

## Education Income Tax “Option 2” - Impacts to Filer Groups

VERMONT DEPARTMENT OF TAXES, OFFICE OF THE COMMISSIONER, December 2022

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- The Department of Taxes constructed a database of 2019 income tax filers which included a flag for filers who were associated with a 2019 homestead declaration.
- Staff modeled the impacts of the “Option 2” education income tax with the brackets and marginal rates shown below.

Option 2: Base Brackets for Option 2				
Married, HoH		Single, Separate		School Income Tax Rate
AGI From	Up to	AGI From	Up to	
\$0	\$30,000	\$0	\$15,000	1.50%
\$30,001	\$60,000	\$15,001	\$30,000	1.75%
\$60,001	\$90,000	\$30,001	\$45,000	2.00%
\$90,001	\$225,000	\$45,001	\$112,500	2.25%
\$225,001	\$575,000	\$112,501	\$287,500	2.50%
\$575,001	infinity	\$287,501	infinity	2.65%

- A resident filer’s education income tax based on the above was then scaled based on the filer’s (pro-rated) FY23 town per pupil spending compared to the FY23 state average (\$18,524). A non-resident’s tax liability was not scaled. The tax liability of all filers was then “apportioned” meaning scaled by the share of their total income that is Vermont income.
- Please note: AGI includes two things that states may not tax: US Bond Income and Railroad Retirement income. Also, Vermont and other states generally do not tax the federal addback for excess (itemized) state and local income tax deduction.
- **Based on 2019 data, Option 2 generates \$472M in revenue, of which \$437M (93%) is coming from residents and \$35M (7%) is coming from non-residents. Of the \$437M coming from residents, \$311M (71%) is coming from filers that could be linked to a declared homestead, and \$126M (29%) is coming from filers who cannot be linked to a homestead declaration.**
- Residents who cannot be linked to a homestead declaration are mostly renters, but might also be:
  - Married filing separately spouses where only one spouse filed a homestead declaration
  - People who filed a resident income tax return but not a homestead declaration
  - People who qualified as an “other” member of a household on the household income form but were not reported either because the declarer of the homestead did not file a credit claim or did not complete the form correctly
  - People who were not present in the household at the time of the declaration but joined during 2019