

Personal Income Taxes and Income Distribution Overview

Senate Committee on Finance
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Overview

1. Personal Income Tax Calculation
2. Recent Personal Income Tax law changes
3. Personal Income Tax and Income Distribution By the Numbers



Personal Income Tax Calculation



Personal Income Tax Starting Point

Form 1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2022** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying surviving spouse (QSS)
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Your first name and middle initial _____ Last name _____ Your social security number _____
 If joint return, spouse's first name and middle initial _____ Last name _____ Spouse's social security number _____

Home address (number and street). If you have a P.O. box, see instructions. _____ Apt. no. _____
 City, town, or post office. If you have a foreign address, also complete spaces below. _____ State _____ ZIP code _____
 Foreign country name _____ Foreign province/state/county _____ Foreign postal code _____
Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

Digital Assets At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1958 Are blind **Spouse:** Was born before January 2, 1958 Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Income

1a Total amount from Form(s) W-2, box 1 (see instructions)	1a _____
b Household employee wages not reported on Form(s) W-2	1b _____
c Tip income not reported on line 1a (see instructions)	1c _____
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d _____
e Taxable dependent care benefits from Form 2441, line 26	1e _____
f Employer-provided adoption benefits from Form 8839, line 29	1f _____
g Wages from Form 8919, line 6	1g _____
h Other earned income (see instructions)	1h _____
i Nontaxable combat pay election (see instructions)	1i _____
z Add lines 1a through 1h	1z _____
2a Tax-exempt interest	2a _____
2b Taxable interest	2b _____
3a Qualified dividends	3a _____
3b Ordinary dividends	3b _____
4a IRA distributions	4a _____
4b Taxable amount	4b _____
5a Pensions and annuities	5a _____
5b Taxable amount	5b _____
6a Social security benefits	6a _____
6b Taxable amount	6b _____
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here	<input type="checkbox"/> 7 _____
8 Other income from Schedule 1, line 10	8 _____
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9 _____
10 Adjustments to income from Schedule 1, line 26	10 _____
11 Subtract line 10 from line 9. This is your adjusted gross income	11 _____

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

Standard Deduction for:
 • Single or Married filing separately, \$12,950
 • Married filing jointly or Qualifying surviving spouse, \$25,900
 • Head of household, \$20,300



Vermont's Personal Income Tax

From federal
form 1040

Federal adjusted gross income

plus

Additions to adjusted gross income

Bonus depreciation, interest from non-Vermont state and local bonds

minus

Subtractions from adjusted gross income

Standard deduction*

\$7,400 for single filer,
\$14,850 for married filer

Personal exemptions*

\$5,100 for taxpayer,
spouse, and any
dependents

Other subtractions

- Interest income from U.S. bonds
- Capital gains exclusion
- Social Security exemption
- Medical expenses

equals

Vermont taxable income

*Note: Amounts for Tax year 2024; indexed
annually for inflation*



Vermont's Personal Income Tax

Vermont taxable income (VTI)

Multiplied by

Income tax rates at various brackets of income

Single Individuals, Schedule X
Use if your filing status is:
Single

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	47,900	0.00	3.35%	0
47,900	75,000	1,605.00	6.60%	47,900
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	116,000	3,393.00	6.60%	75,000
116,000	242,000	6,099.00	7.60%	116,000
242,000	-	15,675.00	8.75%	242,000

Married Filing Jointly, Schedule Y-1
Use if your filing status is:

Married Filing Jointly; Qualifying Widow(er); or Civil Union Filing Jointly

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	75,000	0.00	3.35%	0
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	79,950	2,513.00	3.35%	75,000
79,950	193,300	2,678.00	6.60%	79,950
193,300	294,600	10,159.00	7.60%	193,300
294,600	-	17,858.00	8.75%	294,600

Equals

Initial Vermont Tax Liability (Before Credits)



2024 tax brackets

JFO

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://ljfo.vermont.gov>

2024 Vermont Tax Rate Schedules

Single Individuals, Schedule X

Use if your filing status is:
Single

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	47,900	0.00	3.35%	0
47,900	75,000	1,605.00	6.60%	47,900
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	116,000	3,393.00	6.60%	75,000
116,000	242,000	6,099.00	7.60%	116,000
242,000	-	15,675.00	8.75%	242,000

Married Filing Separately, Schedule Y-2

Use if your filing status is:
Married Filing Separately; or Civil Union Filing Separately

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	39,975	0.00	3.35%	0
39,975	75,000	1,339.00	6.60%	39,975
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	96,650	3,651.00	6.60%	75,000
96,650	147,300	5,080.00	7.60%	96,650
147,300	-	8,929.00	8.75%	147,300

Married Filing Jointly, Schedule Y-1

Use if your filing status is:
Married Filing Jointly; Qualifying Widow(er); or Civil Union Filing Jointly

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	75,000	0.00	3.35%	0
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	79,950	2,513.00	3.35%	75,000
79,950	193,300	2,678.00	6.60%	79,950
193,300	294,600	10,159.00	7.60%	193,300
294,600	-	17,858.00	8.75%	294,600

Heads of Household, Schedule Z

Use if your filing status is:
Head of Household

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	64,200	0.00	3.35%	0
64,200	75,000	2,151.00	6.60%	64,200
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	165,700	2,864.00	6.60%	75,000
165,700	268,300	8,850.00	7.60%	165,700
268,300	-	16,647.00	8.75%	268,300



Vermont's Personal Income Tax

Initial Vermont Tax Liability (Before Credits)

minus

Non-Refundable Credits

Credit for elderly and disabled, investment tax credit,
Charitable Tax Credit

minus

Refundable Credits

Earned Income Tax Credit, Child Tax Credit

Multiplied by

Vermont Apportionment Percentage

The percentage of income based in Vermont

Equals

Final Vermont Tax Liability (or Refund)



Deductions, Exemptions and Credits

- **Exemptions and Deductions:** reduce the amount of a taxpayer's income that is subject to tax, generally reducing the amount of tax the individual may have to pay.
- **Credits:** a dollar-for-dollar amount taxpayers claim on their tax return to reduce the income tax they owe.
 - There are two types:
 - **Refundable** credits mean that if a taxpayer's tax bill is less than the amount of a credit, they can get the difference back in their refund.
 - Example: if a taxpayer's liability is \$100 and they receive a \$200 refundable credit, their tax liability goes to \$0 and they receive \$100 in the form of a refund.
 - **Nonrefundable** credits mean that once a taxpayer's liability is zero, the taxpayer won't get any leftover amount back as a refund.
 - Example: if a taxpayer's liability is \$100 and they receive a \$200 nonrefundable credit, their tax liability goes to \$0 and they do not receive any payment in the form of a refund.



Vermont Deductions, Exemptions & Credits

Exemptions and Deductions

- Standard Deduction
- Personal Exemption
- Municipal Bond Income
- Capital Gains Exclusion
- Social Security Exemption
- Medical Deduction
- Military Pay
- Qualified Bond Interest Income

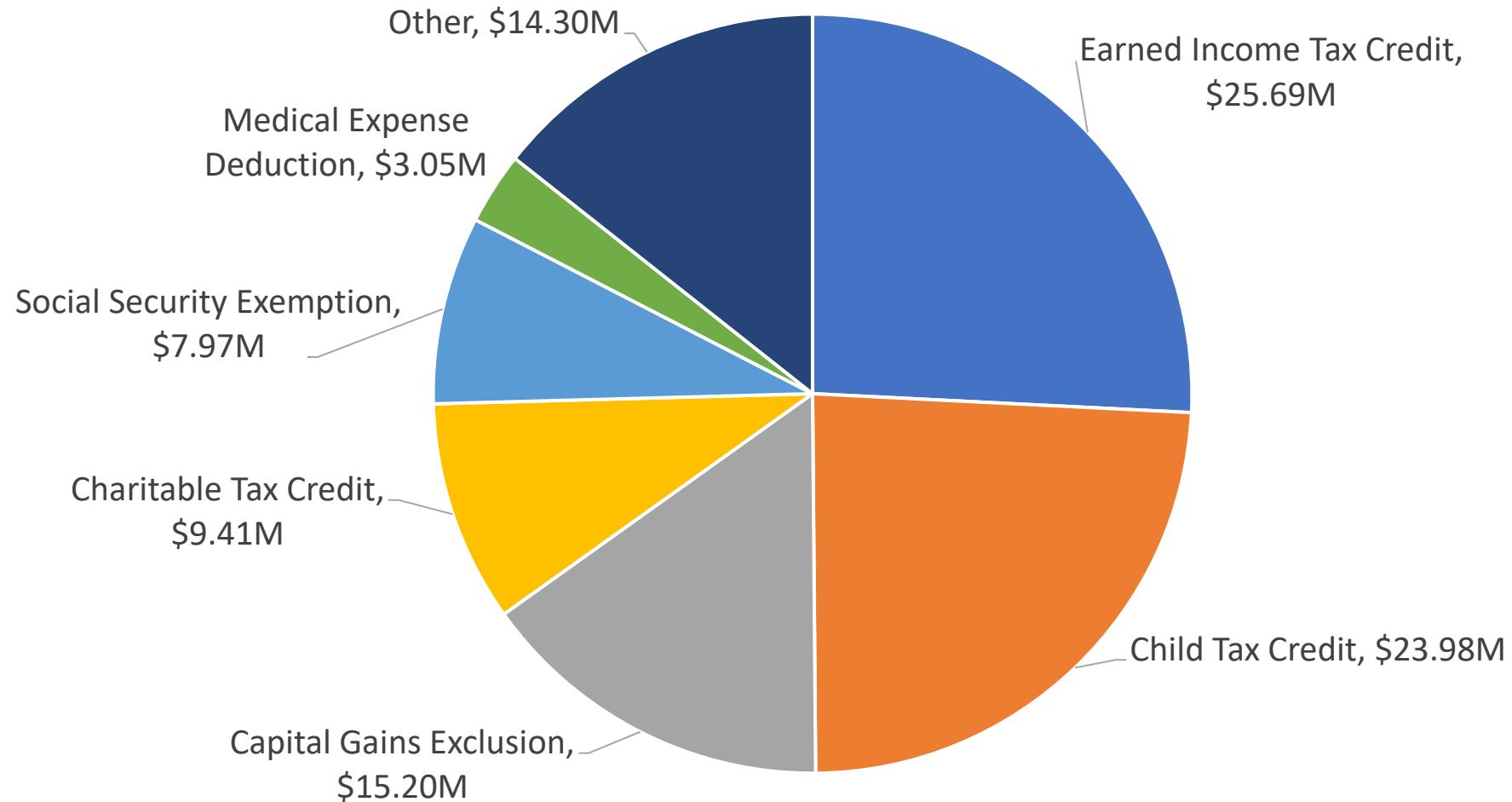
Credits

- Child and Dependent Care Credit
- Elderly or Disabled Credit
- Investment Tax Credit
- Farm Income Averaging Credit
- Charitable Contribution Tax Credit
- Charitable Housing Credit
- Affordable Housing Credit
- Qualified Sale of Mobile Home Park Credit
- Higher Education Investment Credit
- Entrepreneurs' Seed Capital Fund Credit
- Historical Rehabilitation Tax Credit
- Façade Improvement Tax Credit
- Code Improvement Tax Credit
- Research and Development Tax Credit
- Child Tax Credit
- Earned Income Tax Credit



FY2024 Personal Income Tax Expenditures: \$99.6 million

(does not contain VT Standard Deduction or Personal Exemptions)



Recent Legislative Changes



Tax Cut and Jobs Act

- **The Tax Cut and Jobs Act was enacted in 2017 and had a couple major impacts on Vermont personal income taxes.**
 - Prior to recent legislation Vermont's personal income tax code was even more closely coupled with the federal tax code.
- **TCJA eliminated personal exemptions.** Previously Vermont followed the federal personal exemption amounts. This would have had an upward effect on state PIT collections.
- **TCJA increased the standard deduction from \$6,500 to \$12,000 for single filers and from \$13,000 to \$24,000 for married filers.** This would have had a downward effect on state PIT collections.
- TCJA's personal income tax changes are set to expire December 31, 2025 due to its conception as a "Reconciliation Bill." This makes it subject to the "Byrd Rule," meaning it was prohibited from raising the federal deficit beyond a 10-year budget window.
- The expiring provisions either do not flow through to Vermont or no longer apply because of Act 11, which decoupled VT from the federal tax code in those areas.



Vermont's Response to TCJA and Other Changes – Act 11 of 2018

- Created a VT standard deduction equal to \$6,000 for single filers and \$12,000 for married couples, indexed annually to CPI-U.
- Created a VT personal exemption equal to \$4,050 per exemption, indexed annually to CPI-U.
- Lowered rates for the first three income tax brackets by 0.2% and collapsed the top two marginal brackets into a single bracket with a new rate of 8.75%
- Increased the VT Earned Income Tax Credit (EITC) from 32% of the federal EITC to 36%.
- Created a 5% tax credit on the value of charitable contribution up to \$20,000.
- Exempted taxable Social Security Benefits from State income taxes for single filers with less than \$45,000 AGI and less than \$60,000 AGI for married filers. Exemption included a \$10,000 phaseout.



Additional Recent VT PIT Changes: Act 138 of 2022

- Established a refundable \$1,000 VT Child Tax Credit per qualifying child ages 5 and under.
 - Eligible taxpayers with AGI of \$125,000 or below can claim the full credit. The credit is phased out over the next \$50,000 and taxpayers with AGI of \$175,000 and above are not eligible for the credit.
- Expanded the VT Child and Dependent Care Credit to make it refundable and equal to 72% of the federal CDC credit.
- Expanded the VT Earned Income Tax Credit (EITC) to 38% of the federal EITC.
- Established a new VT student loan interest deduction which is available to single filers with AGI of \$120,000 or less, or \$200,000 or less for married filers.
- Increased the income threshold for the Social Security income exemption from \$45,000 to \$50,000 for single filers, and from \$60,000 to \$65,000 for married filers. The exemption still phases out over the next \$10,000 of income above the thresholds for both filing statuses.
- Created a new \$10,000 military and civil service retirement income exemption. Filers must choose to take either the retirement income exemption or the Social Security exemption, but cannot take both.



Takeaway

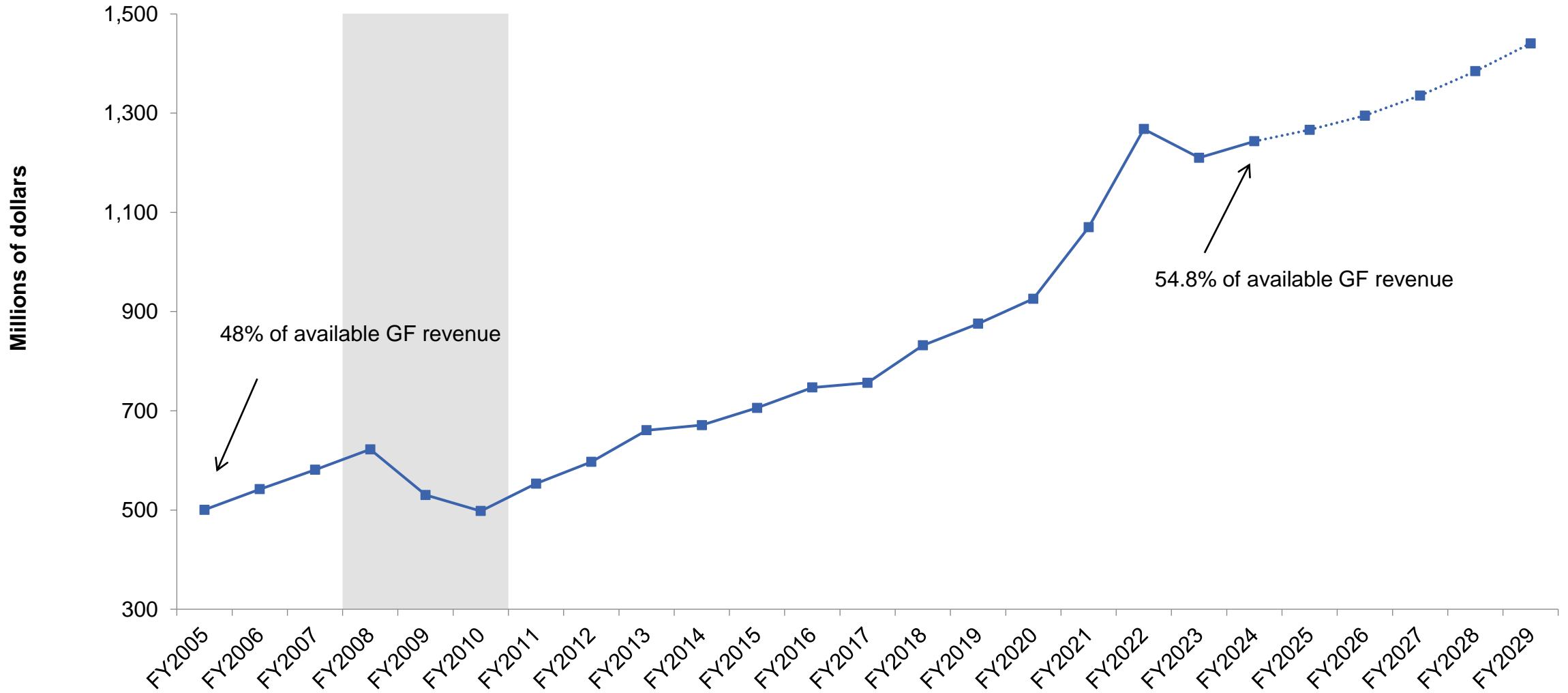
- **Pay close attention to the tax legislation coming out of Washington this year as TCJA is set to expire at the end of 2025 and many proposals are being reported that could affect Vermont personal income taxes.**



Personal Income Tax and Income Distribution By the Numbers



Personal Income Tax Collections since FY2005 (Not Adjusted for Inflation)



Source: July 2024 Consensus Revenue Forecast



State by State Comparison of State Top Marginal Personal Income Tax Rates

VT Income Tax Rate Schedules (2024)

Married Filing Jointly, Schedule Y-1

Use if your filing status is:

Married Filing Jointly; Qualifying Widow(er); or Civil Union Filing Jointly

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	75,000	0.00	3.35%	0
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	79,950	2,513.00	3.35%	75,000
79,950	193,300	2,678.00	6.60%	79,950
193,300	294,600	10,159.00	7.60%	193,300
294,600	-	17,858.00	8.75%	294,600

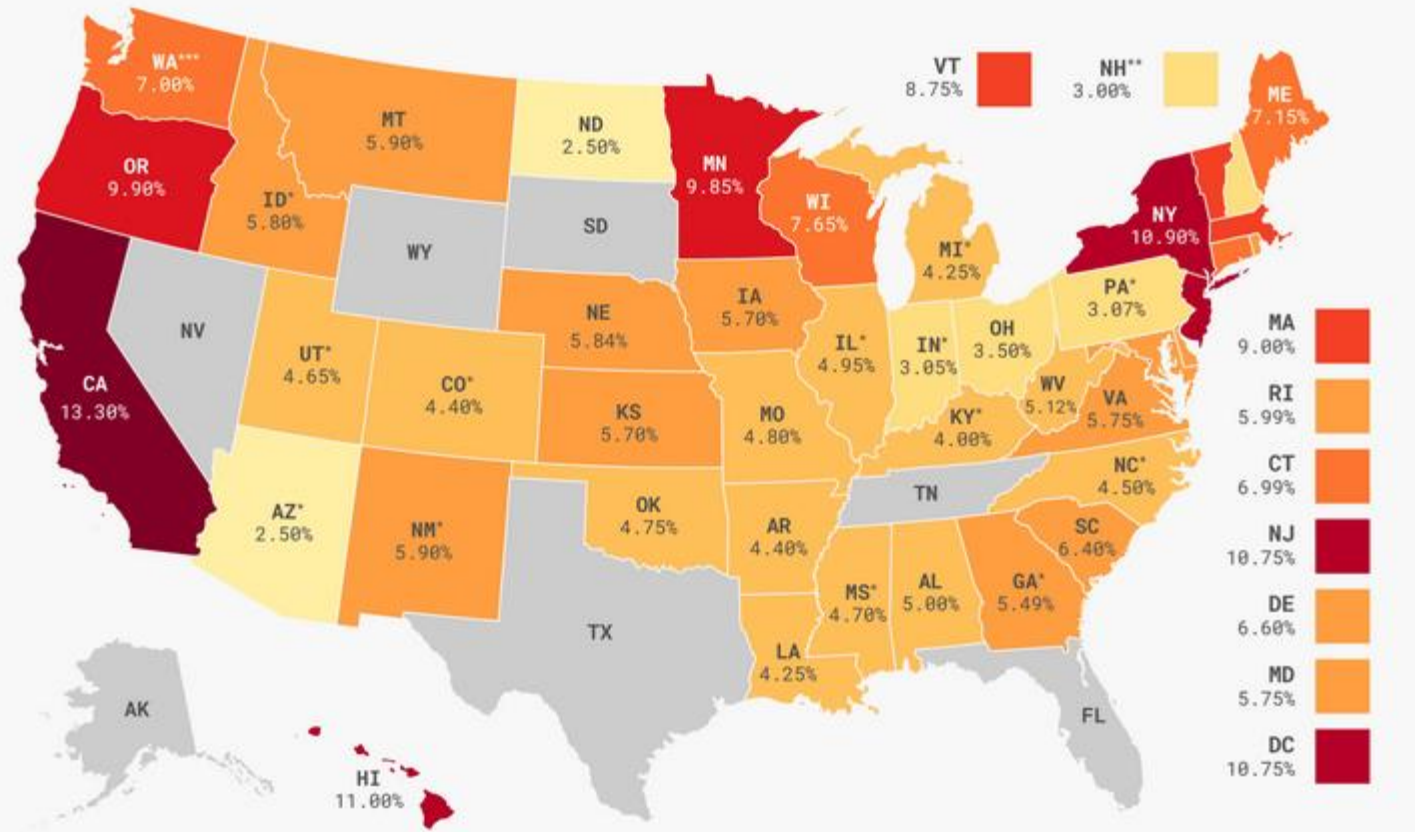
Top Marginal Tax Rate Comparison - Married Filing Jointly NE States - Tax Year 2024

State	Top Rate %	On Taxable Income (\$) Above:
Vermont	8.75	294,600
Connecticut	6.99	1,000,000
Maine	7.15	123,250
Massachusetts	9.00	1,053,750
New York	10.90	25,000,000
Rhode Island	5.99	176,050

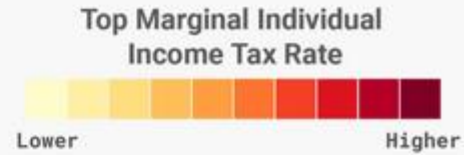
Note: New Hampshire does not tax individual's earned income (W-2 wages). The state currently taxes income from dividends and interest but is scheduled to repeal that tax beginning in 2025.



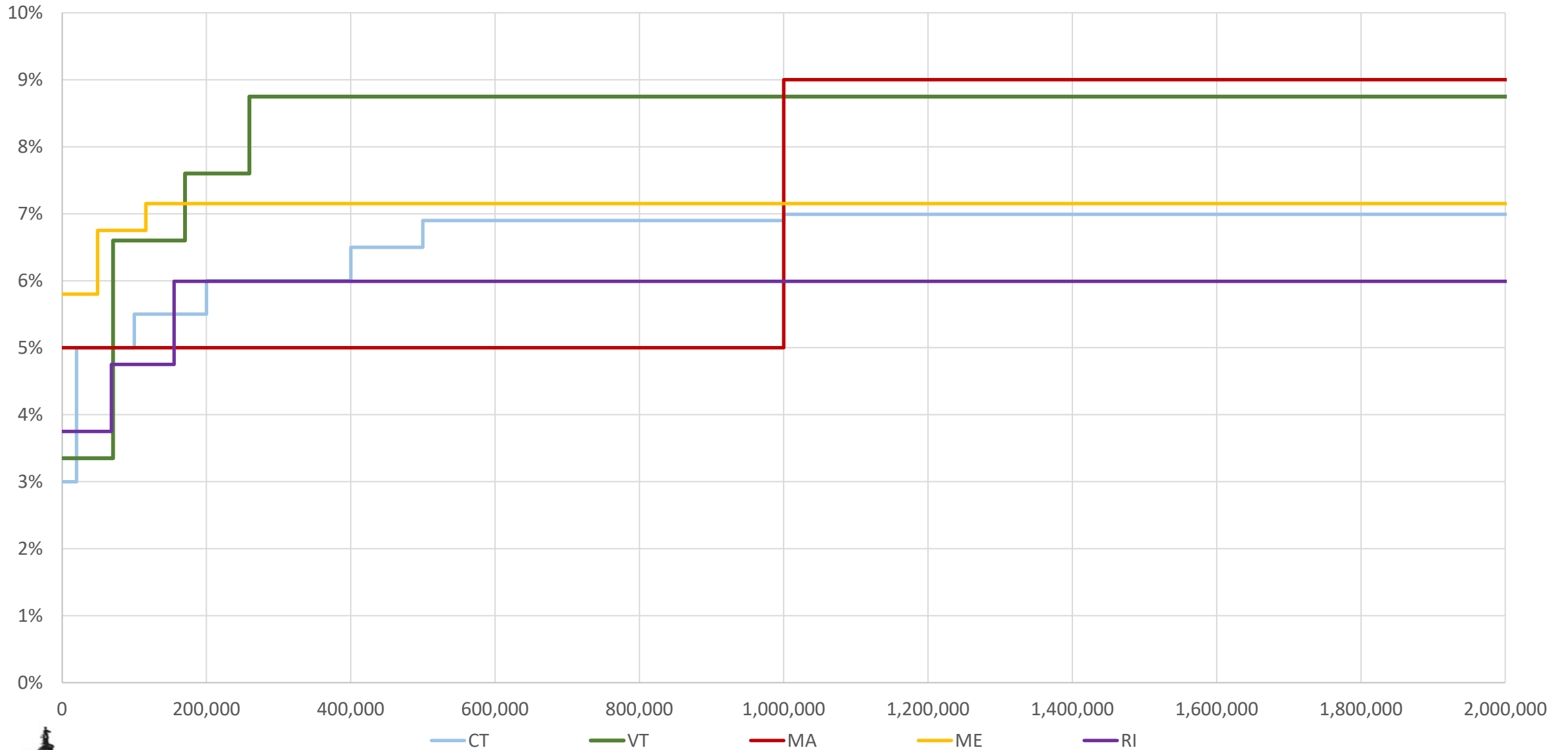
Top Marginal State Individual Income Tax Rates (as of January 1, 2024)



(*) State has a flat income tax.
 (**) State only taxes interest and dividends income.
 (***) State only taxes capital gains income.
 Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective tax rates, which would include the effects of various tax preferences. Local income taxes are not included.
 Sources: Tax Foundation; state tax statutes, forms, and instructions.



New England States and Vermont Proposed Marginal Income Tax Rates; Married Filing Jointly, Tax Year 2023



Source: JFO analysis by Joyce Manchester, intended to be illustrative only; not adjusted for differences in standard deduction, exemptions, credits, and the like. January 2024.

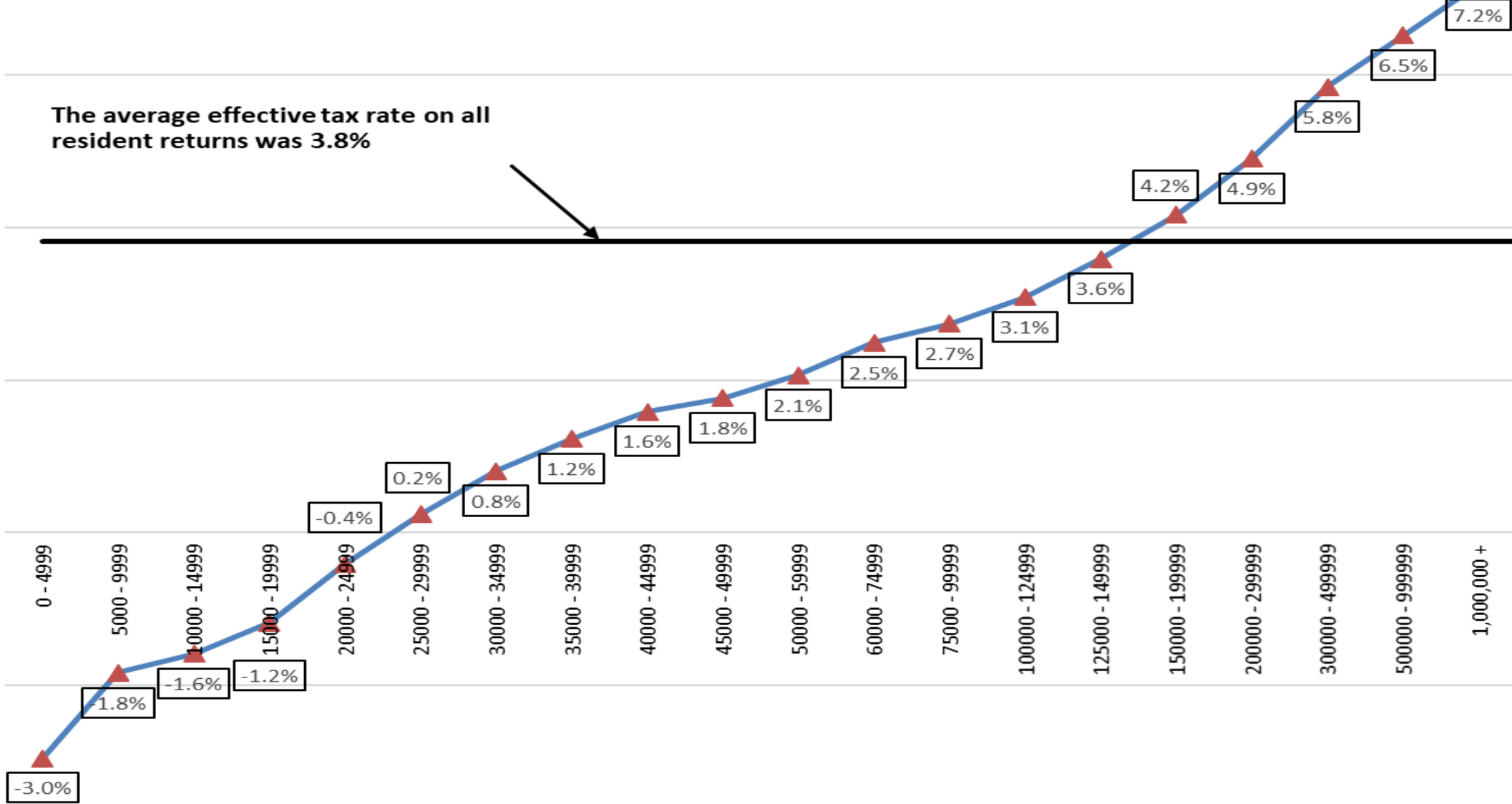
2022 Vermont Resident Effective Personal Income Tax Rate (Net Vermont Tax Divided by Vermont Adjusted Gross Income)

Effective Tax Rate

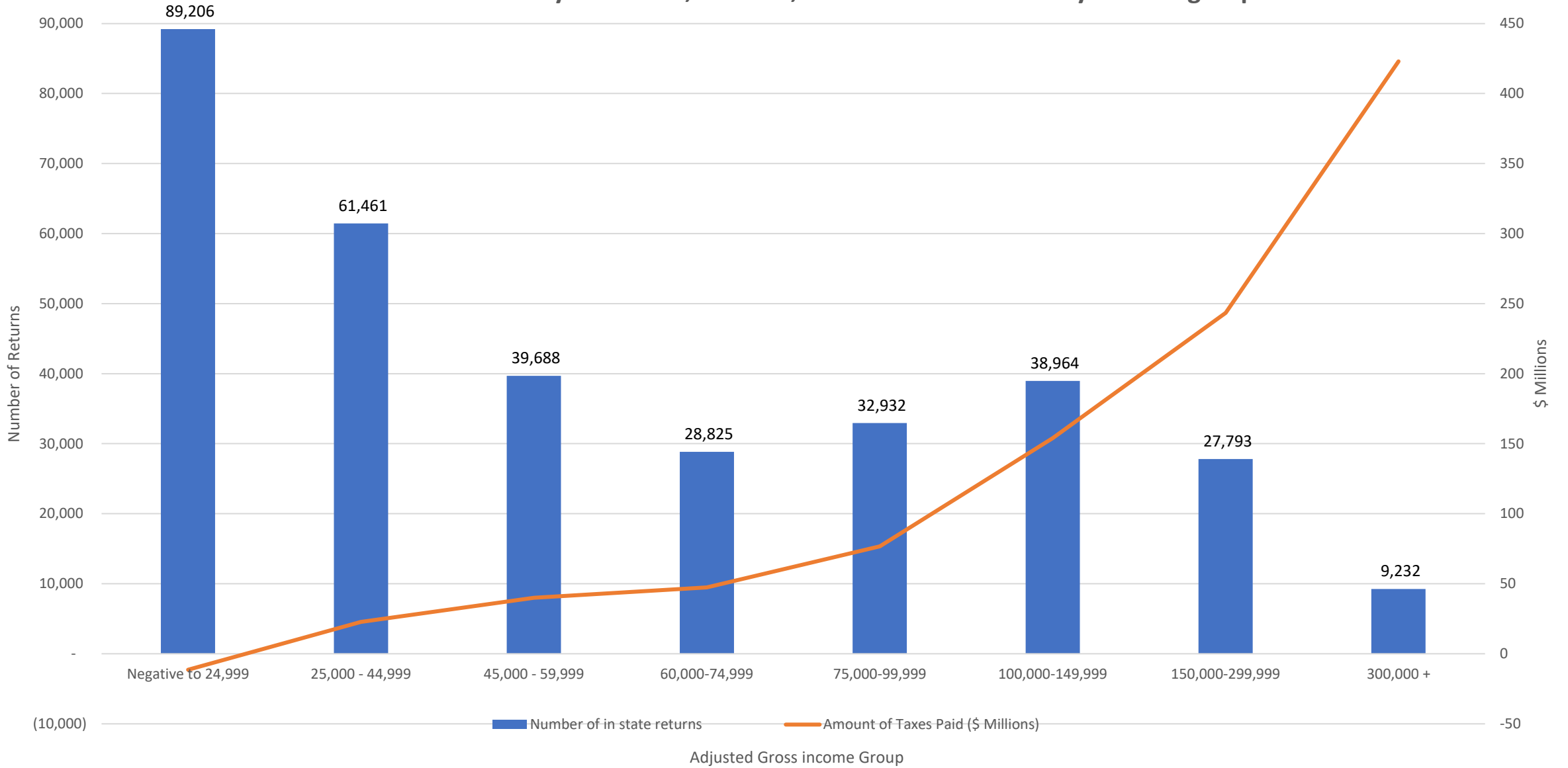
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%

The average effective tax rate on all resident returns was 3.8%

0 - 4999
5000 - 9999
10000 - 14999
15000 - 19999
20000 - 24999
25000 - 29999
30000 - 34999
35000 - 39999
40000 - 44999
45000 - 49999
50000 - 59999
60000 - 74999
75000 - 99999
100000 - 124999
125000 - 149999
150000 - 199999
200000 - 299999
300000 - 499999
500000 - 999999
1,000,000 +



Vermont Taxes Paid By Residents, TY 2022, vs Number of returns by income group



Source: Dept of Taxes



2022 Personal Income Tax Receipts

AGI Income Bracket	Number of in state returns	% of total	Amount of taxes paid (\$ millions)	% of total
0 to 24,999	89,206	27%	-11.4	-1%
25,000 to 49,999	75,896	23%	34.5	3%
50,000 to 74,999	54,078	16%	75.4	8%
75,000 to 99,999	32,932	10%	76.7	8%
100,000 to 149,999	38,964	12%	153.9	15%
150,000 to 199,999	16,508	5%	115.2	12%
200,000 to 299,999	11,285	3%	128.3	13%
300,000 to 499,999	5,672	2%	120.0	12%
500,000 to 999,999	2,501	1%	104.0	10%
1,000,000 and up	1,059	0%	199.0	20%
State Total	328,101		995.5	

Note: In 2022 there were 53,890 out of state returns providing \$106.88M in PI receipts



2022 Personal Income Tax Receipts

AGI Income Bracket	Total Returns	65+ Returns	65+ Share of Total Returns	Total AGI	65+ AGI	65+ Share of Total AGI	Total VT Tax	65+ VT Tax	65+ Share of Total VT Tax
0 to 24,999	89,206	27,826	31%	809,799,295	195,898,998	24%	(11,396,090)	579,318	-5%
25,000 to 49,999	75,896	13,712	18%	2,798,947,805	505,073,932	18%	34,534,492	4,811,000	14%
50,000 to 74,999	54,078	11,754	22%	3,262,770,092	730,330,434	22%	75,433,656	14,597,573	19%
75,000 to 99,999	32,932	8,684	26%	2,800,047,805	752,673,778	27%	76,650,548	21,104,592	28%
100,000 to 149,999	38,964	9,982	26%	4,651,024,342	1,207,620,840	26%	153,875,455	41,713,235	27%
150,000 to 199,999	16,508	4,130	25%	2,763,671,786	707,823,060	26%	115,170,833	29,804,406	26%
200,000 to 299,999	11,285	2,999	27%	2,617,795,239	720,835,131	28%	128,258,638	35,301,868	28%
300,000 to 499,999	5,672	1,574	28%	2,053,765,532	591,902,694	29%	119,983,400	34,123,432	28%
500,000 to 999,999	2,501	665	27%	1,594,869,768	441,390,535	28%	103,972,411	28,181,232	27%
1,000,000 and up	1,059	324	31%	2,771,795,340	922,538,359	33%	198,970,232	58,748,926	30%
State Total	328,101	81,650	25%	26,124,487,004	6,776,087,761	26%	995,453,575	268,965,582	27%



Questions?

