



VERMONT LEGISLATIVE Joint Fiscal Office

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Fiscal Note

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S.51 – An act relating to Vermont income tax exclusions and tax credits

As recommended by the House Committee on Ways and Means, Draft 1.2^{1,i}

Bill Summary

This bill proposes to expand the income eligibility or value of four existing personal income tax credits and create a new refundable credit. The bill would increase the age eligibility for the child tax credit (CTC) from five-years old to six-years old, expand the earned income tax credit (EITC) for claimants without children from 38% to 100% of the federal EITC amount, increase the adjusted gross income (AGI) thresholds used to determine eligibility for the partial exemption on Social Security, military retirement and Civil Service Retirement System (CSRS) benefits by \$5,000, expand the exemption on Military Retirement and Survivors Benefits to allow filers with AGI below \$175,000 to fully or partially exempt that income, and create a new refundable credit for veterans with AGI below \$25,000 with a \$5,000 phase out range so claimants with AGI up to \$30,000 can claim a partial credit. These changes are scheduled to take effective retroactively on January 1, 2025, and affect filings starting in tax year 2025.

Combined, five income tax changes are estimated to result in an additional \$13.5 million in forgone General Fund revenue annually.

Fiscal Impact

The Joint Fiscal Office estimates that the bill will have the following fiscal impacts:

- Expanding the age eligibility for the CTC will result in approximately \$4.5 million in additional forgone revenue;
- Increasing the EITC credit from 38% to 100% of the federal EITC for claimants without children is estimated to result in an additional \$3.0 million in forgone revenue;
- Increasing the income thresholds to determine eligibility for the partial exemption on Social Security benefits is estimated to result in approximately \$2.1 million in forgone revenue;

¹ The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this fiscal note is meant to provide information for legislative consideration, not to provide policy recommendations.

- Allowing tax filers to exempt 100% of their Military Retirement Income if they have AGI below \$125,000 (phasing out at \$175,000), removing the \$10,000 cap on the amount of this income that can be exempted, and repealing the requirement to choose between exemptions will result in approximately \$2.5 million in additional forgone revenue.
- Providing a \$250 refundable credit to veterans with AGI below \$25,000 and including a \$5,000 phase out range so veterans with AGI up to \$30,000 can claim a partial credit will result in approximately \$1.4 million in forgone revenue.

Combined, these five changes are estimated to result in \$13.5 million in forgone revenue to the General Fund annually.

Background and Details

The following sections of the bill have a fiscal impact.

Section 1: Child Tax Credit Expansion

Under current law, taxpayers with an AGI of \$125,000 or lower who claim a child who is aged five or younger can claim the CTC and receive a \$1,000 refundable credit per eligible child. The credit is phased out by 2% per \$1,000 of income above \$125,000. This bill would increase the age eligibility for children from five to six years old.

Currently, it is estimated that 21,296 Vermont tax filers will claim the CTC in fiscal year 2026 and receive approximately \$24.0 million in value from the credit. **This proposed age eligibility expansion would increase this tax expenditure by an estimated \$4.5 million** and bring the total tax expenditure of the credit to \$28.5 million. This cost may decrease over time since the number of children in the state has been declining.

Section 2: Earned Income Tax Credit

Under current law, Vermont taxpayers who receive the federal EITC are eligible to receive a refundable credit on their Vermont tax return equal to 38% of the value of their federal credit. This bill would increase, for those claimants who do not claim a dependent child, the value of their State EITC from 38% to 100% of the value of their federal credit.

Table 1 shows the federal maximum credit amount, the existing maximum credits that Vermont claimants can receive from the State, and what those maximum State credits would be if claimants without children were able to receive 100% of their federal credit amount. Despite increasing the State credit amount for claimants without children, the maximum State credit would still be considerably lower than CTC.

Table 1: Earned Income Tax Credit Amounts

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

Under current law, it is estimated that 33,522 Vermonter tax filers will claim the EITC in fiscal year 2026 and receive approximately \$26.9 million in credit value. Of these, almost 12,000 will not have a qualifying dependent and would receive a higher State EITC under Section 3. **The Joint Fiscal Office (JFO) estimates that expanding the EITC for claimants without children from 38% to 100% of the federal credit will result in an additional \$3.0 million in forgone revenue annually.**

Section 3: Social Security, CSRS, and Military Retirement Exemption

Social Security and CSRS Exemptions:

Under current law, Vermont taxpayers who receive Social Security benefits can fully exempt that income from their taxable income if they are single with an AGI of \$50,000 or below, or if they are married and have an AGI of \$65,000 or below. The exemption is phased out over the next \$10,000 of income so single filers with an AGI of \$60,000 and above and married filers with an AGI of \$75,000 and above are not eligible. This bill would increase those thresholds by \$5,000 each.

The bill would also make the same threshold adjustments for tax filers who receive CSRS income. Currently, Vermont taxpayers who receive these types of income may elect to exempt up to \$10,000 of CSRS income from their taxable income (with the same income thresholds as the Social Security exemption applying). Importantly, if a taxpayer receives both of these types of income, they can only elect one of the exemptions.

Under current law, it is estimated that 29,827 Vermonters exempt some of their retirement income and are estimated to receive approximately \$8.2 million in tax savings in fiscal year 2026 from those exemptions. **JFO estimates that increasing the income thresholds for the Social Security and CSRS income exemptions will result in an additional \$2.1 million in forgone revenue annually.** The cost of this credit may increase over time as the number of Social Security income recipients increases due to Vermont's aging population.

Military Retirement and Survivors' Benefits Exemption:

Under current law, Vermont tax filers who receive military retirement benefits may exempt up to \$10,000 of that benefit from their taxable income. To be eligible, filers must have an adjusted gross income (AGI) of \$50,000 or below if they are single, or \$65,000 or below if they are married filing jointly. The exemption is then phased out over the next \$10,000 of income for both filing statuses. If eligible filers also collect Social Security income, they must elect to claim either the exemption for military retirement benefits or the one for Social Security income, not both.

It is important to distinguish between military retirees and veterans. The terms are often used interchangeably but refer to different groups of people:

- 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. Only military retirees are eligible to receive military retirement benefits, so exempting that income from taxation only affects that group's tax liability.

The most recent available data shows that there are approximately 34,076 veterans and 3,900 military retirees in Vermont. In addition, there are 751 Vermonters receiving survivor benefits.^{2,3}

² As of 2023. 2023 5-year American Community Survey table S2101

³ As of 2022

This bill would remove the requirement that filers choose between the exemptions for their Social Security or CSRS income and their military retirement and survivors' benefits. It would also remove the \$10,000 cap on the amount of military retirement income that can be exempted. Further, the bill would establish income thresholds such that filers with AGI of \$125,000 and below can fully exempt their military retirement and survivors' benefits, with a partial exemption phasing out at \$175,000 AGI.

JFO estimates that these changes to the tax treatment of military retirement and survivors' benefits will result in an additional \$2.5 million in forgone revenue annually.

Section 5: Veteran Tax Credit

This bill would establish a new \$250 refundable credit for veterans. Those with AGI up to \$25,000 would be eligible to receive the full amount while those with AGI between \$25,000 and \$30,000 would be eligible for a partial credit amount. There are approximately 34,076 veterans in Vermont and an estimated 15% of them have household income of \$25,000 or below (approximately 5,200 veterans).⁴

JFO estimates that this new refundable credit for veterans will result in an additional \$1.4 million in forgone revenue annually.

ⁱ The full fiscal note history is available on the fiscal tab of the bill page on the General Assembly website and can be pulled up through a bill number search on the JFO page.

⁴ https://www.va.gov/vetdata/docs/SpecialReports/State_Summaries_Vermont.pdf