of the 9 states that do tax Social Security benefits, including Vermont, most have more generous exemptions, deductions, or credits than Vermont and one state (WV) will fully exempt Social Security benefits next year.

Personal Income Tax Exemptions – Social Security

Current Vermont Law and Expenditure

- Vermont’s personal income tax law uses federal AGI, so federally exempt amounts of Social Security benefits are also exempt in Vermont.
- Vermont exempts all or some federally taxable Social Security for income-eligible taxpayers.

Filing Status	AGI	Exemption?
Single/Separate/Widow(er)/HoH	\$0 - \$50,000	Full Exemption
	\$50,001 - \$59,999	Partial Exemption
	Amounts >= \$60,000	No Exemption
Married Joint Filers	\$0 - \$65,000	Full Exemption
	\$65,001 - \$74,999	Partial Exemption
	Amounts >= \$75,000	No Exemption

- Cost about \$6.2 million and 28,000 filers in FY22; estimated FY26 cost: \$8.2 million
- [32 V.S.A. § 5830e\(a\)](https://tax.vermont.gov/individuals/income-tax-returns/social-security-exemption); Dept. of Taxes website: <https://tax.vermont.gov/individuals/income-tax-returns/social-security-exemption>

Personal Income Tax Exemptions – Social Security

Proposal

- Expand income eligibility thresholds for exemption by \$5,000
 - Improve affordability for seniors and allow them to retire with independence and dignity
 - Ensure the same expansion enacted in [2022 Act 138](#) isn't eroded by inflation
- Estimated impact: \$2.1 million for 8,300 filers
 - Total new estimated expenditure: \$10.3 million

Personal Income Tax Exemptions - Military

Current Law

- 35 states don't tax military pensions at all (or don't have a personal income tax), including CT, ME, MA, NH, and NY
 - 49 states provide at least some tax benefit for military retirement pay
- [2022 Act 138](#) enacted a partial Vermont exemption for military retirement pay, but it is quite limited. [32 V.S.A. § 5830e\(d\)](#).

Proposal

- Fully exempt military retirement pay and survivor benefits from Vermont personal income tax
 - Over 70% of military retirees are between 35-50 at the age of retirement.
- Estimated impact: \$3.9 million and 4,300 filers
 - \$3.5 million for military retirement pay; \$400,000 for survivor benefits
 - 3,600 military retirees and 750 surviving spouses and dependents receive survivor benefits in VT

Income Tax Relief Estimates

Tax Policy Proposal	Impacted Filers	Cost in millions
Child Tax Credit for children up to age 6	3,600	\$4.5
EITC 100% for filers without children	13,600	\$3.0
Social Security exemption increase	8,300	\$2.1
Military pension/survivor benefits exempt	4,300	\$3.9
Total	29,800	\$13.5

Downtown and Village Center Tax Credit

Raise cap on Downtown and Village Center Tax Credit to \$5 million

- \$2 million increase from \$3 million to \$5 million
- Program stimulates private investment and helps restore and revitalize historic buildings
- Eligibility
 - Commercial property
 - Buildings must be at least 30 years old
 - Primary residences ineligible, but rental properties are
- For more information, see:
 - [32 V.S.A. § 5930ee](#)
 - ACCD website: <https://accd.vermont.gov/content/downtown-and-village-center-tax-credits>

Thank you!