

Impacts to Vermont Taxpayers of the Tax Cuts and Jobs Act (TCJA):

"By the way, there is one subset of people whose taxes will go up under this, the rich people in high-tax Democratic states." – Senator Ted Cruz, 12/19/2017

Who are the “losers” under the Tax Cuts and Jobs Act? Higher income people in states with high income and high property taxes.

Why are these taxpayers losers? It used to be that they could deduct the state income and property taxes they pay from their taxable income. Starting in 2018, they can only deduct up to \$10,000 in total (income *plus* property) State and Local Taxes (SALT). This provision increases the “cost” of each additional dollar of state income taxes by about 25 percent.

But didn’t the TCJA also lower the rates? Yes, but if a taxpayer pays enough in state and local taxes, the lower rates will not be enough to offset the SALT limitation.

Here are some examples of hypothetical Vermonters whose federal taxes will go up in 2018 because of the TCJA:

Tax Cuts and Jobs Act (TCJA) "Losers": Change to Federal Liability under TCJA vs. Current Law				
Filing Status	Single	Single	MfJ	MfJ
Income	\$ 80,000	\$ 400,000	\$ 150,000	\$ 2,000,000
Child Dependents	0	0	2 (over 17)	0
Standard Deduction				
Itemized Deductions	Yes	Yes	Yes	Yes
<i>Medical</i>	\$ -		\$ -	\$ 20,000
<i>State and Local Property</i>	\$ 8,000	\$ 16,000	\$ 10,000	\$ 10,000
<i>Mortgage Interest</i>	\$ 2,000	\$ -	\$ 6,000	\$ -
<i>State and Local Income</i>	\$ 5,000	\$ 28,000	\$ 8,150	\$ 175,000
<i>Charitable</i>	\$ -	\$ -	\$ 1,000	\$ 20,000
<i>Other</i>	\$ 1,000	\$ -	\$ 1,000	\$ 20,000
Pre-TCJA	\$ 10,616	\$ 109,970	\$ 18,120	\$ 694,635
Post-TCJA	\$ 10,680	\$ 113,290	\$ 18,599	\$ 703,390
Increase	\$ 63	\$ 3,320	\$ 479	\$ 8,755

Tax liability changes calculated by tax foundation calculator: <https://taxfoundation.org/2018-tax-reform-calculator/>

Why does this matter? The SALT limitation puts high tax states at an even greater competitive advantage against low tax states.

How are other states (CA, NY, NJ, CT, MD, IL) responding?

- Lobbying congress to repeal the limitation
- Launching a constitutional challenge to challenge the limitation
- Trying to replace personal income taxes with payroll taxes
- Trying to convert income tax payments to charitable contributions
- Reconsidering planned income tax increases

Do the non-education income tax changes in H.911 increase people’s income taxes? The administration’s original income tax reform plan (which is mostly preserved in H. 911) kept Vermont taxpayers’ liabilities as close as possible to what they would have been had the TCJA never passed. The original administration plan also preserves the current progressivity in Vermont’s tax system while lowering all marginal rates slightly.

How would Vermont’s top 2018 marginal rate compare to that of other states under the administration’s proposal vs. H. 911?

2018 Top 10 Marginal Tax Rates: Admin Proposal			2018 Top 10 Marginal Income Tax Rates: H911		
Rank	State	Top Rate	Rank	State	Top Rate
1	California	12.30%	1	California	12.30%
2	Hawaii	11.00%	2	Hawaii	11.00%
3	Oregon	9.90%	3	Oregon	9.90%
4	Minnesota	9.85%	4	Minnesota	9.85%
5	Iowa	8.98%	5	Vermont (bracket begins at \$237,950)	9.60%
6	New Jersey	8.97%	6	Iowa	8.98%
7	New York	8.82%	7	New Jersey	8.97%
8	Vermont (bracket begins at \$424,950)	8.75%	8	New York	8.82%
9	Wisconsin	7.65%	9	Wisconsin	7.65%
10	Idaho	7.40%	10	Idaho	7.40%

Why not just keep everything the same and let the \$30M the economists forecast for tax year 2018 materialize?

The \$30M is actually a \$42M tax *increase* for filers with children and a \$12M tax *decrease* for filers without children. When people compute their Vermont taxes, they are allowed to subtract about \$4,000 from their taxable income for each member of their family (called “personal exemptions”). The \$4,000 Vermont amount comes from the federal tax code, but under the TCJA that amount is now \$0 for Vermont income tax purposes.

Change to Vermont Taxable Income: Pre-TCJA vs. TCJA (Non-itemizer)					
Filing Status	Number of Exemptions Claimed				
	1	2	3	4	5
Single	\$ (1,350)	\$ 2,800	\$ 6,950	\$ 11,100	\$ 15,250
Joint	\$ (6,850)	\$ (2,700)	\$ 1,450	\$ 5,600	\$ 9,750
HoH	\$ (4,300)	\$ (150)	\$ 4,000	\$ 8,150	\$ 12,300