

H.911: AN ACT RELATING TO CHANGES IN VERMONT'S PERSONAL INCOME TAX AND EDUCATION FINANCING SYSTEM

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Sec.	Description
	Personal Income Tax Changes
1-6a	<p>Makes numerous personal income tax changes based on the federal tax changes and a proposal from the Governor.</p> <ul style="list-style-type: none"> • Sec. 1 creates a Vermont personal exemption, a Vermont standard deduction, and eliminates Vermont's subtraction for itemized deductions. These changes replace Vermont's current reliance on federal definitions and its current treatment of itemized deductions. <ul style="list-style-type: none"> ○ The personal exemption is set at \$4150. ○ The standard deduction is set at \$12,000 for joint filers, \$9,000 for heads of households, and \$6000 for single filers. • Sec. 2 lowers Vermont's marginal rates for personal income taxes and collapses the top two income tax brackets. The brackets and rates would change from: <ul style="list-style-type: none"> ○ five brackets of 3.55%, 6.8%, 7.8%, 8.8% and 8.95% to ○ four brackets of 3.35%, 6.6%, 7.8%, and 8.6%. • Sec. 3 creates a charitable donation tax credit, which is equal to 5% of the first \$10,000 in charitable contributions claimed at the federal level. • Sec. 4 increases the size of Vermont's earned income tax credit. It is increased from 32 percent of the federal credit to 35 percent of the federal credit. • Secs. 2, 5, and 6 exclude taxable Social Security benefits from State taxation for joint filers with federal adjusted gross income of \$60,000 or less, and single filers with federally adjusted gross income of \$45,000 or less, with phase-outs above those amounts. • Sec. 6a contains the annual linkage language to the federal statutes for taxable year 2017.
	Education Financing Changes
7	<p>Creates a school income tax surcharge based on taxable income and dedicated to the Education Fund. The surcharge is equal to:</p> <ul style="list-style-type: none"> • 0.1 percent on income taxed at 3.35 percent; • 0.5 percent on income taxed at 6.6 percent; • 0.5 percent on income taxed at 7.6 percent; and • 1.0 percent on income taxed at 8.6 percent.
8-9	<p>Reallocates certain Education Fund and General Fund revenues.</p> <ul style="list-style-type: none"> • Eliminates the General Fund Transfer and moves several Education Fund expenses to the General Fund, including adult education programs, flexible pathways programs, Community High School of Vermont, and the renter rebate. • Commits all the revenue from the school income tax surcharge, all the revenue from the sales and use tax, and 25 percent of the meals and rooms tax to the Education Fund.

10-12	<p>Alters how education property tax rates are calculated and billed by:</p> <ul style="list-style-type: none"> • Providing each school district with a base spending amount equal to the amount of per pupil education spending that can be supported by fixed Education Fund revenues. • For districts that choose to spend above the base spending amount, an additional homestead tax rate would be equalized across those districts, based on a single property tax yield. • Requiring separate bills for the statewide education tax and municipal taxes. • Requiring the Commissioner of Taxes to recommend a yield, a base income percentage, and a nonresidential rate each year.
13-14a	<p>Changes how income sensitivity adjustments are calculated and billed.</p> <ul style="list-style-type: none"> • Income sensitivity adjustments will be capped at \$400,000.00 of housesite value rather than \$500,000.00 as under current law. • For people below \$47,000.00 in household income the “supercircuit breaker” adjustment is split into an education property tax adjustment and a municipal tax adjustment, and billed separately.
15-16 and 22	<p>Sets the parameters for fiscal year 2019:</p> <ul style="list-style-type: none"> • The property dollar equivalent yield is \$8,500.00. • The base income percentage is 1.66%. • The nonresidential property tax rate is \$1.591. • The base spending amount is \$11,916.00.
17-19	<p>Repeals the current excess spending penalty.</p>
20	<p>For fiscal year 2020, the definition of “education spending” is changed to include a district’s portion of the normal teacher retirement contribution.</p>
21	<p>Removes the Act 46 five percent limitations on tax rates for most districts so that the new lower property tax rates can be effective. For a small number of certain specified districts, the limitations on the amount that tax rates can rise are kept in place.</p>
22	<p>Effective dates and transition.</p> <ul style="list-style-type: none"> • Provides that no taxpayer will be penalized for failing to withhold properly for the school income tax surcharge for taxable year 2018 only. • Phases in the base spending amount definition over three years. The bill does so by setting a base spending amount of \$11,916 for fiscal year 2019, which represents 92 percent of what the base spending amount would normally be. For fiscal year 2020, the base spending amount is calculated as 96% of what it would normally be. For fiscal year 2020, the base spending amount is 100% of the statutory definition.

Changes in Income Tax Rates in H.911

Current Tax Brackets and Rates

Married, Joint Filers		
If VT Taxable Income is over	But Not Over	Tax Rate income in this range
0	63,300	3.55%
63,300	153,100	6.80%
153,100	233,300	7.80%
233,300	416,650	8.80%
416,650	-	8.95%

Single Filers		
If VT Taxable Income is over	But Not Over	Tax Rate on income in this range
0	37,900	3.55%
37,900	91,850	6.80%
91,850	191,650	7.80%
191,650	416,650	8.80%
416,650	-	8.95%

- Top two income tax brackets collapsed
- Rates drop by 0.2% for each bracket



New H.911 Brackets and Rates

Married, Joint Filers		
If VT Taxable Income is over	But Not Over	Tax Rate income in this range
0	63,300	3.35%
63,300	153,100	6.60%
153,100	233,300	7.60%
233,300	-	8.60%

Single Filers		
If VT Taxable Income is over	But Not Over	Tax Rate on income in this range
0	37,900	3.35%
37,900	91,850	6.60%
91,850	191,650	7.60%
191,650	-	8.60%

- Top two income tax brackets collapsed
- Rates drop by 0.2% for each bracket



School Income Tax Surcharge Rates

Single Filers		
If VT Taxable Income is over	But Not Over	Surcharge rate applied to income in this range
0	37,900	0.10%
37,900	91,850	0.50%
91,850	191,650	0.50%
191,650	-	1.00%

Married, Joint Filers		
If VT Taxable Income is over	But Not Over	Surcharge rate applied to income in this range
0	63,300	0.10%
63,300	153,100	0.50%
153,100	233,300	0.50%
233,300	-	1.00%

Estimated Impacts of H.911: Income Tax Changes Only

Summary of Income Tax Impacts: H.911 ***Relative to 2017 Vermont Tax Law*** (Note: All estimates are on a calendar year basis)					
AGI Bracket		Total Tax Change of H.911 (In Millions of Dollars)	Average Change in Taxes from H.911 From Income Tax Changes Only	Change in Effective Tax Rate from H.911	Percent of 2014 Taxable Returns
\$0	\$5,000	-\$0.05	-\$11.45	-0.10%	1.8%
\$5,000	\$10,000	-\$0.15	-\$11.58	-0.09%	2.7%
\$10,000	\$15,000	-\$0.31	-\$18.21	-0.11%	5.0%
\$15,000	\$20,000	-\$0.42	-\$24.09	-0.12%	6.9%
\$20,000	\$25,000	-\$0.54	-\$28.80	-0.12%	6.7%
\$25,000	\$30,000	-\$0.70	-\$36.67	-0.12%	6.9%
\$30,000	\$35,000	-\$0.83	-\$44.15	-0.13%	6.7%
\$35,000	\$40,000	-\$0.97	-\$52.66	-0.14%	5.9%
\$40,000	\$45,000	-\$1.05	-\$62.08	-0.15%	5.1%
\$45,000	\$50,000	-\$1.04	-\$70.42	-0.15%	4.5%
\$50,000	\$60,000	-\$1.36	-\$51.56	-0.09%	7.7%
\$60,000	\$75,000	-\$0.72	-\$22.17	-0.03%	9.2%
\$75,000	\$100,000	-\$0.18	-\$5.40	-0.01%	11.4%
\$100,000	\$125,000	\$0.96	\$42.65	0.03%	6.8%
\$125,000	\$150,000	\$1.10	\$83.08	0.06%	3.8%
\$150,000	\$200,000	\$1.58	\$124.35	0.07%	3.6%
\$200,000	\$300,000	\$2.51	\$288.80	0.10%	2.5%
\$300,000	Infinity	\$2.27	\$268.61	0.00%	2.7%
Totals		\$0.09	\$2.99	0.00%	100%

Note: Estimates are based upon 2014 tax year data

Example Income Tax Changes in H.911: Income Tax Changes Only

Example 1: Single Filer, \$31,000 in income, 1 child			
	Pre-TCJA	Post-TCJA	H.911
Income	\$31,000	\$31,000	\$31,000
Standard Deduction	\$6,350	\$12,000	\$6,000
Personal Exemptions	\$8,100	\$0	\$8,300
Itemized Deductions (what carries through to VT) of which: Charitable Contributions	N/A	N/A	N/A
Taxable Income	\$16,550	\$19,000	\$16,700
Tax before Credits	\$588	\$675	\$559
EIC Federal	\$1,373	\$1,373	\$1,373
Vermont EIC	\$439	\$439	\$481
Charitable Giving Credit	\$0	\$0	\$0
Total Vermont tax liability	\$148	\$235	\$79
Effective Tax Rate	0.48%	0.76%	0.25%

Green denotes new Vermont Standard Deduction and new Vermont Personal Exemptions
TCJA: Tax Cuts and Jobs Act. This is Federal Tax Reform changes. This occurs if Vermont does not change its tax code

Example 2: Married Filer, \$90,000, 3 children			
	Pre TCJA	Post-TCJA	H.911
Income	\$90,000	\$90,000	\$90,000
Standard Deduction	N/A	\$24,000	\$12,000
Personal Exemptions	\$20,250	N/A	\$20,750
Itemized Deductions (what carries through to VT) of which: Charitable Contributions	\$15,000	N/A	N/A
Taxable Income	\$54,750	\$66,000	\$57,250
Tax before Credits	\$1,944	\$2,431	\$1,918
EIC Federal	\$0	\$0	\$0
Vermont EIC	\$0	\$0	\$0
Charitable Giving Credit	N/A	N/A	\$10
Total Vermont tax liability	\$1,944	\$2,431	\$1,908
Effective Tax Rate	2.16%	2.70%	2.12%

Green denotes new Vermont Standard Deduction and new Vermont Personal Exemptions
TCJA: Tax Cuts and Jobs Act. This is Federal Tax Reform changes. This occurs if Vermont does not change its tax code

Example 3: Married Filer, \$300,000, 2 children			
	Pre TCJA	Post-TCJA	H.911
Income	\$300,000	\$300,000	\$300,000
Standard Deduction	N/A	N/A	\$12,000
Personal Exemptions	\$16,200	N/A	\$16,600
Itemized Deductions (what carries through to VT) of which: Charitable Contributions	\$40,000	\$25,000	N/A
Taxable Income	\$243,800	\$275,000	\$271,400
Tax before Credits	\$15,533	\$17,962	\$17,495
EIC Federal	\$0	\$0	\$0
Vermont EIC	\$0	\$0	\$0
Charitable Giving Credit	N/A	N/A	\$250
Total Vermont tax liability	\$15,533	\$17,962	\$17,245
Effective Tax Rate	5.18%	5.99%	5.75%

Green denotes new Vermont Standard Deduction and new Vermont Personal Exemptions
TCJA: Tax Cuts and Jobs Act. This is Federal Tax Reform changes. This occurs if Vermont does not change its tax code

Example 4: Married Filer, \$70,000, no children, retired on Social Security			
	Pre TCJA	Post-TCJA	H.911
Income	\$70,000	\$70,000	\$70,000
of which: Taxable Social Security Benefits ^a	\$11,100	\$11,100	\$11,100
Standard Deduction	\$12,700	\$24,000	\$12,000
Personal Exemptions	\$8,100	N/A	\$8,300
Itemized Deductions (what carries through to VT) of which: Charitable Contributions	N/A	N/A	N/A
Taxable Income	\$49,200	\$46,000	\$38,600
Tax before Credits	\$1,747	\$1,633	\$1,293
EIC Federal	\$0	\$0	\$0
Vermont EIC	\$0	\$0	\$0
Charitable Giving Credit	N/A	N/A	\$13
Total Vermont tax liability	\$1,747	\$1,633	\$1,281
Effective Tax Rate	2.50%	2.33%	1.83%

Green denotes new Vermont Standard Deduction and new Vermont Personal Exemptions
TCJA: Tax Cuts and Jobs Act. This is Federal Tax Reform changes. This occurs if Vermont does not change its tax code

^a \$11,100 in taxable Social Security benefits equates to \$40,000 in total Social Security income

School Income Tax Surcharge in H.911

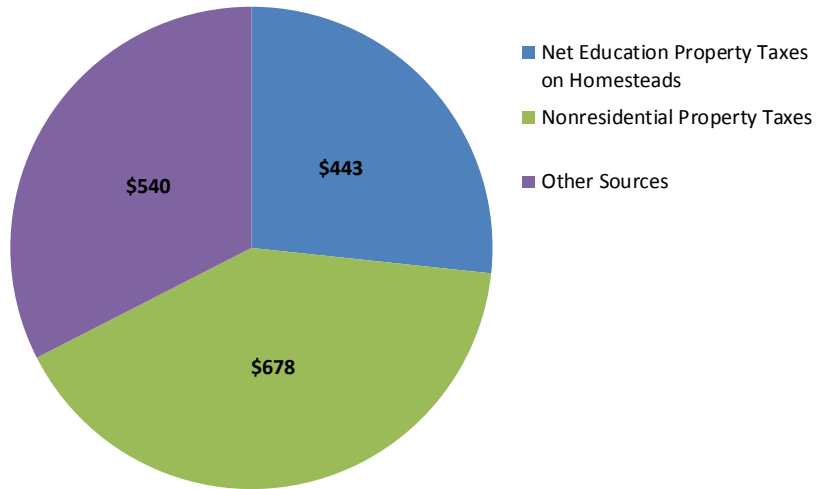
- Proposal built upon H.911 income tax reform
- **Creates a new, separate School Income Tax Surcharge on each rate: 0.1%, 0.5%, 0.5%, 1%**
- **Raises approximately \$59 million from surcharge alone**

Education Surcharge						
(Note: All estimates are on a calendar year basis)						
AGI Bracket		Total Tax Change from Surcharge (in millions of dollars)	Average Change in Taxes from Surcharge		Change in Effective Tax Rate from Surcharge	Percent of 2014 Taxable Returns
\$0	\$5,000	\$0.00	\$11.63		0.00%	1.8%
\$5,000	\$10,000	\$0.01	\$2.23		0.01%	2.7%
\$10,000	\$15,000	\$0.04	\$3.10		0.01%	5.0%
\$15,000	\$20,000	\$0.09	\$6.09		0.02%	6.9%
\$20,000	\$25,000	\$0.15	\$9.24		0.04%	6.7%
\$25,000	\$30,000	\$0.22	\$12.95		0.04%	6.9%
\$30,000	\$35,000	\$0.29	\$16.98		0.05%	6.7%
\$35,000	\$40,000	\$0.33	\$20.77		0.05%	5.9%
\$40,000	\$45,000	\$0.36	\$24.64		0.06%	5.1%
\$45,000	\$50,000	\$0.37	\$28.58		0.06%	4.5%
\$50,000	\$60,000	\$0.95	\$43.25		0.08%	7.7%
\$60,000	\$75,000	\$1.78	\$66.76		0.11%	9.2%
\$75,000	\$100,000	\$3.23	\$96.68		0.12%	11.4%
\$100,000	\$125,000	\$3.91	\$173.86		0.17%	6.8%
\$125,000	\$150,000	\$3.63	\$275.03		0.22%	3.8%
\$150,000	\$200,000	\$5.27	\$414.29		0.27%	3.6%
\$200,000	\$300,000	\$6.15	\$703.55		0.35%	2.5%
\$300,000	infinity	\$32.28	\$3,800.53		0.61%	2.7%
Totals		\$59.08	\$214.96		0.26%	100%

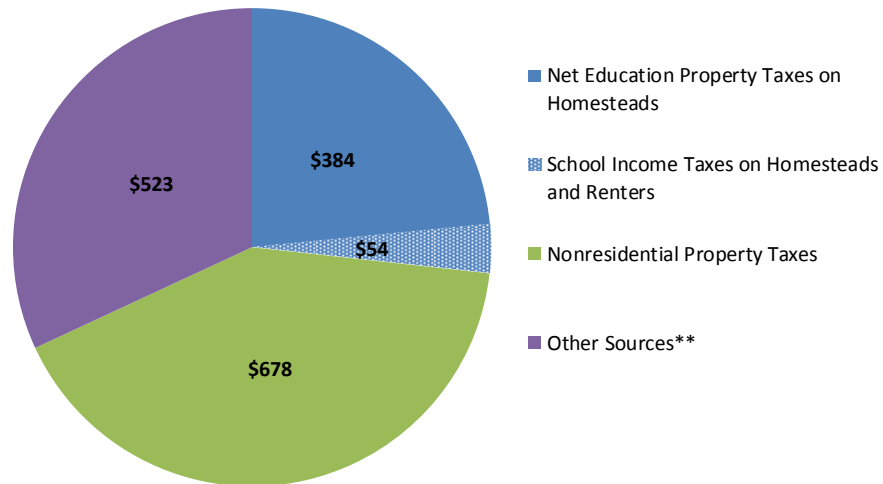
Note: Estimates are based upon 2014 tax year data

Education Fund Sources in FY2019: Current Law and H.911
As of March 15, 2018

Current Law
 Total Sources: \$1,661Million



H.911 Proposal
 Total Sources: \$1,639 million*



* Education Fund uses reduced by \$22 million

** Other sources includes school income tax on nonresidents (\$4.75 million)

Option for Repealing and Replacing the General Fund Transfer to the Education Fund

(millions of dollars)

Current law compared to H.911 - March 15, 2018

Current Law		
Source	General Fund	Education Fund
GF transfer to EF	322.9	(322.9)

Repealed

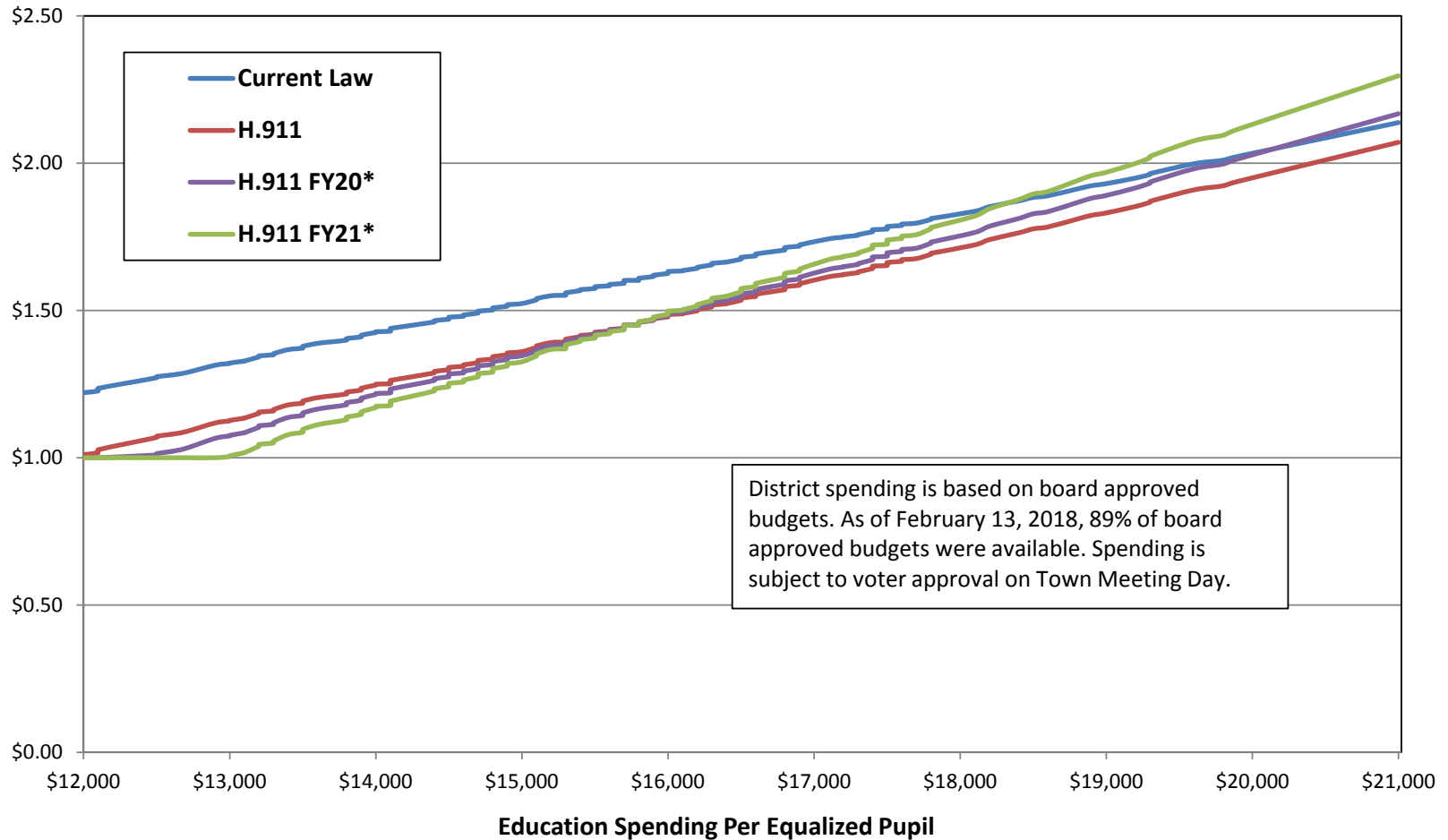
Proposal		
Source or Use	General Fund	Education Fund
100% Sales & Use Tax	(256.6)	256.6
25% of Meals & Rooms Tax	(44.6)	44.6
Education Fund Uses*	(21.5)	21.5

Dedicated to EF
 Transferred to GF

Net Change	0.2	(0.2)
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* Current Law Education Fund Uses Transferred to GF	
Adult Education & Literacy	3.0
Flexible Pathways	7.3
Community HS of Vermont	3.3
<u>Renter Rebate - EF share</u>	<u>7.9</u>
Total	21.5

**Estimated Homestead Property Tax Rates
Current Law Compared to H.911 as of March 15, 2018
FY2019**



**For illustrative purposes only - the base spending amount and equivalent yield for FY20 and FY21 represent 96% and 100% of the FY19 base spending amount. In practice the base spending amount will be recalculated each year based on the Education Fund revenues the corresponding fiscal year.*